OFFERING CIRCULAR SUPPLEMENT

Vneshtorgbank

U.S.$3,000,000,000

Programme for the Issuance of Loan Participation Notes

to be issued by, but with limited recourse to,

VTB Capital S.A.

for the purpose of financing fiduciary deposits with

Deutsche Bank Luxembourg S.A.

for the purpose of financing loans to

JSC Vneshtorgbank

This offering circular supplement (the “Offering Circular Supplement”) is prepared in connection with the Programme for Issuance of Loan Participation Notes by VTB Capital S.A. (the “Programme”) and is supplemental to, and should be read in conjunction with, the offering circular dated September 23, 2004 (the “Offering Circular”). Capitalised terms used, but not otherwise defined in this Offering Circular Supplement shall have the meanings ascribed thereto in the Offering Circular.

This Offering Circular Supplement has been submitted to the Luxembourg Stock Exchange.

This Offering Circular Supplement constitutes neither an offer to sell nor a solicitation of an offer to buy any Notes by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

Arrangers and Permanent Dealers

Citigroup **Deutsche Bank**

Dresdner Kleinwort Wasserstein **UBS Investment Bank**

Permanent Dealers

ABN AMRO **Barclays Capital** **BNP PARIBAS**

HSBC **HVB Corporates and Markets** **ING**

JPMorgan

The date of this Offering Circular Supplement is December 21, 2004.

The information included herein supplements, and to the extent inconsistent therewith replaces, the information about the Programme, VTB and the Group contained in the Offering Circular.

VTB, having made all reasonable enquiries, confirms that: (i) the Offering Circular, as supplemented by this Offering Circular Supplement, contains all information with respect to VTB, the Group, the Deposits, the Loans and the Notes that is material in the context of the issue and offering of the Notes, (ii) the statements contained in the Offering Circular, as supplemented by this Offering Circular Supplement, relating to VTB and the Group are in every material respect true and accurate and not misleading, (iii) the opinions, expectations and intentions expressed in the Offering Circular, as supplemented by this Offering Circular Supplement, with regard to VTB and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other facts in relation to VTB, the Group, the Deposits, the Loans or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in the Offering Circular, as supplemented by this Offering Circular Supplement, misleading in any material respect and (v) all reasonable enquires have been made by VTB to ascertain such facts and to verify the accuracy of all such information and statements. VTB accepts responsibility accordingly. Each of the Issuer and the Fiduciary accepts responsibility for all information in the Offering Circular, as supplemented by this Offering Circular Supplement, with respect to itself.

This Offering Circular Supplement does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Fiduciary, VTB, the Group, the Dealers or the Arrangers to subscribe for or purchase any of the Notes.

The distribution of the Offering Circular and/or this Offering Circular Supplement and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular Supplement comes are required by the Issuer, the Fiduciary, VTB, the Group, any of the Dealers and the Arrangers to inform themselves about and to observe any such restrictions. Further information with regard to restrictions on offers and sales of the Notes and the distribution of the Offering Circular, as supplemented by this Offering Circular Supplement, is set out under “Subscription and Sale” in the Offering Circular.

No person is authorised to provide any information or make any representation not contained in the Offering Circular, as supplemented by this Offering Circular Supplement, and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Fiduciary, VTB, the Group, the Trustee, any of the Dealers or the Arrangers. The delivery of the Offering Circular, as supplemented by this Offering Circular Supplement, at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

None of the Issuer, the Fiduciary, VTB, the Group, the Dealers or the Arrangers or any of the respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Each investor should consult with their own advisers as to the legal, tax, business, financial and related aspects of purchase of the Notes.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE DEALERS OR THE ARRANGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THE OFFERING CIRCULAR, AS SUPPLEMENTED BY THIS OFFERING CIRCULAR SUPPLEMENT, AND NOTHING CONTAINED IN THE OFFERING CIRCULAR, AS SUPPLEMENTED BY THIS OFFERING CIRCULAR SUPPLEMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE DEALERS OR THE ARRANGERS ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THE OFFERING CIRCULAR, AS SUPPLEMENTED BY THIS OFFERING CIRCULAR SUPPLEMENT.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROGRAMME FROM TIME TO TIME MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF VTB, THE ISSUER AND THE FIDUCIARY AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR

ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THE OFFERING CIRCULAR, AS SUPPLEMENTED BY THIS OFFERING CIRCULAR SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

INCREASE IN THE AGGREGATE PRINCIPAL AMOUNT OF THE PROGRAMME

The aggregate principal amount of the Notes which may be outstanding at any time under the Programme will be increased from U.S.$2,000,000,000 to U.S.$3,000,000,000, effective December 21, 2004.

DEFINITIONS

The references in the Offering Circular to the Federal Service for Management of Federal Property and the Federal Property Service should be read as references to the Federal Agency for Management of Federal Property and the Federal Property Agency, respectively.

RECENT DEVELOPMENTS

On October 12, 2004 Moody's upgraded the rating of Series 1 to 4 (inclusive) of the Notes issued under the Programme to "Baa2." On November 19, 2004, Fitch assigned VTB a long-term rating of "BBB-," with a stable outlook.

The financial statements of the Group as of and for the period ended June 30, 2004, prepared in accordance with IFRS (the "New IFRS Financial Statements"), are included in this Offering Circular Supplement. In the second quarter of 2004 the Group had a net loss of U.S.$56 million. While the Group's interest income continued to grow, external factors, including the decline in prices of Russian securities and the depreciation of the Russian rouble against the U.S. dollar, as well as increased loan impairment provisions resulting from the increase in the Group's loan portfolio, negatively affected the Group's results. The decline in the prices of Russian equity and debt securities caused significant unrealised mark-to market losses, primarily on investment securities available for sale. Moreover, because the Group had a net rouble asset balance sheet position at June 30, 2004, the depreciation of the rouble against the U.S. dollar in the second quarter of 2004 resulted in unrealised foreign exchange losses. These mark-to-market and foreign exchange losses were offset, in part, by a non-recurring reversal of an impairment allowance on certain equity investment securities available for sale. VTB held those securities at cost less an impairment allowance determined as of the date of their acquisition in 1999, but reversed a portion of the impairment allowance in the second quarter of 2004, on the basis of the continued improvement in the performance of the issuer of the securities (see Note 8 to the New IFRS Financial Statements). As a result of these factors, the Group's net profit amounted to U.S.$18 million for the six months ended June 30, 2004, compared to U.S.$119 million for the comparable period of 2003. However, the market prices of Russian debt and equity securities held in the Group's portfolio, as well as the Group's interest income, have been rising through most of the third and early fourth quarters of 2004, and the Group expects to report a net profit for the first nine months of 2004, although such net profit will be significantly lower than the Group's net profit for the comparable period in 2003. The Group is currently re-evaluating its strategy with regard to proprietary trading and investment in securities.

On October 12, 2004, VTB Capital S.A. issued U.S.$450,000,000 7.50% Series 4 Notes under the Programme. The maturity date of the Notes is October 12, 2011. The proceeds of the Notes were deposited with the Fiduciary on October 12, 2004. On that date, the Fiduciary made a Loan to VTB. The terms of the Loan corresponded to the terms of the Notes.

On November 11, 2004, VTB signed a loan agreement relating to a syndicated loan arranged by ABN AMRO Bank N.V., Citibank N.A. London, ING Bank N.V. and J.P. Morgan plc. The loan has a principal amount of U.S.$300 million and an interest rate of LIBOR plus 1.6%. It was fully drawn down on December 7, 2004 and is scheduled to be fully repaid on November 11, 2007.

Since late September 2004, VTB has opened branches in the cities of Ryazan, Ulianovsk and Orenburg and 15 sub-branches throughout Russia.

VTB is continuing to evaluate Guta Bank and its role within the Group. VTB obtained an independent valuation of Guta Bank as of July 16, 2004. The valuation report shows the estimated fair value of Guta Bank's assets to be U.S.$664 million and the estimated fair value of its liabilities to be U.S.$747 million, resulting in negative equity of U.S.$83 million. VTB is currently finalising the purchase price allocation in accordance with IFRS and is estimating the amount of goodwill incurred as a result of this acquisition. As of the date of its acquisition by VTB, Guta Bank had a net loan exposure of approximately U.S.$240 million to companies related to its former shareholders. VTB expects to finalise Guta Bank's development strategy in the first quarter of 2005.

According to a November 2004 survey by *Kommersant: Money,* one of the leading Russian business weeklies, as of October 1, 2004, VTB was the second-largest bank in Russia in terms of net assets, lending volume and retail deposits (all as calculated under RAR).

As of September 30, 2004, VTB had issued 556,000 debit cards to individuals and legal entities.

On November 20, 2004, VTB entered into an agreement with AFK Sistema to sell an additional 14% shareholding in EWUB. The sale will be formally concluded once the transfer is registered in the shareholders' register of EWUB. VTB expects that the transfer will take place in late December 2004, reducing VTB's shareholding in EWUB to 34%.

VTB has applied for approvals from the CBR and the Federal Anti-Monopoly Service for its acquisition of a 25% plus one share initial interest in ICB and expects to receive these approvals in late December 2004 or January 2005. VTB will purchase the 25% plus one share initial interest in ICB once the approvals are received. VTB expects to purchase a 50% plus one share interest in United Georgian Bank in the Republic of Georgia and to open a subsidiary bank in the Ukraine in the first quarter of 2005. VTB is also negotiating a bank acquisition in Moldova.

VTB's shareholders also approved the transfer of VTB's legal address to St. Petersburg. The transfer will take place in 2005.

VTB has chosen not to appeal the decision of the appellate court regarding the U.S.$100 million deposit that it placed with MNB on behalf of the CBR, described in the Offering Circular under "Business – Litigation," thus remaining liable to the CBR's assignee, VEB, for the deposit. VTB treated its deposit with MNB as a customer loan and created a 100% allowance for loan impairment against it several years ago. See Note 7 to the New IFRS Financial Statements.

At the meeting of the Supervisory Council on October 21, 2004, Mr. Alexei Akinshin was made Deputy Chairman of VTB and Mr. Vasily Titov was made a member of the Management Board (this appointment is subject to CBR approval).

VTB's shareholders held an extraordinary meeting on December 15, 2004. At that meeting, the shareholders elected a new Supervisory Council, which consists of six representatives of various Government ministries and agencies, representatives of the CBR and of the Russian President and VTB's President and Chief Executive Officer. Messrs. Kudrin, Drozdov, Dvorkovich, Kostin and Ulukaev were re-elected to the Supervisory Council. The name, age, qualifications and certain other information for each new member of VTB's Supervisory Council are set out below:

Dmitry B. Aratsky (40) has been the deputy head of the Ministry of Property Relations of the Russian Federation, which became the Federal Property Agency, since July 2000. From 1997 until July 2000, Mr. Aratsky was the Chairman of the Committee of Resources and Land Use of the Nizhny Novgorod Region. Mr. Aratsky graduated from the Gorky State University and the Volgo-Viatsky State Service Academy. He has a Ph.D in Technical Sciences and a Doctorate in Economics.

Anton G. Siluanov (41) has been the director of the Department of Inter-Budget Relations of the Ministry of Finance of the Russian Federation since May 2004. From July 2003 until May 2004, he was the Deputy Minister of Finance of the Russian Federation. From October 1997 until July 2003, he was the Head of the Department of Microeconomic Policy and Banking Activity of the Ministry of Finance of the Russian Federation. Mr. Siluanov has a Ph.D in Economics.

Sergei A. Storchak (50) has been the director of the Department of International Financial Relations, State Debt and State Financial Assets of the Ministry of Finance of the Russian Federation since September 2004. From April 1998 until September 2004, he was a Deputy Chairman of VEB. From August 1994 until April

1998, Mr. Storchak held various positions at the Ministry of Finance of the Russian Federation. Mr. Storchak graduated from the Moscow State Institute of International Relations. He has a Ph.D in Economics.

Andrei V. Sharonov (40) has been the Deputy Minister of Economic Development and Trade of the Russian Federation since April 2004 and from 1999 until June 2003. From June 2003 until April 2004, he was the First Deputy Minister of Economic Development and Trade of the Russian Federation. From 1997 until 1999 Mr. Sharonov was the Deputy Minister of the Economy of the Russian Federation. Mr. Sharonov graduated from the Ufa Aviation Institute and the Russian State Service Academy of the President of the Russian Federation. He has a Ph.D in Sociology.

In addition, VTB's shareholders also elected a new Audit Commission. The members of the Audit Commission include Mr. Vladimir V. Lukov, deputy director of the Department of Financial Policy of the Ministry of Finance of the Russian Federation, Mr. Victor A. Rusakov, deputy head of the Section of Development of Financial Markets and Institutions of the Corporate Governance Department of the Ministry of Economic Development of the Russian Federation and Ms. Olga A. Avdeeva, the Chief Accountant of VTB.

GENERAL INFORMATION

The increase of the Programme was authorised by the Board of Directors of the Issuer on December 21, 2004. The receipt of Loans from the Fiduciary financed by Deposits from the Issuer was authorised by the Management Board of VTB on November 18, 2003, July 1, 2004, September 21, 2004 and December 14, 2004.

The Luxembourg Stock Exchange has allocated the number 12953 to the Programme for listing purposes.

Except as disclosed in the Offering Circular, as supplemented by this Offering Circular Supplement, there has been no significant change in the financial or trading position of VTB or the Group since March 31, 2004 and the Issuer since August 18, 2004 and no material adverse change in the financial position or prospects of the Group since December 31, 2003 and the Issuer since November 12, 2003.

INDEX TO FINANCIAL STATEMENTS

IFRS interim consolidated financial statements as of and for the six months ended June 30, 2004 and 2003

(expressed in millions of US dollars)

	Note	30 June 2004 (Unaudited)	31 December 2003
Assets			
Cash and short-term funds	4	555	1,030
Mandatory cash balances with local central banks		335	382
Trading securities	5	1,475	1,270
Due from other banks	6	1,670	1,895
Loans and advances to customers, net	7	5,996	4,795
Investment securities available for sale	8	1,203	1,133
Investments in associated banks	9	84	41
Investment securities held to maturity		12	7
Accrued interest receivable and other assets		500	413
Premises and equipment		274	262
Total assets		**12,104**	**11,228**
Liabilities			
Due to other banks	10	1,687	1,812
Customer accounts	11	4,157	4,259
Other borrowed funds	12	805	707
Debt securities issued	13	2,812	1,738
Accrued interest payable and other liabilities		245	234
Total liabilities		**9,706**	**8,750**
Minority interest		**67**	**105**
Shareholders' equity			
Share capital		2,153	2,153
Share premium		34	34
Retained earnings		144	186
Total shareholders' equity		**2,331**	**2,373**
Total liabilities, minority interest and shareholders' equity		**12,104**	**11,228**

Approved for issue by the Management Board and signed on its behalf on 29 October 2004.

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

O.A. Avdeeva
Chief Accountant

The notes set out on pages F-6 to F-22 form an integral part of these interim consolidated financial statements.

(expressed in millions of US dollars)

		For the three-month periods ended 30 June (Unaudited)		For the six-month periods ended 30 June (Unaudited)	
	Note	**2004**	**2003**	**2004**	**2003**
Interest income	14	211	157	400	294
Interest expense	14	(102)	(71)	(199)	(156)
Net interest income		**109**	**86**	**201**	**138**
Provision for loan impairment	6,7	(36)	(45)	(78)	(75)
Net interest income after provision for loan impairment		**73**	**41**	**123**	**63**
Gains less losses arising from trading securities		(20)	71	39	84
Gains less losses arising from investment securities available for sale	8	(36)	6	(15)	100
Gains less losses arising from dealing in foreign currencies		(1)	4	2	8
Gains less losses from derivative financial instruments	17	5	11	3	11
Gains less losses from foreign exchange translation		(17)	5	9	15
Fee and commission income		23	15	49	32
Fee and commission expense		(1)	(1)	(3)	(2)
Other operating income		6	12	23	21
Operating income		**32**	**164**	**230**	**332**
Operating expenses	15	(106)	(76)	(207)	(163)
Profit (loss) before taxation		**(74)**	**88**	**23**	**169**
Income tax (expense) benefit		13	(28)	(7)	(43)
Profit (loss) after taxation		**(61)**	**60**	**16**	**126**
Minority interest		5	(4)	2	(9)
Share in profit of associated company		–	1	–	2
Net profit (loss)		**(56)**	**57**	**18**	**119**

The notes set out on pages F-6 to F-22 form an integral part of these interim consolidated financial statements.

(expressed in millions of US dollars)

	Note	For the six-month periods ended 30 June 2004 (Unaudited)	2003
Cash flows from operating activities			
Interest received		387	298
Interest paid		(183)	(111)
Income received on operations with securities		55	262
Income received on dealing in foreign currency		26	13
Fees and commissions received		49	32
Fees and commissions paid		(3)	(2)
Other operating income received		20	23
Operating expenses paid		(193)	(143)
Income tax paid		(58)	(53)
Operating profit before changes in operating assets and liabilities		**100**	**319**
Net cash decrease (increase) in operating assets			
Net decrease (increase) in mandatory cash balances with local central banks		47	(93)
Net (increase) decrease in restricted cash		(31)	60
Net (increase) decrease in trading securities		(268)	78
Net decrease (increase) in due from banks		239	(276)
Net increase in loans and advances to customers		(1,273)	(808)
Net increase in other assets		(118)	(46)
Net cash (decrease) increase in operating liabilities			
Net (decrease) increase in due to banks		(126)	75
Net (decrease) increase in customer accounts		(103)	521
Net increase in promissory notes and certificates of deposits issued		323	750
Net increase in other liabilities		39	61
Net cash (used in) provided by operating activities		**(1,171)**	**641**
Cash flows from investing activities			
Proceeds from sales or maturities of investment securities available for sale		12	42
Purchases of investment securities available for sale		(115)	(308)
Purchase of subsidiary		(9)	(40)
Disposal of subsidiary		2	–
Net cash and cash equivalents in the subsidiaries acquired and disposed of		(12)	–
Purchases of investment securities held to maturity		(5)	(5)
Purchases of premises and equipment		(40)	(82)
Net cash used in investing activities		**(167)**	**(393)**
Cash flows from financing activities			
Increase in Central Bank of the Russian Federation funding		–	110
Decrease in Central Bank of the Russian Federation funding		–	(380)
Proceeds from other borrowed funds		292	8
Repayment of other borrowed funds		(194)	(42)
Cash proceeds from issue of debentures		176	66
Proceeds from issuance of Eurobonds		575	–
Net cash provided by (used in) financing activities		**849**	**(238)**
Effect of exchange rate changes on cash and cash equivalents		(17)	18
Net (decrease) increase in cash and cash equivalents		**(506)**	**28**
Cash and cash equivalents at beginning of the year	4	929	487
Cash and cash equivalents at the end of the period	4	**423**	**515**

The notes set out on pages F-6 to F-22 form an integral part of these interim consolidated financial statements.

(expressed in millions of US dollars)

	Share capital	Share premium	Retained earnings (accumulated deficit)	Total shareholders' equity
Balance at 31 December 2002	**2,153**	**34**	**(69)**	**2,118**
Net profit for the period	–	–	119	119
Dividends declared	–	–	(53)	(53)
Other movements	–	–	31	31
Balance at 30 June 2003	**2,153**	**34**	**28**	**2,215**
Balance at 1 January 2004 (Note 3)	**2,153**	**34**	**186**	**2,373**
Net profit for the period	–	–	18	18
Dividends declared (unaudited)	–	–	(55)	(55)
Other movements (unaudited)	–	–	(5)	(5)
Balance at 30 June 2004 (unaudited)	**2,153**	**34**	**144**	**2,331**

The notes set out on pages F-6 to F-22 form an integral part of these interim consolidated financial statements.

1 Principal Activities

The Bank for Foreign Trade and its subsidiaries and associates (the "Group") comprise Russian and foreign commercial banks, and other companies and entities controlled by the Group.

The Bank for Foreign Trade, more commonly known as Vneshtorgbank (the "Bank", "Vneshtorgbank", or "VTB"), is an open join-stock commercial bank. The Bank is licensed by the Central Bank of the Russian Federation to carry on banking activities and has operated under a full banking license since 1990. The Bank's registered office is located at the following address: 16 Kuznetsky Most, Moscow 103031, Russian Federation.

A full list of subsidiaries and associates included within these consolidated financial statements is provided in Note 18.

The Group operates 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. VTB conducts its banking business in Russia through its network of 44 branches, located in Moscow and all major Russian regions.

In October 2002 the Central Bank of the Russian Federation ("CBRF") transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation. Also during the second half of 2002 a majority of new directors were appointed to the Management Board. On 29 November 2002 VTB's shareholders elected a new Supervisory Council, following the CBR's transfer of its shares in VTB to the predecessor of the Ministry of Property Relations. In March 2004 the Ministry of Property Relations was abolished and succeeded by the Federal Service for the Management of Federal Property.

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

2 Operating Environment of the Group

The Group operates primarily within the Russian Federation. While there have been improvements in recent years in the economic situation in the Russian Federation, the economy of the Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, and relatively high inflation.

In addition, the banking sector in the Russian Federation is particularly sensitive to adverse currency fluctuations and economic conditions.

Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of certain categories of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The ongoing political stabilisation has been a positive contributing factor to the further development of the political and legal environment.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments, which are beyond the Group's control.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

3 Basis of Presentation and Significant Accounting Policies

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. 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.

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian Rouble (RR). However, the Group's (and the Bank's) assets and liabilities are mostly denominated in United States dollars ("US dollars" or "USD") and other freely convertible currencies. The US dollar is used to a significant extent in, and has a significant impact on the operations of the Group, and the Group's cash flows are primarily denominated in US dollars. Also, the US dollar is the currency in which Management manages the business risks and exposures, and measures the performance of the Group's business. Based upon these and other factors, the measurement currency of the Group is considered to be the US dollar and, therefore, these consolidated financial statements are measured and presented in US dollars. The Group's accounting records provide sufficient accounting information regarding the original US dollar equivalent of transactions executed in other currencies.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with IFRS for interim financial information. Accordingly, they do not include all of the information required by IFRS for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended 30 June 2004 are not necessarily indicative of the results that may be expected for the year ending 31 December 2004.

The consolidated balance sheet at 31 December 2003 has been derived from the audited consolidated financial statements at that dates but do not include all of the information and notes required by IFRS for complete financial statements. These interim consolidated financial statements should be read in conjunction with the complete consolidated financial statements as of 31 December 2003, along with the corresponding notes.

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

The Group followed the same accounting policies and methods of computation as compared with those applied in the consolidated financial statements at 31 December 2003, and for the year then ended.

Income tax expense is recognized in each interim period using the tax rates by jurisdictions that would be applicable to the expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pretax income of the interim period.

International Accounting Standards Board (the "IASB") has developed several new International Financial Reporting Standards ("IFRSs") and revised certain international accounting standards ("IASs"). Effective 1 April 2004, the IASB enacted IFRS 3 Business Combinations, which replaced IAS 22 Business Combinations and SIC-9, SIC-22 and SIC-28. Application of IFRS 3 Business Combinations had no material effect on financial position of the Group.

Effective 1 January 2005, IFRS 2 Share-based Payment, IFRS 4 Insurance Contracts, IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as well as fifteen revised IASs are enacted. The Group has not determined the effect of the application of new standards on its financial statements.

(expressed in millions of US dollars)

4 Cash and Short-Term Funds

	30 June 2004 (unaudited)	31 December 2003
Cash on hand	139	165
Cash balances with local central banks (other than mandatory reserve deposits)	115	408
Correspondent accounts with other banks		
- Russian Federation	122	195
- Other countries	179	262
Total cash and short-term funds	**555**	**1,030**
Less: restricted cash	(132)	(101)
Total cash and cash equivalents	**423**	**929**

Restricted cash balances represent the balances on escrow accounts placed by the Bank in foreign banks on behalf of its customers totalling USD 51 million (31 December 2003: USD 52 million) and cash placed by the Bank on nostro accounts with foreign and Russian banks in non-freely convertible currencies totalling USD 81 million (31 December 2003: USD 49 million). For the purposes of the consolidated statement of cash flows, restricted cash is not considered to be cash and cash equivalents.

5 Trading Securities

	30 June 2004 (unaudited)	31 December 2003
USD denominated securities		
MinFin bonds (OVGVZ)	228	500
Eurobonds of the Russian Federation	33	–
Russian corporate Eurobonds	190	90
Bills of exchange	3	63
Other	80	12
RR denominated securities		
Bills of exchange and debentures	726	424
Federal loan bonds (OFZ)	99	92
Other	85	56
Securities denominated in other currencies		
Securities issued by foreign governments	3	3
Russian corporate Eurobonds	16	15
Other	12	15
Total trading securities	**1,475**	**1,270**

MinFin bonds (OVGVZ) are interest bearing securities denominated in USD, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%. The bonds have maturity dates ranging from May 2006 to May 2011 (31 December 2003: from November 2007 to May 2011) and yields to maturity ranging from 5% to 8% (31 December 2003: from 5% to 7%).

Russian corporate Eurobonds are interest bearing securities issued by major Russian corporates, which are freely tradable internationally. The bonds have maturities ranging from February 2005 to January 2011 (31 December 2003: from April 2004 to March 2013) and coupon ranging from 6.875% to 10.25% (31 December 2003: 8% to 13%).

(expressed in millions of US dollars)

The Bank purchased USD denominated credit linked notes with fair value of USD 35 million and USD 31 million issued by Deutsche Bank Luxemburg S.A. and Dresdner Bank A.G., respectively. As collateral of the performance, these notes are linked to VTB Eurobonds. These notes pay 10.7% and 9.7%, respectively, and mature in December 2007 and December 2008, respectively. Though the notes are linked to VTB Eurobonds, there is no legal right to offset these instruments. The above credit linked notes are included in line "other" of USD denominated securities.

At June 30, 2004 included in line "other" of RR denominated securities are corporate shares of Russian "blue chip" companies involved in banking, telecommunication and energy sectors with fair value of USD 53 million, USD 11 million, USD 16 million, respectively (at 31 December 2003: USD 33 million, USD 4 million USD 11 million, respectively).

Bills of exchange and debentures represent securities denominated in Russian roubles and issued primarily by Russian banks, large manufacturing, telecom and oil and gas companies, and local authorities. The debentures have maturities ranging from August 2004 to December 2010 (31 December 2003: from January 2004 to February 2009) and coupon ranging from 8% to 19% (31 December 2003: from 6% to 20%).

Federal loan bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These OFZ bonds are issued at a discount to their nominal value, have maturity dates ranging from December 2004 to August 2018 (31 December 2003: January 2004 to August 2012), coupon rates ranging from 6% to 12% (31 December 2003: from 8% to 12%).

Included in trading securities are securities with fair value at 30 June 2004 of USD 20 million (31 December 2003: nil) pledged under sale and repurchase agreements.

6 Due from Other Banks

	30 June 2004 (unaudited)	**31 December 2003**
Current term placements with other banks	1,375	1,792
Reverse sale and repurchase agreements with other banks	307	112
Overdue placements with other banks	96	113
Less: Allowance for loan impairment	(108)	(122)
Total due from other banks	**1,670**	**1,895**

Due from other banks includes Rouble denominated loans to a Russian bank totalling USD 95 million (31 December 2003: USD 96 million). At 30 June 2004, the allowance for impairment on these loans comprised USD 95 million (31 December 2003: USD 96 million).

Movements in the allowance for loan impairment are as follows:

	2004 (unaudited)	**2003**
Allowance for loan impairment at 1 January	**122**	**119**
Provision for (reversal of) loan impairment during the period	8	(1)
Deconsolidation of subsidiary	(22)	–
Allowance for loan impairment at 30 June	**108**	**118**

At 30 June 2004, the estimated fair value of due from other banks was USD 1,670 million (31 December 2003: USD 1,895 million).

(expressed in millions of US dollars)

7 Loans and Advances to Customers

	30 June 2004 (unaudited)	31 December 2003
Current loans and advances	6,171	4,925
Rescheduled loans and advances	80	100
Overdue loans and advances	244	202
Less: Allowance for loan impairment	(499)	(432)
Total loans and advances to customers	**5,996**	**4,795**

Movements in the allowance for loan impairment are as follows:

	2004 (unaudited)	2003
Allowance for loan impairment at 1 January	**432**	**362**
Provision for loan impairment during the period	70	76
Loans and advances to customers written off during the period as uncollectable	(3)	(1)
Allowance for loan impairment at 30 June	**499**	**437**

Included in overdue loans is a deposit of USD 100 million placed with a foreign bank for the purpose of financing Russian fishing enterprises. The Group has treated this amount as loans to customers and created a 100% allowance for loan impairment against these loans. The loans were originally financed by deposits from a state-owned Russian bank, which are included in due to other banks.

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

	30 June 2004		31 December 2003	
	Amount (unaudited)	%	Amount	%
Manufacturing	1,677	26	1,958	37
Trade and commerce	1,004	15	764	15
Energy	774	12	506	10
Finance	739	11	530	10
Transport	491	8	158	3
Mining	359	5	185	4
Food and Agriculture	265	4	205	4
Government bodies	257	4	128	2
Chemical	230	4	201	4
Construction	217	3	216	4
Telecommunications and media	182	3	161	3
Fishing	107	2	109	2
Other	193	3	106	2
Total loans and advances to customers	**6,495**	**100**	**5,227**	**100**

At 30 June 2004, the Group has 19 borrowers with aggregated loan amounts above USD 50 million. The total amount of these loans is USD 3,071 million or 47% of the gross loan portfolio. Included in loans and advances were loans to a large corporate customer-totalling USD 431 million (7% of the loan portfolio) with maturity dates from July 2004 to December 2004 and interest rates from 10% to 13% per annum.

At 31 December 2003, the Group had 20 borrowers with aggregated loan amounts above USD 50 million. The total amount of these loans is USD 2,236 million or 43% of the gross loan portfolio. Included in loans and advances were loans to a large corporate customer totalling USD 322 million (6% of the loan portfolio) with maturity dates from March 2005 to March 2006 and a fixed interest rate of 8.4% per annum.

(expressed in millions of US dollars)

At 30 June 2004, the total gross amount of impaired loans, on which interest was not accrued, was USD 291 million (31 December 2003: USD 259 million). The unrecognised interest, in accordance with the original terms of the loans, related to such loans amounted to USD 16 million for the six month period ended 30 June 2004 (USD 31 million for the six month period ended 30 June 2003).

At 30 June 2004, the estimated fair value of loans and advances to customers was USD 5,996 million (31 December 2003: USD 4,795 million).

8 Investment Securities Available for Sale

	30 June 2004 *(unaudited)*	31 December 2003
Debt securities		
Eurobonds of the Russian Federation	617	483
MinFin bonds (OVGVZ)	57	100
Bills of exchange of Russian companies and banks	–	22
Bonds of Russian companies and banks	192	213
State bonds of foreign countries	45	122
Bonds of foreign companies and banks	72	58
Other	22	21
Equity securities		
Corporate shares	186	104
Other	12	10
Total investment securities available for sale	**1,203**	**1,133**

Debt securities. Eurobonds of the Russian Federation are US dollar denominated securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. The Group's portfolio of Eurobonds consists of 7 tranches of securities with maturity dates ranging from March 2005 to March 2030 (31 December 2003: 8 tranches with maturity dates from March 2004 to March 2030). The annual coupon rates on these bonds range from 5% to 13% p.a. (31 December 2003: from 5% to 13% p.a.) and interest is payable semi-annually.

MinFin bonds (OVGVZ) are interest bearing securities denominated in USD, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%. The bonds have maturity dates ranging from May 2006 to May 2011 (31 December 2003: November 2007 to May 2011) and yields to maturity ranging from 5% to 8% (31 December 2003: from 5% to 7%).

Bonds of Russian companies and banks are mainly Eurobonds of large Russian companies and banks, which are freely tradable internationally. These bonds have maturities ranging from March 2006 to April 2014 (31 December 2003: from March 2004 to March 2013) and have both floating and fixed rates from 3 month LIBOR plus 1.75% to 12.75% (31 December 2003: from 3 month LIBOR plus 1.75% to 12.75%).

Included in state bonds of foreign countries are bonds of Germany with fair value of USD 19 million (31 December 2003: USD 20 million), bonds of Venezuela with fair value of USD 9 million (31 December 2003: nil), bonds of Ukraine with fair value of USD 7 million (31 December 2003: USD 16 million), bonds of Brazil with fair value of USD 7 million (31 December 2003: nil). At 31 December 2003 state bonds of foreign countries also included bonds of Austria with fair value of USD 63 million (nil at 30 June 2004).

Bonds of foreign companies and banks are held by foreign subsidiaries of the Group and represent bonds of local issuers involved in banking, telecommunication and other industries.

Equity securities. Corporate shares are shares of automobile production companies KAMAZ and Avtovaz. On 29 December 1999, the Group restructured a previously issued loan to KAMAZ into KAMAZ shares. At 30 June 2004, the Group owned 19.9% (31 December 2003: 19.9%) of KAMAZ's and 8.3% (31 December 2003: 8.3%) of Avtovaz's ordinary share capital. In the second quarter of 2004, the Bank reversed impairment allowance on KAMAZ shares in the amount of USD 76 million which is included in gains less losses arising from investment securities available for sale. VTB held these securities at cost less an impairment allowance determined as of the date of their acquisition in 1999, but reversed a portion of the impairment allowance on the basis of the continued improvement in the performance of the underlying investee.

(expressed in millions of US dollars)

Included in investment securities available for sale are securities with fair value at 30 June 2004 of USD 366 million (31 December 2003: USD 503 million) pledged under sale and repurchase agreements. In addition, investment securities available for sale with fair value of USD 69 million (31 December 2003: USD 56 million) have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds. At 30 June 2004 investment securities available for sale included Russian Eurobonds with fair value of USD 98 million borrowed from other bank.

9 Investments in Associated Banks

Included in investments in associates at June 30, 2004 is investment in Ost-West Handelsbank of USD 48 million (31 December 2003: USD 41 million) representing 31.9% of the net assets of this bank. This associate is accounted for in these consolidated financial statements using the equity method.

At 23 June 2004, the Bank sold 5% of East-West United Bank shares. As a result of this transaction, the Bank's participation in East-West United Bank decreased from 53% to 48% effective 23 June 2004. Since no circumstances exist to claim Bank's control over East-West United Bank, its financial statements are accounted for in the consolidated financial statements of the Group at 30 June 2004 using the equity method in the amount of USD 36 million.

10 Due to Other Banks

	30 June 2004 (unaudited)	31 December 2003
Correspondent accounts and overnight deposits of other banks	375	512
Sale and repurchase agreements with other banks	366	503
Term loans and deposits	946	797
Total due to other banks	**1,687**	**1,812**

At 30 June 2004 securities pledged against sale and repurchase agreements are trading and available for sale securities with a fair value of USD 20 million and USD 366 million, respectively (31 December 2003: nil and USD 503 million, respectively). The repurchase agreements bear interest rates ranging from 2.03% to 3.32% and mature from July 2004 to October 2006.

Included in correspondent accounts and overnight deposits of other banks are USD 100 million collateral deposits placed by a state-owned Russian bank in relation to a deposit placed by the Group with a foreign bank for the purpose of financing Russian fishing enterprises.

At 30 June 2004, the estimated fair value of due to other banks was USD 1,687 million (31 December 2003: USD 1,812 million).

11 Customer Accounts

	30 June 2004 (unaudited)	31 December 2003
State and public organisations		
Current/settlement accounts	238	167
Term deposits	31	7
Other legal entities		
Current/settlement accounts	1,341	1,441
Term deposits	1,187	1,665
Individuals		
Current/settlement accounts	226	169
Term deposits	1,134	810
Total customer accounts	**4,157**	**4,259**

(expressed in millions of US dollars)

Included in customer accounts are:

- Restricted deposits amounting to USD 51 million (31 December 2003: USD 52 million), where matching deposits were placed by the Group in escrow accounts.
- Deposits of USD 23 million (31 December 2003: USD 60 million) were held as collateral against irrevocable commitments under import letters of credit.

At 30 June 2004, the estimated fair value of customer accounts was USD 4,157 million (31 December 2003: USD 4,259 million).

12 Other Borrowed Funds

	30 June 2004 (unaudited)	31 December 2003
Syndicated loans	729	560
Revolving credit lines	76	147
Total other borrowed funds	**805**	**707**

Syndicated loans at 30 June 2004 comprise the following:

(unaudited)

	Interest rate	Maturity	Amount outstanding	Total amount of loan facility available
Syndicated unsecured loan arranged by Citibank, N.A., London and Deutsche Bank AG, London – 1 tranche	LIBOR plus 1.6567%	December 2004	270	270
Syndicated unsecured loan arranged by group of thirteen major international financial institutions	LIBOR plus 1.5%	September 2004	175	175
JPY-denominated syndicated unsecured loan arranged by Japan Bank for International Cooperation jointly with three Japanese banks	From 2.54% to 2.93%	From February 2006 to February 2008	9	10
Syndicated unsecured loan arranged by Citibank, N.A. London and HSBC Bank Plc	LIBOR plus 1.4%	June 2005	275	275
Total syndicated loans			**729**	**730**

(expressed in millions of US dollars)

Syndicated loans at 31 December 2003 comprise the following:

	Interest rate	Maturity	Amount outstanding	Total amount of loan facility available
Syndicated unsecured loan arranged by Citibank, N.A., London and Deutsche Bank AG, London – 1 tranche	LIBOR plus 2.5-2.7%	December 2004	270	270
Syndicated unsecured loan arranged by Citibank, N.A., London and Deutsche Bank AG, London – 2 tranche	LIBOR plus 2.65%	June 2004	105	112
Syndicated unsecured loan arranged by group of thirteen major international financial institutions	LIBOR plus 1.5%	September 2004	175	175
JPY-denominated syndicated unsecured loan arranged by Japan Bank for International Cooperation jointly with three Japanese banks	From 2.54% to 2.93%	From February 2006 to February 2008	10	10
Total syndicated loans			**560**	**567**

Revolving credit lines at 30 June 2004 comprise the following:

(unaudited)

	Interest rate	Maturity	Amount outstanding	Total amount of loan facility available
Revolving unsecured credit line from EBRD	LIBOR plus 1.5-2%.	From July 2004 to October 2005	76	80

Revolving credit lines at 31 December 2003 comprise the following:

	Interest rate	Maturity	Amount outstanding	Total amount of loan facility available
Revolving unsecured credit line from EBRD	LIBOR plus 1.5-2%.	From July 2004 to October 2005	147	155

Syndicated loans and revolving credit lines have certain covenants.

13 Debt Securities Issued

	30 June 2004 (unaudited)	31 December 2003
Promissory notes	1,527	1,154
Eurobonds	866	298
Debentures and deposit certificates	419	286
Total debt securities issued	**2,812**	**1,738**

USD denominated Eurobonds issued under Euro Medium Term Note borrowings program of USD 2,000 million comprise the following at 30 June 2004:

(expressed in millions of US dollars)

(unaudited)

	Interest rate	Maturity	Face value	Carrying value	Market price
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	541	541	98.77%
Series 2 issued in April 2004	LIBOR plus 2% payable quarterly	April 2005	325	325	100.1%
Total Eurobonds				**866**	

USD denominated Eurobonds issued under Euro Medium Term Note borrowings program of USD 2,000 million comprise the following at 31 December 2003:

Description	Interest rate	Maturity	Face value	Carrying value	Market price
Series 1 issued in December 2003	6.875% payable semi-annually	December 2008	300	298	101%

Debentures and deposit certificates issued comprise the following as of 30 June 2004:

(unaudited)

Description	Interest rate	Maturity	Face value	Carrying value	Market price
3rd tranche of Russian Rouble denominated debentures	From 14% to 15.5%	February 2006	69	69	108%
4th tranche of Russian Rouble denominated debentures	5.43%	March 2009	172	172	98%
Deposit certificates	From 0% to 8%	On demand/ till December 2004	178	178	N/A
Total debentures and deposit certificates				**419**	

Debentures issued comprise the following as of 31 December 2003:

Description	Interest rate	Maturity	Face value	Carrying value	Market price
2nd tranche of Russian Rouble denominated debentures	16%	April 2004	33	31	98%
3rd tranche of Russian Rouble denominated debentures	From 14% to 15.5%	February 2006	68	68	108%
Deposit certificates	From 1.6% to 15%	On demand/ till June 2004	187	187	N/A
Total debentures and deposit certificates				**286**	

Promissory notes issued include both discount and interest bearing promissory notes denominated mostly in US Dollars and maturing on demand and up to December 2049 (31 December 2003: the same). Effective interest rates range between 0% and 16% (31 December 2003: the same).

(expressed in millions of US dollars)

14 Interest Income and Expense

	For the three months ended 30 June 2004 (unaudited)	For the three months ended 30 June 2003 (unaudited)	For the six months ended 30 June 2004 (unaudited)	For the six months ended 30 June 2003
Interest income				
Loans and advances to customers	150	101	275	198
Securities	53	30	94	58
Due from other banks	8	26	31	38
Total interest income	**211**	**157**	**400**	**294**
Interest expense				
Customer accounts	(41)	(33)	(91)	(74)
Debt securities issued	(53)	(27)	(87)	(56)
Due to banks and other borrowed funds	(8)	(11)	(21)	(26)
Total interest expense	**(102)**	**(71)**	**(199)**	**(156)**
Net interest income	**109**	**86**	**201**	**138**

15 Operating Expenses

	For the three months ended 30 June 2004 (unaudited)	For the three months ended 30 June 2003 (unaudited)	For the six months ended 30 June 2004 (unaudited)	For the six months ended 30 June 2003
Staff costs	60	30	105	72
Administrative expenses, depreciation and other expenses related to premises and equipment	18	13	36	26
Taxes other than on income	7	15	13	20
Leasing and rent expenses	6	5	12	9
Security expenses	2	2	5	4
Professional services	–	–	1	1
Advertising expenses	2	1	4	2
Telecommunication and post expenses	2	2	3	3
Charity	6	–	8	1
Amortization of goodwill	1	1	2	1
Other	2	7	18	24
Total operating expenses	**106**	**76**	**207**	**163**

16 Analysis by Segment

In accordance with IAS 14, “Segment Reporting”, the Group’s primary format for reporting segment information is geographical segments and the secondary format is business segments. Segment information for the two main reportable geographical segments of the Group, Russia and Europe, is set out below for the period ended 30 June 2004.

(expressed in millions of US dollars)

(unaudited)

	Russia	Europe	Total
Operating income	240	(10)	230
Segment results	46	(23)	23
Taxation			(7)
Profit after taxation			16
Minority interest			2
Net profit			**18**
Segment assets	10,106	1,998	12,104
Segment liabilities	8,533	1,173	9,706

Segment information for the two main reportable geographical segments of the Group, Russia and Europe, is set out below for the period ended 30 June 2003.

	Russia	Europe	Total
Operating income	247	85	332
Segment results	113	56	169
Taxation			(43)
Profit after taxation			126
Minority interest			(9)
Share in profit of associates			2
Net profit			**119**
Segment assets	6,600	2,205	8,805
Segment liabilities	4,899	1,603	6,502

External revenues, assets, liabilities and credit related commitments have generally been allocated based on the domicile of the counterparty. Cash on hand, precious metals, premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

17 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 no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management's judgement of the Group's business activities may not coincide with the interpretation of the same activities by tax authorities. If a particular treatment was to be challenged by the tax authorities, the Group entities may be assessed additional taxes, penalties, and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, and transactions with unrelated parties if the price differs on similar transactions with two different counterparties by more than 20%.

(expressed in millions of US dollars)

Management believes that it has provided an adequate accrual for taxes.

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

Commitments to extend credit represent unused portions of authorisations 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:

	30 June 2004 (unaudited)	**31 December 2003**
Guarantees issued	1,746	1,514
Undrawn credit lines	527	718
Import letters of credit	165	157
Commitments to extend credit	178	162
Other credit related commitments	503	500
Less: allowance for losses on credit related commitments	(11)	(10)
Total credit related commitments	**3,108**	**3,041**

The Bank has also received export letters of credit for further advising to its customers. Total amount outstanding as of 30 June 2004 and 31 December 2003 was USD 2,187 and 1,345 million, respectively. Commitments under import letters of credit are collateralised by customer deposits of USD 23 million (31 December 2003: USD 60 million).

At 30 June 2004, included in other credit related commitments above is a commitment of the Group to guarantee the repayment of a loan issued to one Russian company in the amount of USD 500 million. This commitment is enforceable only on 9 March 2005.

At 30 June 2004, included in guarantees issued above are guarantees issued for one Russian company of USD1,065 million (61% of the guarantees issued) (31 December 2003: USD 932 million, 62% of the guarantees issued). These guaranties were secured by promissory notes issued by VTB with total nominal amount of USD617 million (31 December 2003: USD577 million). Movements in the allowance for losses on credit related commitments are as follows:

(expressed in millions of US dollars)

	2004 (unaudited)	2003
Allowance for losses on credit related commitments at 1 January	**10**	**10**
Provision for losses on credit related commitments during the period...............	1	–
Allowance for losses on credit related commitments at 30 June	**11**	**10**

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

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognised 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 favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 30 June 2004. These contracts were mainly entered into in June 2004 and settled early in July 2004.

The table below includes contracts outstanding at 30 June 2004.

(unaudited)

	Domestic			Foreign		
	Notional amount	**Negative fair value**	**Positive fair value**	**Notional amount**	**Negative fair value**	**Positive fair value**
Spot						
- sale of foreign currency.................	100	–	–	11	–	–
- purchase of foreign currency	61	–	–	16	–	–
- sale of securities............................	64	(1)	–	31	–	1
- purchase of securities	21	–	–	46	–	1
- sale of precious metals	1	–	–	7	–	–
- purchase of precious metals...........	–	–	–	2	–	–
Term						
-sale of securities.............................	7	–	–	21	–	–
-purchase of securities	16	–	–	44	–	–
Swap						
- sale of foreign currency.................	–	–	–	12	–	–
- purchase of foreign currency	10	–	–	510	(3)	5
Total	**280**	**(1)**	**–**	**700**	**(3)**	**7**

(expressed in millions of US dollars)

The table below includes contracts outstanding at 31 December 2003.

	Domestic			Foreign		
	Notional amount	**Negative fair value**	**Positive fair value**	**Notional amount**	**Negative fair value**	**Positive fair value**
Spot						
- sale of foreign currency.................	28	–	–	54	–	–
- purchase of foreign currency	49	–	–	26	–	–
- sale of securities............................	8	–	–	–	–	–
Term						
-sale of securities.............................	25	–	–	–	–	–
Deliverable forwards						
- purchase of securities....................	–	–	–	1	–	–
Swap						
- sale of foreign currency.................	98	–	–	–	–	–
- purchase of foreign currency	17	–	–	565	(1)	25
Total	**225**	**–**	**–**	**646**	**(1)**	**25**

Purchase commitments. As of 30 June 2004 the Group had a USD 333 million outstanding commitments for purchase of precious metals (31 December 2003: USD 119 million).

Assets pledged. At 30 June 2004, the Group had USD 69 million (31 December 2003: USD 56 million) of securities pledged as collateral. At 30 June 2004, the Bank also pledged securities with the fair value of USD 386 million (31 December 2003: of USD 503 million) under sale and repurchase agreements with other banks. All of these operations were performed by the Bank in the normal course of business.

18 Consolidated Subsidiaries and Associates

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

(expressed in millions of US dollars)

			Equity controlled	
Name	**Activity**	**Country of registration**	**30 June 2004**	**31 December 2003**
			(unaudited)	
Subsidiaries				
Donau-bank	Banking	Austria	85.0%	85.0%
Russian Commercial Bank	Banking	Cyprus	100.0%	100.0%
Russian Commercial Bank	Banking	Switzerland	100.0%	100.0%
ArmSberbank	Banking	Armenia	70.0%	–
Bank “Zabaikalsky”	Banking	Russia	99.9%	99.9%
Novosibirskvneshtorgbank	Banking	Russia	97.5%	97.5%
Ulyanovskvneshtorgbank	Banking	Russia	60.4%	60.4%
Multicarta Ltd	Plastic cards	Russia	100.0%	100.0%
Euroleasing, GMBH	Leasing	Germany	60.0%	60.0%
Rafinco Co., NY	Trading	USA	100.0%	100.0%
ITC Consultants	Finance	Cyprus	100.0%	100.0%
VB Service	Commerce	Russia	100.0%	100.0%
Trading House VTB	Commerce	Russia	100.0%	100.0%
Vympel-B Ltd	Security	Russia	100.0%	100.0%
Non-state Pension Fund of Vneshtorgbank	Finance	Russia	100.0%	100.0%
ZAO Konobeevo	Recreation	Russia	89.9%	89.9%
Insurance capital Ltd	Insurance	Russia	69.8%	69.8%
ZAO “Binex”	Oil	Russia	51.0%	51.0%
ZAO “Almaz Press”	Publishing	Russia	100.0%	100.0%
OAO “VTB-Leasing”	Leasing	Russia	100.0%	100.0%
Associates				
East-West United Bank	Banking	Luxembourg	48.0%	53.0%
Ost -West Handelsbank	Banking	Germany	31.9%	31.9%

At 23 June 2004, the Bank sold 5% of East-West United Bank shares to third party for cash consideration of USD 2 million. The effect of the disposal of these shares was not material. As a result of this transaction, the Bank’s participation in East-West United Bank decreased from 53% to 48% effective 23 June 2004.

In April 2004 the Group acquired 70% of the share capital of ArmSberbank located in Armenia in exchange for cash payment of USD 9 million. As of 30 June 2004, its financial statements are consolidated into the Group’s financial statements. As a result of this acquisition, the Group has recognized positive goodwill of USD 4 million in accordance with IFRS 3 Business Combination.

19 Subsequent Events

In July 2004, VTB purchased 85.8% interest in Guta Bank for a cash payment of approximately RUR 1 million (USD 34 thousand at the exchange rate of RUR 29.077 per USD 1). In connection with the acquisition of Guta Bank, the CBR placed a USD 700 million special purpose deposit with VTB at the LIBOR rate for one year. The deposit is available to maintain Guta Bank’s liquidity and for the use in the Bank’s operations. The term of the deposit may be prolonged with the agreement of VTB and the CBR. VTB has extended a credit line to Guta Bank of RUR 10,000 million (USD 344 million at the exchange rate of RUR 29.077 per USD 1) maturing in one year and bearing interest rate of 6% p.a. with interest payment at maturity, which is secured by Guta Bank’s loan portfolio. As of September 30, 2004, the amount drawn down by Guta Bank under this credit line was RUR 6,400 million USD 219 million at the exchange rate of RUR 29.2171 per USD 1).

VTB expects the strategy for Guta to be finalized in the first quarter of 2005. The Bank obtained an independent third party valuation of Guta as of the acquisition date, July 16th, 2004. This valuation report shows the estimated fair value of Guta’s assets to be USD 664 million and liabilities to be USD 747 million, resulting in negative equity of USD 83 million. The Bank is currently finalizing the purchase price allocation in accordance with International Financial Reporting Standards and is estimating the amount of goodwill. As of the date of acquisition the net loan exposure of Guta Bank to companies related to its former shareholders was approximately USD 240 million.

Under the Euro Medium Term Note Program in July 2004 the Group issued Series 3 USD denominated floating rate Eurobonds with a face value of USD 300 million maturing in July 2007. The Eurobonds carry a floating rate coupon payable quarterly of LIBOR plus 2.9%.

On 6 September 2004, VTB and Industry and Construction Bank (ICB), a large commercial bank located in St. Petersburg, signed a non-binding memorandum of understanding providing for VTB's purchase of a 25% plus one share initial interest in ICB. VTB and ICB are currently negotiating the purchase price for the initial interest.

On October 12, 2004 the Group also issued under the Euro Medium Term Note Program Series 4 USD denominated Eurobonds bearing interest rate 7.5% with a face value of USD 450 million maturing in October 2011.

On November 11, 2004, VTB signed a loan agreement relating to a syndicated loan arranged by ABN Amro Bank N.V., Citibank N.A. London, ING Bank N.V. and J.P. Morgan plc. The loan has a principal amount of USD 300 million and an interest rate of LIBOR plus 1.6%. It was fully drawn down on December 7, 2004 and is scheduled to be repaid on November 11, 2007.

On November 20, 2004 VTB entered into an agreement with AFK Sistema for a sale of an additional 14% shareholding in East West United Bank ("EWUB"). The sale will be formally concluded once the transfer is registered in the shareholders' register of EWUB. VTB expects that the transfer will take place in December 2004, thereby reducing VTB's shareholding in EWUB from 48% to 34%.

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