



U.S.\$2,000,000,000

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

Under the Programme for the Issuance of Loan Participation Notes (the “Programme”) described in this offering circular (the “Offering Circular”), VTB Capital S.A. (the “Issuer”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the “Notes”) on the terms set out herein, as supplemented by a pricing supplement (each a “Pricing Supplement”) setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.\$2,000,000,000 (or the equivalent in other currencies).

This Offering Circular is subsequent to and replaces an offering circular dated July 2, 2004 relating to the Programme. For the avoidance of doubt, any Notes issued under the Programme on or after the date of this Offering Circular shall be issued pursuant to this Offering Circular. This Offering Circular does not affect any Notes issued under the Programme prior to the date hereof.

Notes will be issued in Series (as defined in “Summary of the Programme”) and the sole purpose of issuing each Series will be to finance a fiduciary deposit (each a “Deposit”) with Deutsche Bank Luxembourg S.A. (the “Fiduciary”) on the terms of an amended and restated deposit agreement between the Issuer and the Fiduciary dated July 2, 2004 (the “Deposit Agreement”), as amended and supplemented by a fiduciary deposit supplement to be entered into in respect of each Deposit on each Issue Date (as defined below) (each a “Fiduciary Deposit Supplement” and, together with the Deposit Agreement, the “Fiduciary Deposit Agreement”) between the Issuer and the Fiduciary. The sole purpose of making each Deposit will be to finance a loan (each a “Loan”) to JSC Vneshtorgbank (also known as the Bank for Foreign Trade) (“VTB”) as borrower, on the terms of an amended and restated facility agreement between the Fiduciary and VTB dated July 2, 2004 (the “Facility Agreement”), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on each issue date (“Issue Date”) (each a “Loan Supplement” and, together with the Facility Agreement, the “Loan Agreement”) between the Fiduciary and VTB. Subject as provided in the Trust Deed (as defined herein) the Issuer will (a) charge, in favour of Citicorp Trustee Company Limited as trustee (the “Trustee”), by way of a first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed, certain of its rights and interests under the relevant Fiduciary Deposit Agreement and the relevant Account (as defined in the relevant Fiduciary Deposit Supplement), and (b) assign, in favour of the Trustee, certain of its other rights under the Fiduciary Deposit Agreement including rights in respect of any Loan Assignment (as defined below) but excluding any Issuer Reserved Rights (as defined in the Trust Deed), in each case for the benefit of the holders of the corresponding Series of Notes (the “Noteholders”), all as more fully described under “Summary of the Programme.” Under the terms of the relevant Fiduciary Deposit Agreement, the Fiduciary will agree that upon the occurrence of an Event of Default (as defined in the relevant Loan Agreement) or a Fiduciary Relevant Event (as defined in the Fiduciary Deposit Agreement) it will assign all of its rights (except for any Fiduciary Reserved Rights (as defined in the Fiduciary Deposit Agreement)) under the relevant Loan Agreement to the Issuer (a “Loan Assignment”).

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of a Series of Notes, the obligation of the Issuer to make any such payment constitutes an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Series of Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received from VTB by or for the account of the Issuer pursuant to the corresponding Fiduciary Deposit Agreement or, in the event of a Loan Assignment (as defined below), pursuant to the relevant Loan Agreement. The Issuer will have no other financial obligation under the Notes. Where amounts are stated to be payable in respect of a Fiduciary Deposit Agreement, the obligation of the Fiduciary to make such payment shall constitute an obligation to account to the Issuer on each date upon which such amounts are due in respect of the relevant Fiduciary Deposit Agreement, for all amounts (if any) actually received from VTB by or for the account of the Fiduciary pursuant to the relevant Loan Agreement and the Fiduciary will have no further obligation under the relevant Fiduciary Deposit Agreement. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the credit and financial standing of VTB in respect of the payment obligations of the Issuer under the Notes and of the Fiduciary under the Deposits.**

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS.”

THE NOTES AND THE CORRESPONDING DEPOSITS AND LOANS (TOGETHER, THE “SECURITIES”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”), AS AMENDED AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED AND SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”). THE NOTES MAY BE OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (“QIBS”), AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), THAT ARE ALSO QUALIFIED PURCHASERS (“QPS”), AS DEFINED IN SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE “INVESTMENT COMPANY ACT”) IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE “RULE 144A NOTES”) AND (II) TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (THE “REGULATION S NOTES”). THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS, SEE “SUBSCRIPTION AND SALE” AND “TRANSFER RESTRICTIONS.”

Application has been made to list the Notes issued under the Programme on the Luxembourg Stock Exchange. However, unlisted Notes may also be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Luxembourg Stock Exchange (or any other stock exchange). Application may also be made to have Rule 144A Notes designated as eligible for trading in the Private Offering, Resale and Trading through Automated Linkages (“PORTAL”) System of the National Association of Securities Dealers, Inc., as specified in the applicable Pricing Supplement.

Regulation S Notes of each Series which are sold in an “offshore transaction” within the meaning of Regulation S, will initially be represented by interests in a global unrestricted Note in registered form (each a “Regulation S Global Note”), without interest coupons, which will be deposited with a common depository for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) on its Issue Date. Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes of each Series sold to QIBs that are also QPs, as referred to in, and subject to the transfer restrictions described in “Subscription and Sale” and “Transfer Restrictions,” will initially be represented by interests in a global restricted Note in registered form (each a “Rule 144A Global Note” and together with any Regulation S Global Notes, the “Global Notes”), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“DTC”) on its Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See “Summary of the Provisions Relating to the Notes in Global Form.” Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

Arrangers and Permanent Dealers

Citigroup

Deutsche Bank

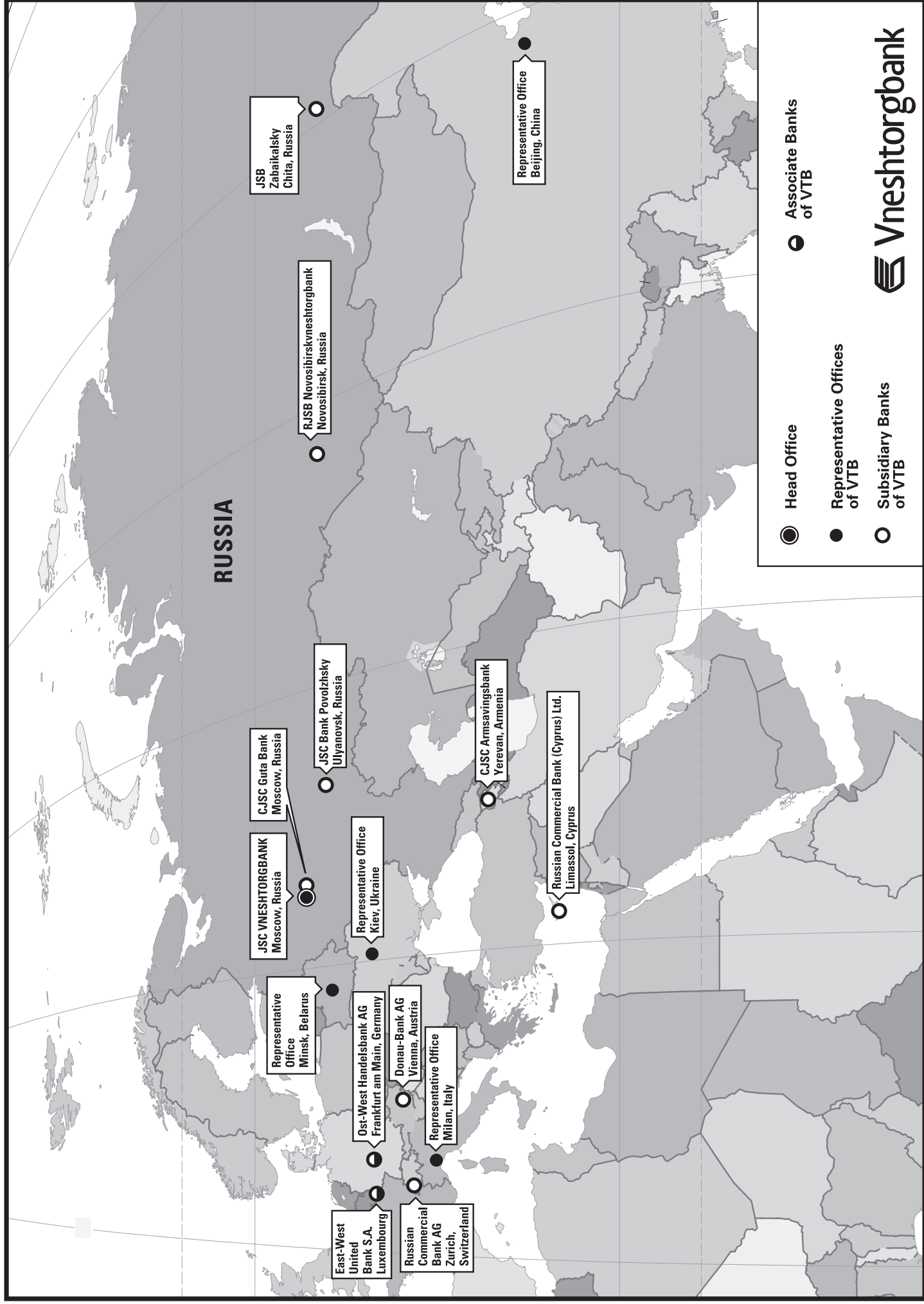
Dresdner Kleinwort Wasserstein

UBS Investment Bank

Permanent Dealers

ABN AMRO Barclays Capital BNP PARIBAS HSBC HVB Corporates & Markets ING JP Morgan

The date of this Offering Circular is September 23, 2004.



VTB, having made all reasonable enquiries, confirms that: (i) this Offering Circular contains all information with respect to VTB, VTB and its subsidiaries and associates taken as a whole (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 this Offering Circular 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 this Offering Circular 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 this Offering Circular 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 with respect to itself.

VTB has derived substantially all of the information contained in this Offering Circular concerning the Russian banking market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and filings made under various securities laws. VTB confirms that the information has been correctly copied from its sources. However, VTB has relied on the accuracy of this information without carrying out an independent verification. In addition, some of the information contained in this Offering Circular has been derived from official data published by Russian government agencies and the Central Bank of the Russian Federation (the “CBR”). VTB does not accept responsibility for the accuracy of such information. The official data published by Russian federal, regional and local governments is substantially less complete or researched than those of Western countries. Official statistics may also be compiled on different bases than those used in Western countries. Any discussion of matters relating to the Russian Federation in this Offering Circular may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable.

This Offering Circular 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 this Offering Circular and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular 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 this Offering Circular is set out under “Subscription and Sale.”

No person is authorised to provide any information or make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular and any information or representation 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 this Offering Circular 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.

In connection with any Series of Notes, the Dealer (if any) disclosed as a stabilising agent (the “Stabilising Agent”) in the relevant Pricing Supplement (or any person acting for the Stabilising Agent) may over-allot or effect transactions with a view to supporting the market price of Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Agent (or any agent of the Stabilising Agent) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

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 THIS DOCUMENT, AND NOTHING CONTAINED IN THIS DOCUMENT 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 THIS OFFERING CIRCULAR.

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 THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ENFORCEABILITY OF JUDGMENTS

VTB is an open joint stock company incorporated under the laws of the Russian Federation and most of its assets and the assets of its subsidiaries and associates are currently located outside the United Kingdom and the United States. In addition, all of VTB’s directors and executive officers are residents of countries other than the United Kingdom and the United States. As a result, it may not be possible for you to:

- effect service of process within the United Kingdom or the United States upon any of VTB’s directors or executive officers named in this Offering Circular; or
- enforce, in the English or U.S. courts, judgments obtained outside English or U.S. courts against VTB or any of its directors and executive officers named in this Offering Circular in any action.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom and the United States, liabilities predicated upon English laws or the U.S. federal securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only (i) if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgements is adopted. No such federal law has been passed and no such treaty exists between the United States and the Russian Federation or the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments. See “Risk Factors – Foreign judgments may not be enforceable against VTB.”

Each Loan Agreement will be governed by English law and will provide the option for disputes, controversies and causes of action brought by any party thereto against VTB to be settled by arbitration in accordance with the Rules of the London Court of International Arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, any other amendment or supplement to this Offering Circular prepared from time to time in accordance with the undertakings by the Issuer, the Fiduciary and VTB in the Dealer Agreement described below, the most recently published annual reports of VTB and the Issuer, if any, including the auditors' reports, and any interim reports of VTB and the Issuer, if any, published subsequently to such annual reports, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents. All documents incorporated by reference will be available free of charge at the specified office of each of the Trustee and the Paying Agent in Luxembourg during normal business hours as described in "General Information" below.

Any statement contained in a document incorporated herein by reference shall be deemed to be modified or superseded for the purposes of this Offering Circular to the extent that a statement contained in any subsequent document which is also incorporated herein by reference or that is a supplement hereto, modifies or supersedes such a statement (whether expressly, by implication or otherwise). Any statement so superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

SUPPLEMENTAL OFFERING CIRCULAR

VTB will, in connection with the listing of the Notes on the Luxembourg Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer or VTB which is not reflected in this Offering Circular, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the Luxembourg Stock Exchange.

The Issuer and VTB may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions herein, in which event a supplemental Offering Circular, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The Group's financial information set forth herein has, unless otherwise indicated, been derived from its unaudited interim consolidated financial statements as of and for the three months ended March 31, 2004 and 2003 (the "Interim IFRS Financial Statements"), as set forth on pages F-48 through F-65 of this document, and its audited consolidated financial statements as of and for the years ended December 31, 2003, 2002 and 2001 (the "Annual IFRS Financial Statements" and, together with the Interim IFRS Financial Statements, the "IFRS Financial Statements"), as set forth on pages F-2 through F-47 of this document, in each case prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. The U.S. dollar is the measurement currency for the Group's IFRS Financial Statements.

Currency

In this Offering Circular, the following currency terms are used:

- "RUR," "Russian Rouble" or "rouble" means the lawful currency of the Russian Federation;
- "U.S. dollar," "USD" or "U.S.\$" means the lawful currency of the United States of America;
- "EUR," "euro" or "€" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the Treaty on the European Union, signed at Maastricht on February 7, 1992; and
- "£" means the lawful currency of the United Kingdom of Great Britain and Northern Ireland.

References to VTB and the Group

In this Offering Circular, the term "VTB" refers to JSC Vneshtorgbank (also known as the Bank for Foreign Trade) and the term "Group" refers to VTB and its domestic and foreign consolidated subsidiaries and associates.

VTB's Market Share Information

VTB has calculated its market share information presented in this Offering Circular on the basis of market data regularly published by the CBR.

Rounding

Some numerical figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

Auditors

The Group's Annual IFRS Financial Statements as of and for the year ended December 31, 2003 included in this Offering Circular have been audited by Ernst & Young (CIS) Limited, independent auditors, who have expressed an unqualified opinion on those statements, as stated in their report appearing herein, and the Group's Interim IFRS Financial Statements as at and for the three months ended March 31, 2004 have been reviewed by Ernst & Young (CIS) Limited, independent accountants. The address of Ernst & Young (CIS) Limited is Sadovnicheskaya Naberezhnaya 77, building 1, Moscow 115035, Russian Federation. The Group's Annual IFRS Financial Statements as of and for the years ended December 31, 2002 and 2001 were audited by ZAO PricewaterhouseCoopers Audit, independent auditors who previously expressed unqualified opinions on those statements, as stated in Ernst & Young (CIS) Limited's report for 2003 appearing herein. The address of ZAO PricewaterhouseCoopers Audit is Kosmodamianskaya Naberezhnaya 52, building 5, Moscow 115054, Russian Federation.

FORWARD-LOOKING STATEMENTS

Certain statements in this document are not historical facts and constitute “forward-looking statements.” Forward-looking statements are identified by words such as “believes,” “anticipates,” “expects,” “estimates,” “intends,” “plans,” “will,” “may” and similar expressions, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings “Summary,” “Risk Factors,” and “Business.” VTB or the Group may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of VTB’s or the Group’s plans, objectives or goals, including those related to its strategy, products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by VTB or the Group from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- inflation, interest rate and exchange rate fluctuations in Russia;
- prices for securities issued by Russian entities and for precious metals;
- the health of the Russian economy, including the Russian banking sector;
- the effects of, and changes in, the policy of the federal government of Russia (the “Government”) and regulations promulgated by the CBR;
- the effects of competition in the geographic and business areas in which the Group conducts its operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices in the jurisdictions where the Group conducts its operations;
- VTB’s or the Group’s ability to increase market share for its products and services and control expenses;
- acquisitions or divestitures, including the recent acquisition of CJSC Gута Bank (“Guta Bank”);
- technological changes; and
- VTB’s or the Group’s success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which VTB and the Group operate. Such forward-looking statements speak only as of the date on which they are made, and are not subject to any continuing obligations under the listing rules of the Luxembourg Stock Exchange. Accordingly, VTB and the Group do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. VTB and the Group do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

ADDITIONAL INFORMATION

Neither the Issuer, VTB nor the Group is required to file periodic reports under Section 13 or 15 of the US Securities Exchange Act of 1934 (the “Exchange Act”). For so long as either the Issuer, VTB or the Group is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer, VTB or the Group will, upon request, furnish to each holder or beneficial owner of Notes that are “restricted securities” (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Notes pursuant to Rule 144A under the Securities Act or otherwise, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

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SUMMARY

Overview

The Group is a leading Russian commercial banking group, offering a wide range of banking services and conducting operations across Russia and in parts of Europe. VTB is the Group's primary bank and the parent company of the other Group members. It oversees the Group's operations and sets its strategy.

According to a September 2004 survey by *Expert* magazine, a leading Russian business weekly, as of July 1, 2004 VTB was the second-largest commercial bank in Russia in terms of assets and lending volume and the third-largest in terms of profits and retail deposits (all as calculated under Russian accounting regulations applicable to banks ("RAR")). On the basis of the data published by the CBR, VTB believes that it is Russia's leading bank for foreign trade settlements, with an approximate 11% market share measured by volume as of March 31, 2004. *The Banker*, a banking industry journal, stated in June 2004 that in 2003 VTB was the second-largest bank in Central and Eastern Europe (including Russia) in terms of tier one capital, as defined by the Bank for International Settlements.

The Group's primary operations include taking deposits, lending, proprietary trading and investing in securities, providing account and settlement services, conducting foreign trade transactions and providing cash handling and custody services. The Group is expanding its retail and investment banking businesses. See "Business – Strategy."

The Group's revenues are primarily derived from its corporate banking and proprietary activities. In the year ended December 31, 2003, the Group generated operating income (net interest income, after the provision for loan impairment, plus other income) of U.S.\$661 million and net profit of U.S.\$264 million. Of the Group's operating income in 2003, net interest income after the provision for loan impairment (such provision being U.S.\$78 million) accounted for U.S.\$242 million, or 37% of operating income, gains less losses arising from securities, derivatives and foreign currency activities accounted for U.S.\$268 million, or 41% of operating income and net fee and commission income accounted for U.S.\$68 million, or 10% of operating income. In the quarter ended March 31, 2004, the Group generated operating income (net interest income, after the provision for loan impairment plus other income) of U.S.\$198 million and net profit of U.S.\$74 million. Of the Group's operating income in the first quarter of 2004, net interest income after the provision for loan impairment (such provision being U.S.\$42 million) accounted for U.S.\$50 million, or 25% of operating income, gains less losses arising from securities, derivatives and foreign currency activities accounted for U.S.\$81 million, or 41% of operating income, and net fee and commission income accounted for U.S.\$24 million, or 12% of operating income.

The Group conducts banking business primarily with companies partly or wholly owned by Russian federal, regional, or municipal authorities, Russian privately-owned large companies and small businesses and foreign companies that have business interests in or export products or services to, Russia (together, "companies"), as well as federal, regional and municipal authorities ("public authorities" and, together with companies, "legal entities"). The Group is focusing on attracting individual, or retail clients, in Russia and has recently acquired Guta Bank, a large Russian retail and corporate bank. See "Business – Other Group Banks – Domestic Banks and Participations – Domestic Banks – Guta Bank."

The Government, acting through the Federal Service for Management of Federal Property (the "Federal Property Service"), holds 99.9% of VTB's shares and is the controlling shareholder. Of the nine seats on VTB's Supervisory Council, four are held by representatives of various Government ministries and agencies, two by representatives of the Russian President and the remaining three by a representative of the CBR, the president of the Russian Marketing Association and VTB's President and Chief Executive Officer.

VTB has a long-term counterparty credit and certificate of deposit rating of "BB+" and a short-term counterparty credit and certificate of deposit rating of "B" from Standard & Poor's, a division of the McGraw Hill Companies, Inc. ("S&P"), a bank deposits rating of "Ba1/NP" and a bank financial strength rating of "D-" from Moody's Investor Services, Inc. ("Moody's"), and a short-term foreign currency rating of "B," a long-term foreign currency rating of "BB+," an individual rating of "C/D" and a support rating of "3" from Fitch Ratings Ltd. ("Fitch").

VTB's legal address is 16 Kuznetsky Most Street, Moscow 103031, Russian Federation and its head office (the "Head Office") is located at 6 Lesnaya Street, Moscow 125047, Russian Federation.

Competitive Advantages and Strategy

Competitive Advantages

VTB believes that it has a number of competitive advantages over other banks operating in Russia:

- *Independence.* VTB is not controlled by or affiliated with any Russian financial-industrial group. As a result, VTB conducts its business in a commercially reasonable manner and enters into transactions with companies that compete with each other. In contrast, many other Russian banks are part of financial-industrial groups and focus their operations on serving those groups and acting in their interest. VTB believes that its clients value its independence. Since becoming VTB's 99.9% shareholder in October 2002, the Government, now acting through the Federal Property Service, has not asserted control over the day-to-day decisionmaking or operations of the Group or its strategic planning.
- *International Experience and Reputation.* From its inception in 1990, VTB has been active in the international markets and has strong relationships with many international financial institutions. It has been successful in attracting funding in the international capital markets through syndicated loans and offerings of debt securities. VTB believes that it has more credit and cooperation agreements with foreign banks and export credit agencies than any other Russian bank. In addition, VTB has an international reputation as a stable and reliable bank. In the aftermath of Russia's 1998 financial crisis, it settled all of its obligations on outstanding forward contracts and fully repaid all of its other obligations as they came due.
- *Established Relationships with Leading Russian Companies.* VTB has a history of cooperation and good relationships with leading Russian companies operating in various sectors of the Russian economy. See "Business – Banking Services and Activities – Corporate Banking – Client Segmentation."
- *Strong Capital Position.* VTB's strong capital position allows it to enter into transactions not possible for many other Russian banks, such as providing large long-term loans to many clients in various industries. See "Business – Banking Services and Activities – Corporate Banking."
- *Experienced Management.* VTB's senior management team has substantial experience in the banking business. VTB's Chairman and Chief Executive Officer, Andrei L. Kostin, was previously President of Vnesheconombank ("VEB"), where he oversaw significant commercial banking operations and operations relating to foreign trade. VTB's other senior managers have previously held senior positions at, amongst other banks, VEB and Sberbank.

Strategy

The Group's overall strategic goal, developed by VTB's new management team, is to strengthen its position as a pan-European banking group offering a comprehensive and competitive range of banking products and to be the partner of choice for businesses and individuals based or working in Russia and abroad. See "Business – Strategy."

To achieve this strategic goal, the Group, primarily through VTB, is expanding the range and volume of its commercial and retail banking services, upgrading VTB's information technology ("IT") infrastructure, expanding its operations in Russia and other Commonwealth of Independent States ("CIS") countries, restructuring its foreign banks, developing its investment banking business, diversifying VTB's shareholder base and improving VTB's governance and management systems.

Expansion of Corporate Client Services. The Group plans to expand the range and volume of its corporate client services through diversifying its corporate client base, financing new projects in the Russian economy, expanding services provided to small businesses in Russia, maintaining and strengthening the Group's leading position in servicing foreign trade operations, offering customised services to particular clients and developing and improving cross-selling arrangements for banking and related products.

Expansion of VTB's Retail Services in Russia. In expanding its retail services, VTB will primarily target Russia's small but growing middle class. VTB plans to expand the range and volume of its retail banking services through raising the volume of retail deposits, expanding retail lending, increasing VTB's presence in the debit card market and attracting clients through marketing campaigns.

Expanding in Russia and the CIS. VTB believes that its business will benefit significantly from expansion in Russia and in a number of CIS countries. VTB currently plans to open approximately 25 additional branches and approximately 194 additional sub-branches and outlets in Russia by 2008 and to expand its operations within the CIS.

See “Business – VTB’s Branch Network” and “Business – Other Group Banks – Foreign Banks – Development” and “Business – Other Group Banks – Domestic Banks and Participations”.

Restructuring its Foreign Banks. VTB plans to restructure the Group’s foreign banks to increase the legal and regulatory benefits of its foreign operations and the foreign banks’ transparency and profitability. VTB is now in the process of developing a restructuring plan which envisions transferring ownership of its foreign subsidiary banks from VTB to Donau-Bank AG (“Donau-Bank”). Donau-Bank will be the Group’s primary foreign bank and will manage the operations of the foreign banks except CJSC Armsavingsbank (“Armsavingsbank”) and any other CIS banks that VTB may open or acquire. See “Business – Other Group Banks – Foreign Banks – Development.”

Developing Investment Banking in Russia. Partly due to inquiries by potential clients, and given the current shortage of domestic investment banking services in Russia, VTB believes that substantial business opportunities exist in this area and that its reputation for independence will help it gain investment banking clients. VTB has begun developing its investment banking business and intends to continue to do so. See “Business – Banking Services and Activities – Corporate Banking – Services – Investment Banking Services.”

Diversifying VTB’s Shareholder Base. VTB believes that diversifying its shareholder base will give it greater access to funding, increase its existing client business, facilitate establishing relationships with new clients and enhance its competitiveness and transparency. VTB plans to sell a 10% to 20% shareholding to outside investors in the next two years and a further 20% to 30% shareholding prior to 2008.

Improving Information, Governance and Management Systems of VTB. VTB is reviewing and enhancing its disclosure and procedures for communicating with holders of its equity and debt securities and the general public, improving its internal control, anti-money laundering and risk management procedures, implementing profitability monitoring mechanisms, taking steps to improve its strategic and current planning and putting in place an automated information processing system that is expected to reduce labour costs.

SUMMARY OF THE PROGRAMME

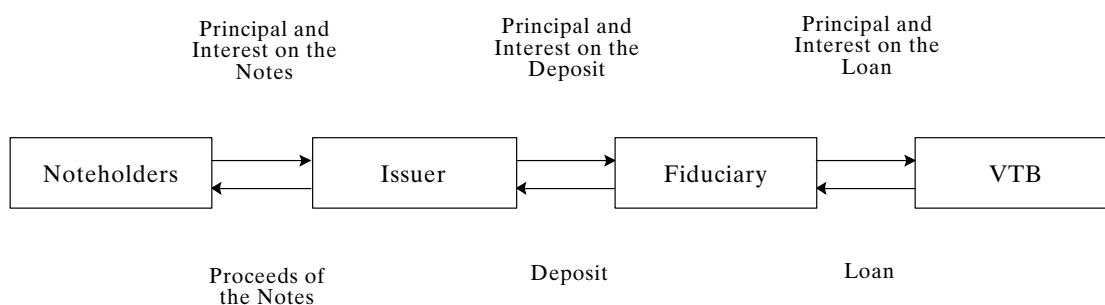
The following summary contains basic information about the Notes, Deposits and Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms and Conditions of the Notes,” “Deposit Agreement” and “Facility Agreement” appearing elsewhere in this Offering Circular.

Each transaction will be structured as a Deposit by the Issuer of the gross proceeds of an issue of a Series of Notes with the Fiduciary and a corresponding Loan by the Fiduciary to VTB of a sum equivalent to the Deposit. The Issuer will issue Notes to Noteholders for the sole purpose of funding such Deposit and the Fiduciary will accept such Deposit for the sole purpose of funding such Loan. Each Series of Notes will be constituted by an amended and restated principal trust deed as supplemented and amended in respect of such Series of Notes by a Supplemental Trust Deed (together, the “Trust Deed”), each entered into between the Issuer and Citicorp Trustee Company Limited (the “Trustee”). Pursuant to the Trust Deed the Issuer will (i) charge to the Trustee by way of a first fixed charge as security for a Series of Notes (a) all rights to principal, interest and other amounts payable by the Fiduciary under the relevant Fiduciary Deposit Agreement, (b) the right to receive all sums which may be payable by the Fiduciary under any claim, award or judgement relating to the relevant Fiduciary Deposit Agreement and (c) all rights, title and interest in and to all sums of money now or in the future deposited in an account established for the relevant Series of Notes with the Principal Paying Agent in the name of the Issuer (the “Account”) including interest from time to time earned thereon and (ii) assign certain of its rights under the relevant Fiduciary Deposit Agreement, including any rights in respect of a Loan Assignment (but excluding any Issuer Reserved Rights (as defined in the Trust Deed)), to the Trustee for the benefit of the holders of the corresponding Series of Notes. Under the terms of the relevant Fiduciary Deposit Agreement, the Fiduciary will agree that upon the occurrence of an Event of Default (as defined in the relevant Loan Agreement) or a Fiduciary Relevant Event (as defined in the relevant Fiduciary Deposit Agreement) it will assign all of its rights (except for any Fiduciary Reserved Rights (as defined in the relevant Fiduciary Deposit Agreement)) under the relevant Loan Agreement to the Issuer (a “Loan Assignment”).

VTB will be obliged to make payments under each Loan to the Fiduciary in accordance with the terms of the relevant Loan Agreement. The Fiduciary will be obliged under the terms of the relevant Fiduciary Deposit Agreement to make payments in respect of principal, interest and additional amounts (if any) received in respect of the relevant Loan Agreement under the relevant Deposit to the Issuer to the Account, to the extent of and subject to the Fiduciary’s receipt of such payments under the relevant Loan Agreement from VTB. The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of any Fiduciary Deposit Agreement or, in the event of a Loan Assignment the relevant Loan Agreement, unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to each Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the relevant Loan Agreement. Any material amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with, and as more fully described in, Condition 14 and shall be binding on the Noteholders. Formal notice of the security interests created by any Trust Deed will be given to the Fiduciary and the Principal Paying Agent who will each be required to acknowledge the same.

Each Deposit will be a limited recourse obligation and the Fiduciary will not have any obligation to the Issuer other than to account to the Issuer for payments of principal, interest and other amounts (if any) received by it under the relevant Loan, if any. Each Series of Notes will be limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to Noteholders for payments of principal, interest and other amounts, if any, received by it or for its account under the relevant Deposit or, in the event of a Loan Assignment, pursuant to the relevant Loan.

Set out below is a diagrammatic representation of the structure:



Notes to be issued under the Programme

Issuer	VTB Capital S.A. (the “Issuer”).
Fiduciary	Deutsche Bank Luxembourg S.A. (the “Fiduciary”).
VTB (as Borrower)	JSC Vneshtorgbank with its registered office at 16 Kuznetsky Most Street, Moscow 103031, Russian Federation.
Description	Programme for the Issuance of Loan Participation Notes pursuant to which the Issuer may issue Notes.
Programme Size	Up to U.S.\$2,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. VTB may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein). In this respect, for the purpose of calculating the aggregate principal amount of Notes outstanding, Notes issued at a premium shall be treated as having been issued at the amount of their net proceeds received by the Issuer.
Arrangers	Citigroup Global Markets Limited, Deutsche Bank AG London, Dresdner Bank Aktiengesellschaft and UBS Limited.
Dealers	<p>Citigroup Global Markets Limited, Deutsche Bank AG London, Dresdner Bank Aktiengesellschaft, UBS Limited, ABN AMRO Bank N.V., Barclays Bank plc, Bayerische Hypo- und Vereinsbank AG, BNP PARIBAS, HSBC Bank plc, ING Bank N.V., London Branch and J.P. Morgan Securities Ltd.</p> <p>Pursuant to the terms of the Dealer Agreement, the Issuer, on VTB’s instructions, may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Offering Circular to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole programme (and whose appointment has not been terminated) and to “Dealers” are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.</p>
Trustee	Citicorp Trustee Company Limited.
Principal Paying Agent	Citibank, N.A. London, unless it is specified in the relevant Pricing Supplement relating to a Series of Notes that another principal paying agent is appointed in respect of that Series. References in this Offering Circular to “Principal Paying Agent” are to Citibank, N.A. London or such alternative principal paying agent or agents, as the case may be.
Registrar	Citibank, N.A. London, unless it is specified in the relevant Pricing Supplement relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Offering Circular to “Registrar” are to Citibank, N.A. London or such alternative Registrar, as the case may be.
Paying Agents	Citibank, N.A. London, Deutsche Bank Luxembourg S.A. and Citibank, N.A. New York, unless it is specified in the relevant Pricing Supplement relating to a Series of Notes that another paying agent is appointed in respect of that Series. References in this Offering Circular to “Paying

Agents” are to Citibank, N.A. London, Deutsche Bank Luxembourg S.A., Citibank, N.A. New York or such alternative paying agent, as the case may be.

Transfer Agents Citibank, N.A. London and Deutsche Bank Luxembourg S.A. or, in relation to Notes sold pursuant to Rule 144A and Citibank, N.A. New York unless it is specified in the relevant Pricing Supplement relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Offering Circular to “Transfer Agent” are to Citibank, N.A. London, Deutsche Bank Luxembourg S.A. and Citibank, N.A. New York or such alternative transfer agent, as the case may be.

Calculation Agent Deutsche Bank Luxembourg S.A. unless it is specified in the relevant Pricing Supplement relating to a Series of Notes that another calculation agent is appointed in respect of that Series. References in this Offering Circular to “Calculation Agent” are to Deutsche Bank Luxembourg S.A. or such alternative calculation agent, as the case may be.

Method of Issue The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be set out in a pricing supplement to this Offering Circular (each a “Pricing Supplement”) which shall supplement the Terms and Conditions of the Notes.

Issue Price of Notes Notes may be issued at their principal amount or at a discount or premium to their principal amount.

Status Each Series of Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Deposit and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to such Deposit or, in the event of a Loan Assignment, the corresponding Loan, all as more fully described in “Terms and Conditions of the Notes – 1. Status.” Each Deposit will constitute the obligation of the Fiduciary to apply a sum equivalent to the Deposit solely for financing the corresponding Loan and to account to the Issuer for amounts equivalent to sums of principal, interest and additional amounts (if any) together with any fees payable thereunder actually received by or for the account of the Fiduciary pursuant to such Loan, all as more fully described in “Deposit Agreement.”

Security The Issuer’s payment obligations in respect of each Series of Notes will be secured by a first fixed charge on:

- all of the Issuer’s rights to principal, interest and other amounts paid and payable under the relevant Fiduciary Deposit Agreement and its right to receive all sums paid and payable under any claim, award or judgment relating to such Fiduciary Deposit Agreement; and
- all the rights, title and interest in and to all sums of money held from time to time in an account specified in the relevant Pricing Supplement, together with the debt represented thereby (including interest from time to time) pursuant to the Trust Deed.

Assignment of Rights	Under the terms of the relevant Fiduciary Deposit Agreement, the Fiduciary will agree that upon the occurrence of an Event of Default (as defined in the relevant Loan Agreement) or a Fiduciary Relevant Event (as defined in the relevant Fiduciary Deposit Agreement), it will enter into a Loan Assignment in favour of the Issuer. The Issuer will assign its rights under the Loan Assignment and will also assign its administrative rights under the relevant Fiduciary Deposit Agreement (save for any Issuer Reserved Rights and those rights charged above), including rights in respect of a Loan Assignment, to the Trustee upon the closing of the offering of the corresponding Series of Notes.
Form	Each Series of Notes will be issued in registered form. The Regulation S Notes and the Rule 144A Notes will be represented by the Regulation S Global Note and the Rule 144A Global Note, respectively, in each case without interest coupons. The Global Notes will be exchangeable for Definitive Notes in the limited circumstances specified in the Global Notes.
Clearing Systems	The Depository Trust Company (in the case of Notes sold pursuant to Rule 144A), Euroclear and Clearstream, Luxembourg pursuant to Regulation S and such other clearing system as may be agreed between the Issuer, VTB, the Paying Agents, the Trustee and the relevant Dealer(s). Application may be made for trading of the Rule 144A Notes in PORTAL, as specified in the relevant Pricing Supplement.
Initial Delivery of Notes	On or before the issue date for each Series, the Rule 144A Global Note will be deposited with a custodian for The Depository Trust Company and the Regulation S Global Note will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Notes will be registered in the name of a nominee of The Depository Trust Company, and the Regulation S Notes will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, VTB, the Paying Agents, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing systems.
Currencies	<p>Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Fiduciary, VTB and the relevant Dealer(s).</p> <p>Issues of Notes denominated in Swiss francs or carrying a Swiss franc related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of November 8, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of March 24, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Corporation on Stock Exchanges and Securities Trading of December 2, 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue the lead manager (the “Swiss Dealer”), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland or a securities dealer duly licensed by the Swiss Federal Banking Commission as per the Federal Law on Stock Exchanges and Securities Trading of March 24, 1995). The Swiss Dealer must report certain details of the relevant transaction to</p>

the Swiss National Bank no later than the relevant issue date for such a transaction.

Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Fiduciary, VTB and the relevant Dealer(s).
Denomination	Notes will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies). Notes resold pursuant to Rule 144A Note will be issued in denominations of U.S.\$100,000 or its equivalent in other currencies rounded upwards as agreed between the Issuer, VTB and the relevant Dealer(s) or integral multiples of U.S.\$1,000 thereafter.
Rate of Interest	The Notes may be issued on a fixed rate or floating rate basis.
Fixed Rate Notes	Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Notes	<p>Floating Rate Notes will bear interest determined separately for each Series and corresponding Deposit and Loan as follows:</p> <ul style="list-style-type: none">(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Issuer's Restrictions and Covenants	So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, inter alia, incur any other indebtedness for borrowed moneys, or enter into other transactions or engage in any business (other than transactions contemplated by this Offering Circular), declare any dividends or have any subsidiaries. See "Terms and

Conditions of the Notes – 4. Restrictive Covenants.” Furthermore, the Issuer will agree in the Trust Deed not to make or consent to any amendment or modification or waiver of, or authorise any breach or proposed breach of the terms of any Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the corresponding Loan Agreement unless the Trustee has given consent.

Redemption by the Issuer

at the Option of VTB.....

The Issuer and the Fiduciary will redeem the Notes and repay the Deposit (respectively) in whole, but not in part, at 100% of their aggregate principal amount plus accrued and unpaid interest and all additional amounts, if any, if VTB elects to repay any Loan in the event it is required to pay additional amounts on account of Russian or Luxembourg withholding taxes in respect of certain payments under the corresponding Loan, certain payments under the corresponding Deposit or payments under the corresponding Notes or in the event that VTB is required to pay additional amounts on account of certain costs incurred by the Fiduciary pursuant to the relevant Loan Agreement.

Optional Redemption by

the Noteholders upon

a Change of Control.....

Upon the occurrence of a Change of Control (as defined in “Terms and Conditions of the Notes – 6. Redemption and Purchase”) the Notes may be redeemed at the option of a Noteholder at their principal amount together with accrued interest, if any, all as more fully described in the “Terms and Conditions of the Notes.”

Mandatory Redemption.....

In limited circumstances as more fully described in the relevant Loan Agreement, the Notes may be redeemed by the Issuer in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Notes or, at any time, in the case of Fixed Rate Notes, upon giving notice to the Trustee, at the principal amount thereof, together with accrued and unpaid interest and all additional amounts, if any, to the date of redemption in the event that it becomes unlawful for (i) the Issuer to fund the relevant Deposit or allow the relevant Deposit to remain outstanding under the relevant Fiduciary Deposit Agreement or allow the relevant Notes to remain outstanding or (ii) the Fiduciary to allow the relevant Loan to remain outstanding under the Loan Agreement or allow the Deposit to remain outstanding. In either case, the Deposit and the Loan would be repaid in full.

Relevant Events

In the case of an Issuer Relevant Event (as defined in the Trust Deed) or a Fiduciary Relevant Event, the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.

Withholding Tax

All payments of principal and interest in respect of each Series of Notes will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes, which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Luxembourg, or any taxing authority thereof or therein, other than as required by law. If any such taxes, duties and other charges are payable, the sum payable by VTB to the Fiduciary for onward payment under the Deposit to the Issuer or, in the event of a Loan Assignment, directly to the Issuer will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding had no

such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Fiduciary or in the event of a Loan Assignment, VTB and the sole obligation of the Fiduciary in such respect will be to pay to the Issuer sums equivalent to the sums received from VTB.

Further Issues The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series. In the event of such further issuance, the relevant Deposit and Loan will be correspondingly increased.

Listing Application will be made, where specified in the relevant Pricing Supplement, for a Series of Notes to be listed on the Luxembourg Stock Exchange or such other stock exchange as shall be specified in the relevant Pricing Supplement or the Series of Notes will remain unlisted. Application may be made for trading of Rule 144A Notes in PORTAL, as specified in the applicable Pricing Supplement.

Rating The Programme has been given a rating of “BB+” by S&P. Series of Notes issued under this Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme.

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or VTB could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Governing Law The Notes will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded.

Selling Restrictions United Kingdom, United States, Luxembourg, Russian Federation and any other jurisdiction relevant to any Series. See “Subscription and Sale.”

ERISA Considerations A Series of Notes issued under the Programme may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the Deposit or the Loan. Accordingly, the Notes should not be acquired by any benefit plan investor, regardless of whether the benefit plan investor is itself subject to ERISA. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA. Potential purchasers should read the sections entitled “Certain ERISA Considerations” and “Transfer Restrictions.”

The Deposit corresponding to each Series of Notes

Depositor	The Issuer.
Recipient Bank	The Fiduciary.
Security and Ranking	None of the Deposits will be secured by any collateral. Each Deposit and the claims deriving from any Loan made with a particular Deposit will, by virtue of the Luxembourg Law of July 27, 2003 on Trust and on Fiduciary Agreements, become the legal property of the Fiduciary. Each Deposit and the claims deriving from any Loan made with a particular Deposit will be kept in the books of the Fiduciary separate from any and all of its other assets, including other Deposits and the claims deriving from any other Loan, and cannot be seized by the ordinary creditors of the Fiduciary, but only by those creditors whose rights arose in relation to a particular fiduciary transaction.
Interest Basis Dates	Interest will be payable on a fixed or floating rate basis as specified in the relevant Fiduciary Deposit Supplement.
Redemption by the Fiduciary at the Option of VTB	Each Deposit will be prepaid by the Fiduciary in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Loans or, at any time, in the case of Fixed Rate Loans at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment, if VTB under the corresponding Loan elects to prepay such Loan for certain tax reasons or by reason of certain increased costs of the Fiduciary.
Mandatory Repayments	In the event that it becomes unlawful for the Issuer or the Fiduciary to fund any Loan or Deposit (as the case may be) or allow such Loan or Deposit to remain outstanding under the relevant Loan Agreement or the relevant Fiduciary Deposit Agreement or allow the corresponding Series of Notes to remain outstanding, VTB may be required to repay the corresponding Loan in full and the Fiduciary will repay such Deposit in full.
Redemption upon a Change of Control	Each Deposit will be repaid in whole or in part by the Fiduciary as a consequence of the repayment of the corresponding Loan, in whole or in part, by VTB upon the exercise of the Put Option upon a Change of Control (as defined in the relevant Facility Agreement) by any holder of Notes at the principal amount of the Notes so tendered, together with accrued and unpaid interest and additional amounts, if any.
Certain Restrictions and Covenants	The Issuer will have the benefit of certain covenants made by the Fiduciary all as more fully described in the relevant Fiduciary Deposit Agreement.
Events of Default	In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Fiduciary, or in the event of a Loan Assignment, the Issuer, to declare all amounts payable under the relevant Loan Agreement to be due and payable.
Use of Proceeds of the Notes and the Deposits	The Issuer will apply the gross proceeds of the offering of each Series of Notes to make the corresponding Deposit with the Fiduciary. The

Fiduciary will use the full amount of such Deposit to fund the corresponding Loan to VTB. In connection with the receipt of such Loan, VTB will pay an arrangement fee, as reflected in the relevant Pricing Supplement.

Withholding Tax All payments of principal and interest under each Deposit will be made in full without set-off or counterclaim and free and clear and without deduction for or on account of all taxes which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Luxembourg, other than as required by law. If any such taxes, duties or other charges are payable, the sum payable by VTB under the corresponding Loan will (subject to certain conditions) be required to be increased to the extent necessary to ensure that the Fiduciary or, in the event of a Loan Assignment, the Issuer receives the net sum which it would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. Prior to a Loan Assignment, the sole obligation of the Fiduciary in this respect will be to pay to the Issuer sums equivalent to the sums received by it from VTB.

Governing Law The Deposits will be governed by Luxembourg law, particularly by the Luxembourg Law of July 27, 2003 on Trust and on Fiduciary Agreements.

The Loan corresponding to each Series of Notes and each Deposit

Lender..... The Fiduciary.

Borrower..... VTB.

Security and Ranking..... None of the Loans will be secured by any collateral. Obligations under the Loan will rank at least *pari passu* with all other unsecured and unsubordinated financial indebtedness of VTB.

Interest Basis Dates Interest will be payable on a fixed or floating rate basis as specified in the relevant Loan Supplement.

Redemption at the Option of VTB Each Loan may be prepaid at VTB's option in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Loans or, at any time, in the case of Fixed Rate Loans at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment, for certain tax reasons or by reason of certain increased costs.

Mandatory Repayments..... In the event that it becomes unlawful for the Issuer or the Fiduciary to fund any Loan or Deposit (as the case may be) or allow such Loan or Deposit (as the case may be) to remain outstanding under the relevant Loan Agreement or the relevant Fiduciary Deposit Agreement (as the case may be) or allow the corresponding Series of Notes to remain outstanding, VTB may be required to repay such Loan in full.

Redemption upon a Change of Control Each Loan may be repaid in whole or in part by VTB upon the exercise of the Put Option upon a Change of Control (as defined in the Facility Agreement) by any holder of Notes at the principal amount of the Notes so tendered, together with accrued and unpaid interest and additional amounts, if any.

Certain Restrictions and Covenants.	The Fiduciary will have the benefit of certain covenants made by VTB, including a negative pledge and restrictions on disposals, all as fully described in the relevant Loan Agreement.
Events of Default	In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Fiduciary or, in the event of a Loan Assignment, the Issuer to declare all amounts payable under the relevant Loan Agreement by VTB to be due and payable.
Use of Proceeds of the Notes and the Deposit	The Issuer will apply the gross proceeds of the offering of each Series of Notes to make the corresponding Deposit with the Fiduciary. The Fiduciary will use the full amount of such Deposit to fund the corresponding Loan to VTB. In connection with the receipt of such Loan, VTB will pay an arrangement fee, as reflected in the relevant Pricing Supplement.
Withholding Tax	All payments of principal and interest under each Loan will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Luxembourg or the Russian Federation, other than as required by law. If any such taxes, duties or other charges are payable in respect of the Loan, the sum payable by VTB under the Loan will (subject to certain conditions) be required to be increased to the extent necessary to ensure that the Fiduciary, or in the event of a Loan Assignment, the Issuer receive the net sum which they would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made.
Governing Law	The Loans will be governed by English law.

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should consider carefully, amongst other things, the risks set forth below and the other information contained in this document prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on the Group's business, financial condition, results of operations or prospects which, in turn, could have a material adverse effect on its ability to service payment obligations under any Loan Agreement and, as a result, the debt service on any Series of Notes. In addition, the value of the Notes could decline due to any of these risks, and you may lose some or all of your investment.

Prospective investors should note that the risks described below are not the only risks the Group faces. The Group has described only the risks it considers to be material. However, there may be additional risks that the Group currently considers immaterial or of which it is currently unaware, and any of these risks could have the effect set forth above.

Risks Relating to the Group's Business and Industry

The Group is dependent on the success of VTB.

The Group's results of operations are dependent on VTB's results of operations. VTB accounted for 71% (U.S.\$467 million) of the Group's operating income for the year ended December 31, 2003 and 77% (U.S.\$153 million) for the quarter ended March 31, 2004. A decline in VTB's results of operations would likely result in a corresponding decline in the Group's results of operations.

VTB faces competition in Russia in a number of areas.

The Russian market for financial and banking services is highly competitive. According to the CBR, as of August 1, 2004, 1,322 banks and other non-bank credit organisations that have banking licences were registered in Russia. An additional 252 credit organisations had had their banking licenses revoked by the CBR as of that date.

Due to the number of Russian banks and the differences in their businesses, VTB faces competition from different banks in the areas and locations in which it operates. In the corporate banking area, including commercial lending, VTB's primary competitors are OJSC Sberbank ("Sberbank"), OJSC Alfa-Bank ("Alfa-Bank"), OJSC Bank of Moscow ("Bank of Moscow"), OJSC International Industrial Bank ("IIB"), OJSC MDM-Bank ("MDM-Bank"), OJSC International Moscow Bank ("International Moscow Bank"), OJSC Petrocommertz ("Petrocommertz"), OJSC Rosbank ("Rosbank") and OJSC Uralsib ("Uralsib"), as well as some Western banks, each of which serves companies throughout Russia. In the retail banking area, VTB's primary competitors are Sberbank, Alfa Bank, Bank of Moscow, OJSC Gazprombank ("Gazprombank"), OJSC Industry & Construction Bank ("ICB") and Rosbank. The majority of VTB's national competitors are based in Moscow, although a few have regional branch networks and Sberbank has a national one. In the Russian regions, VTB competes with regional as well as Moscow-based banks. VTB's national and regional competitors offer services similar to VTB's and attempt to attract additional clients through discounts, exclusive service agreements and aggressive marketing campaigns.

VTB believes that it offers competitive banking services to all of its clients. Furthermore, it has long-standing relationships with large corporate clients and public authorities, from which it receives significant business, and it expects these relationships to continue in the future. Nevertheless, there is no guarantee that some of VTB's clients will not choose to transfer some or all of their business to VTB's competitors, which may adversely affect VTB's business, financial condition, results of operations or prospects.

Interests of VTB's shareholders may conflict with those of the Noteholders.

The Federal Property Service holds 99.9% of VTB's shares and is the controlling shareholder. Of the nine seats on VTB's Supervisory Council, four are held by representatives of various Government ministries and agencies, two by representatives of the Russian President and the remaining three by a representative of the CBR, the president of the Russian Marketing Association and VTB's Chairman and Chief Executive Officer. Since the mid-1990s, VTB has not experienced any administrative pressure from its

controlling shareholder (until October 2002, the CBR and, thereafter, the Ministry of Property Relations of the Russian Federation and its successor, the Federal Property Service) to extend loans or to provide preferential interest rates or prices to particular clients, or to set particular pricing or interest rate policies. VTB did, however, accept the CBR's proposal to acquire Guta Bank. See "Business – Other Group Banks – Domestic Banks – Guta Bank."

VTB's privatisation has been and continues to be the subject of much domestic and international press speculation and VTB's strategy envisions diversification of its shareholder base to, amongst other things, provide greater access to funding and enhance its competitiveness and transparency. Strategic foreign investors have expressed interests in obtaining shareholdings in VTB. VTB is in the process of inviting international financial institutions, such as the EBRD and the IFC, as well as privately-owned foreign banks and investment funds, to participate in its capital. See "Business – Strategy – Diversifying VTB's Shareholder Base." However, there can be no assurance that VTB will be able to identify strategic investors or to negotiate acceptable terms of investment.

On the basis of the joint declaration by the Government and the CBR entitled "The Strategy of the Development of the Banking Sector of the Russian Federation," VTB believes that the Government will retain at least a 51% shareholding in it through 2008. See "The Banking Sector and Banking Regulation in Russia – Banking and Other Relevant Reforms." Nevertheless, no assurance can be given that VTB will not be completely privatised.

The interests of the Government or VTB's future shareholders may, in some circumstances, conflict with the interests of the Noteholders and they may require the Group to take actions that may adversely affect the Noteholders' investment. For a discussion of the possible impact of VTB's acceptance of the CBR's proposal to acquire Guta Bank, see " – VTB is still evaluating the financial impact of its acquisition of Guta Bank."

The Group's financial position and results of operations are affected by declines in interest rates.

In the last three years and the first quarter of 2004, the Group's results of operations depended to a great extent on its net interest income. Net interest income (after provision or release of provision for loan impairment) represented 25% of the Group's operating income in the first quarter of 2004, 37% in 2003, 59% in 2002 and 12% in 2001. The Group's net loans and advances to customers (excluding interbank loans and off-balance sheet credit related commitments) represented 44% of the Group's total assets as of March 31, 2004, 43% as of December 31, 2003, 41% as of December 31, 2002 and 36% as of December 31, 2001.

Positive economic trends, such as a slowing rate of inflation and steady growth in real income and purchasing power of the population, combined with growth in foreign investment, development of cross-border operations and increasing opportunities for legal entities to obtain funding in international capital markets, have resulted in a decline in interest rates and a decrease in market spreads and bank margins in Russia. Interest rates in Russia reached historically low levels in 2003 and early 2004, in large part due to the stabilisation of Russia's economy and generally low interest rates in international financial markets.

VTB has sought to compensate for the decreased lending margin that has resulted from the lower interest rate environment by increasing its loan-to-deposit ratio, seeking lower-cost funding and increasing fee income. It has also focused on diversifying its business, including developing its retail and investment banking activities, and on optimising its cost structure and reducing its expenses. In addition, VTB monitors fluctuating interest rates on a large and representative portion of its assets and liabilities and allocates funds to assets the terms of which match the terms of VTB's liabilities. See "Risk Management – Market Risks – Interest Rate Risk." These strategies are intended to allow VTB to counteract the effects of the declines in interest rates and to manage the changes in the structure of its income and expenses.

Nevertheless, there can be no assurance that VTB's strategies will protect the Group from the negative effects of future interest rate declines. Interest rates are highly sensitive to many factors beyond VTB's control, including the reserve policies of the CBR, domestic and international economic and political conditions and other factors. Further reductions in market interest rates could affect the interest rates earned on the Group's interest-earning assets, leading to a reduction in its net interest income and adversely affecting its financial position and results of operations.

The Group's income from proprietary securities and currency operations is volatile.

The Group engages in significant proprietary securities operations and derives a significant portion of its operating income from such operations. The Group's income from proprietary activities was U.S.\$268 million (41% of operating income) in 2003 and U.S.\$81 million (41% of operating income) in the first quarter of 2004. See "Business – Banking Services and Activities – Proprietary Activities."

The Group's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in exchange rates and general market volatility. VTB has in place limits for its trading securities portfolio on various types of securities and securities transactions and single issuer limits, which are designed to maintain its securities portfolio risk at an acceptable level. Nevertheless, market price fluctuations may adversely affect the value of the Group's securities portfolio. The main source of this risk is the Group's portfolio of Russian government debt securities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments" and "Risk Management – Market Risks – Securities Portfolio Risk."

The Group's gains less losses from trading securities declined by 69% in 2002 and the Group's gains less losses from investment securities available for sale declined by 48% in 2002 from their respective levels in 2001. In 2003, although the Group's gains less losses from trading securities increased by 192%, its gains less losses from investment securities available for sale declined by 38% from their respective levels in 2002. Gains less losses from securities declined by 25% in the first quarter of 2004 compared to the same period in 2003 and may continue to decline in the second quarter of 2004. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments." Although these declines have been compensated for, in part, by VTB's rising fee-based income and the Group is changing its primary focus from proprietary securities operations to providing banking services to clients, a significant continued decline in the Group's income from securities operations, or incurring a loss on the Group's securities operations, could adversely affect its financial position and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Group also trades currency on behalf of its clients and for its own account and maintains open currency positions, which gives rise to exposure to currency risk. Although the Group has in place limits aimed at reducing currency risk and adheres to the CBR limits on open currency positions, currency exchange rates and the volatility of the rouble may adversely affect the Group. See "Risk Management – Market Risks – Currency Risk."

VTB is still evaluating the financial impact of its acquisition of Guta Bank.

In July 2004, the CBR approached VTB with a proposal to acquire Guta Bank, a large privately-owned bank that experienced temporary liquidity difficulties and had to suspend operations due to turmoil in the Russian banking sector. See "Business – Other Group Banks – Domestic Subsidiaries and Participations – Domestic Subsidiaries – Guta Bank" and "The Banking Sector and Banking Regulation in Russia – Brief History of the Russian Banking Sector." As VTB had to decide quickly whether to acquire Guta Bank due to Guta Bank's liquidity difficulties, it was not in a position to conduct a due diligence review and valuation of Guta Bank. VTB believed that the CBR's proposal presented it with an opportunity to acquire a bank with a well-developed retail, corporate and investment banking businesses at an attractive price, and therefore proceeded with the acquisition. On July 16, 2004, VTB acquired 85.8% of Guta Bank. In connection with the acquisition of Guta Bank, the CBR provided financial assistance by placing a U.S.\$700 million deposit with VTB at one-year LIBOR rate for a term of one year, which can be used to maintain Guta Bank's liquidity and for use in its operations. VTB and the CBR may agree to prolong the term of the deposit. VTB has extended a credit line to Guta Bank without incurring any negative interest rate consequences. The credit line is secured by Guta Bank's loan portfolio. As of the date of this Offering Circular, the amount drawn down by Guta Bank under this credit line does not exceed the amount of the CBR's deposit with VTB. Nevertheless, there can be no assurance that additional financial assistance to Guta Bank will not be required in the future. See "Business – Other Group Banks – Domestic Subsidiaries and Participations – Domestic Subsidiaries – Guta Bank."

The ultimate impact of the acquisition on the Group's financial condition will be determined after the completion of an independent valuation of Guta Bank that is currently taking place. VTB expects the valuation to be completed in October 2004. Whilst Guta Bank had resumed the majority of its banking operations by August 2004, utilising the financial assistance provided by the CBR through VTB, and VTB believes that Guta Bank is not currently in default on any of its obligations, there can be no assurance that

the financial condition of the Group will not be adversely affected by the Gута Bank acquisition, that further financial assistance to Gута Bank will not be required or that VTB will not otherwise be required to meet Gута Bank's obligations to clients or creditors.

Fluctuations in global markets for oil, gas, minerals, precious metals and other raw materials may negatively impact the Group.

Many of the Group's large company clients engage in production and/or export of oil, gas, iron ore, precious metals and other raw materials. The financial condition of each such client depends on the prices of the relevant commodities. A decrease in the prices of these commodities or an increase in production costs not offset by a corresponding price increase may negatively impact the financial condition of each such client and may result, amongst other things, in a decrease of funds that they hold on deposit with the Group, reduction of the volume of foreign currency and/or foreign trade operations in which they engage through the Group, or default, or a need for increased reserves, on their obligations to the Group. Any of these occurrences may have a material adverse effect on the Group's financial condition or results of operations.

VTB's IT systems may be insufficient to support its operations.

Whilst VTB has been actively upgrading its IT systems, they are currently significantly less developed in certain respects than those of banks in more developed countries. VTB's IT systems do not provide automated processing of data and operations for a number of products and services on a VTB-wide basis and do not fully support the operations of VTB's branches, sub-branches and outlets. In addition, VTB's IT systems are not integrated with those of other Group banks. See "Business – IT Infrastructure."

The core information system at VTB's Head Office was developed in-house by VTB at the time when VTB concentrated on servicing foreign trade and large company clients out of the Head Office. It was not intended to support branches and a large number of corporate and retail banking clients, as it currently does. See "Business – History" and "Business – IT Infrastructure." In addition, nine software packages are used across VTB's branches. These software packages are not standardised and are not integrated operationally with the Head Office core information system, complicating data flows between the branches and the Head Office.

VTB's IT capacity does not allow for real-time bank-wide financial reporting. Currently, its branches report their financial results to the Head Office only once a day. Most of VTB's IFRS financial reporting is still performed manually and the deficiencies in the reporting system prevent VTB from generating certain information required by Industry Guide 3 under the Securities Act ("Statistical Disclosure by Bank Holding Companies"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Furthermore, a number of VTB's operations, such as retail transactions, trade finance operations and treasury back office functions are not sufficiently automated and information on these operations is not readily available and is difficult to interpret.

Lack of immediately available consolidated financial and operating information may hinder management's ability to make decisions and to detect fraud and non-compliance with internal procedures. See "– The Group's banking business entails operational risks." In addition, lack of a robust, well-integrated IT system increases VTB's operational risks and entails increased costs for further business development. The inability of VTB's current IT systems to adequately support its operations may have a material adverse effect on the Group's ability to manage its operations and financial performance.

Successful implementation of VTB's business strategy in Russia requires an upgrade of its IT systems.

The Group's strategy envisions significant expansion of VTB's business and branch network in Russia. See "Business – Strategy" and "Business – VTB's Branch Network." To support this expansion, VTB's IT systems must be upgraded. With the assistance of outside advisers, VTB has formulated an IT development strategy that provides for such an upgrade during the next several years. The progress of the upgrade depends on a number of factors, including availability of financing, proper project management and the attention and involvement of VTB's senior management. There can be no assurance that the upgrade will take place on its current schedule or that it will eliminate all of the deficiencies of the existing IT infrastructure. See "– VTB's IT systems may be insufficient to support its operations," "Business – Strategy" and "Business – IT Infrastructure – Development."

If VTB is unable to upgrade its IT systems on the current schedule, its ability to expand its business and branch network in accordance with its strategy will be impaired. Without support from upgraded IT systems, it may not be able to compete effectively with other Russian banks that are expanding their operations in the Russian regions and the efficiency of its branches, the quality of its products and services and its brand may be compromised.

Some transactions between the Group's Russian members (including VTB) and their interested parties or affiliated companies require the approval of disinterested directors or disinterested shareholders.

Russian law requires a joint stock company that enters into transactions with certain related persons that are referred to as “interested party transactions” to comply with special approval procedures. Under Russian law, an “interested party” means: (i) any member of the board of directors or the collegiate executive body of the company, (ii) the chief executive officer of the company (including managing organisation or hired manager), (iii) any person who, together with its affiliates, owns at least 20% of the company's voting shares or (iv) a person who on legal grounds has the right to give mandatory instructions to the company, if any of the above listed persons, or a close relative or affiliate of such person, is, in each case:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner of at least 20% of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- a member of a governing body of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction or an officer of the managing organisation of such company; or
- in other cases stipulated by law or the company's charter.

Under applicable Russian law, interested party transactions are required to be approved by a majority of the disinterested directors of the company and, where all the directors are interested, or the value of the transaction is equal to or exceeds two per cent. of the company's assets, determined under RAR according to its latest balance sheet, or in case of certain share placements, a majority vote of the disinterested shareholders of the company is required. Not having obtained the appropriate approval for a transaction may result in it being declared invalid upon a claim by the company or any of its shareholders.

For example, a transaction between VTB and a wholly-owned subsidiary may be considered an interested party transaction and therefore arguably would require approval from VTB's Supervisory Council or disinterested shareholders. VTB's Supervisory Council approves general limits for transactions with wholly-owned subsidiaries on an annual basis and all transactions with such subsidiaries are made only within these limits, but no disinterested shareholder approval is obtained. Once a portion of the limit is used up, it is not renewed during the relevant year. In addition, due to broad definitions contained in relevant Russian laws, transactions between VTB (or other domestic banks of the Group) and companies, including strategic clients of VTB to whom it has material exposures, in which the Russian Federation, its agencies and instrumentalities (or their affiliates) own at least 20% or are represented on supervisory bodies and/or in senior management, may be viewed as interested party transactions. Not obtaining appropriate approvals in connection with these transactions may result in their invalidation as well. VTB has not obtained such approvals because, on the basis of the current interpretation of relevant laws by Government agencies, it believes that such approvals are not necessary. However, no assurance can be given whether Russian courts will agree with VTB's position.

The Group's loan portfolio may not continue to grow at the same rate.

In 2002, the Group's net loan portfolio (excluding interbank loans and off-balance sheet credit related commitments) grew by 37% in nominal terms, to U.S.\$3.0 billion, in 2003, by 59% to U.S.\$4.8 billion, and in the first quarter of 2004, by 7% to U.S.\$5.1 billion, representing 41%, 43% and 44% of the Group's total assets as of December 31, 2002, December 31, 2003 and March 31, 2004, respectively. There is no assurance that in the future the Group's loan portfolio will grow at the same or similar rates. VTB's strategy is to diversify its loan portfolio and to increase lending to historically underserved or underfunded industries in Russia, small businesses and individuals. See “Business – Strategy.” However,

there is no assurance that VTB's strategy will succeed or that a downturn in the Russian economy in general or in industries where VTB's lending volume is significant, such as manufacturing, trade and commerce, finance and energy, will not result in slowing or a reversal in the rate of growth of the Group's loan portfolio, which may have a material adverse effect on the Group's financial condition or results of operations.

The Group may be unable to reduce industry and borrower concentrations in its loan portfolio.

The Group's loan portfolio has relatively high industry concentrations. As of March 31, 2004, the manufacturing, trade and commerce, finance and energy sectors accounted for 34%, 15%, 11% and 9%, respectively, of the Group's gross loan portfolio (excluding loans to banks and off-balance sheet credit related commitments). Furthermore, as of that date, total loans to the Group's 18 largest borrowers amounted to U.S.\$2.2 billion, representing 39% of the Group's gross loan portfolio (excluding loans to banks and off-balance sheet credit related commitments) and loans to the Group's single largest borrower, a state-owned ship builder, amounted to U.S.\$355 million, representing 6% of the Group's gross loan portfolio (excluding loans to banks and off-balance sheet credit related commitments). As a result, the Group's financial condition is sensitive to downturns in these industry sectors and the consequent inability of clients to meet their obligations to the Group, as well as to declines in the economic condition of large borrowers.

In order to minimise portfolio concentration risks, the Group continues to take measures to diversify its loan portfolio, such as lending, in Russia, to companies in industry sectors that it views as having significant economic potential but limited funding opportunities and to small businesses and individuals. Partly as a result of these measures, the Group has reduced its loan exposure to the energy sector from 36% of the Group's gross loan portfolio as of December 31, 2002 to 9% as of March 31, 2004 and its exposure to its single largest borrower (not including off-balance sheet credit related exposure) from 22% of the total gross loan portfolio as of December 31, 2002 (constituting loans to a company operating in the energy sector and its subsidiaries) to 6% as of March 31, 2004 (constituting loans to a state-owned ship builder). However, there is no assurance that the Group will be able to maintain the current level of diversification in its loan portfolio or to further diversify it, and failure to do so may have a material adverse effect on the Group's business, financial condition or results of operations.

VTB may be unable to assess adequately the credit risk of potential borrowers.

Credit risk assessment is difficult for VTB due to the unpredictability of economic conditions in Russia and abroad and lack of reliable information in Russia about potential borrowers, particularly small businesses and individuals. The financial performance of Russian companies is generally more volatile and their credit quality is less predictable than those of similar companies in more mature markets and economies. Financial statements of most of VTB's company clients are not prepared in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP") or IFRS and are not audited in accordance with Generally Accepted Auditing Standards in the United States or International Standards on Auditing. In addition, Russia does not have independent credit bureaus and little prospective borrower information is available from third parties.

VTB attempts to reduce credit risk by conducting thorough investigations of prospective borrowers. In addition, it requires its clients to regularly disclose their financial information. However, such investigation and financial information may not always present a complete and comparable picture of each client's economic condition. Furthermore, the Group's business strategy calls for increased lending to companies in historically underserved Russian industry segments, small businesses and individuals, and few such companies and individuals have credit histories. As a result, VTB has to primarily rely on information provided by such borrowers in making its credit decisions. In addition, these clients are more likely to default on their loans, necessitating higher loan impairment provisions and reducing the overall credit quality of VTB's loan portfolio. See "Business – Strategy – Expansion of Corporate Client Services" and "Business – Strategy – Expansion of VTB's Retail Services in Russia."

Therefore, in spite of the credit risk determination procedures that VTB has in place, it may be unable to evaluate correctly the current economic condition of each prospective borrower and to determine their long-term economic outlook. See "Risk Management – Credit Risk – Credit Policies and Procedures for Legal Entities" and "Risk Management – Credit Risk – Credit Policies and Procedures for Individuals." If VTB fails to assess correctly the credit risk of potential borrowers or if a significant number of VTB's

company clients experience poor financial performance due to a general Russian economic downturn or economic declines in particular sectors of the Russian economy, this may have a material adverse effect on the Group's business, financial condition or results of operations.

It may be difficult for VTB to enforce security under Russian law.

VTB enters into security and/or guarantee arrangements for loans made to individuals and legal entities. See "Risk Management – Credit Risk – Credit Policies and Procedures for Legal Entities" and "Risk Management – Credit Risk – Credit Policies and Procedures for Individuals." Under Russian law, security (which includes pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the secured or guaranteed obligation becomes void. Furthermore, foreclosure under Russian law generally requires a court order and a public sale of the collateral. A court may delay such public sale for a period of up to a year upon a pledgor's application. A mortgage under Russian law is a pledge over real property, such as land and buildings, which requires state registration to be valid. The state registration may be difficult to obtain, especially for real property under construction. Russian law has no pledge perfection system for collateral other than mortgages, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. Therefore, VTB may have difficulty foreclosing on collateral or enforcing other security when clients default on their loans which may adversely affect the Group's financial position and results of operations.

A decline in the value of or illiquidity of the collateral securing VTB's loans may adversely affect the Group's loan portfolio.

A substantial portion of VTB's loans to legal entities and individuals in Russia is secured by collateral such as real property, land leasing rights, production equipment, vehicles, aeroplanes, ships, securities, precious metals, raw materials and inventory. See "Risk Management – Credit Risk – Credit Policies and Procedures for Legal Entities" and "Risk Management – Credit Risk – Credit Policies and Procedures for Individuals." Downturns in the relevant markets or a general deterioration of economic conditions in Russia may result in declines in the value of collateral securing a number of loans to levels below the outstanding principal balance and accrued interest on those loans. If collateral values decline, they may not be sufficient to cover uncollectible amounts of VTB's secured loans. A decline in the value of collateral securing VTB's loans or its inability to obtain additional collateral may, in some cases, require VTB to reclassify the relevant loans, establish additional allowances for loan impairment and increase reserve requirements.

Foreclosure under Russian law may be complex and time-consuming. See "Risk Factors – It may be difficult for VTB to enforce security under Russian law." Furthermore, even if VTB is successful in foreclosing on collateral, it may be difficult to find buyers for such collateral and it may be sold for significantly less than its appraised value. Failure to recover the expected value of collateral may expose VTB to losses which may adversely affect the Group's financial position and results of operations.

VTB's inability to recover on guarantees and other assurance arrangements may lead to losses.

A substantial portion of VTB's loans to legal entities and individuals in Russia is guaranteed by individuals and other legal entities. Whilst VTB generally subjects guarantors to the same credit procedures as borrowers, there can be no assurance that the guarantors' financial condition will not deteriorate or that they will honour their guarantees in case of the borrower's default. See "Risk Management – Credit Risk – Credit Policies and Procedures for Legal Entities" and "Risk Management – Credit Risk – Credit Policies and Procedures for Individuals."

In addition, a substantial portion of VTB's loans to legal entities in Russia are assured by the borrower's agreement that a certain volume of its cash receivables will flow through accounts at VTB over which VTB has an express right of set-off. If the borrower does not honour the assurance arrangement VTB has the right to raise the interest rate, demand additional collateral or guarantee or accelerate repayment of the loan. Nevertheless, there can be no assurance that the relevant borrowers will direct sufficient funds through their accounts at VTB. An economic downturn or a deterioration in borrowers' financial conditions may also affect the amount of funds held in accounts over which VTB may exercise the right of set-off. See "Risk Management – Credit Risk – Credit Policies and Procedures for Legal Entities."

VTB's failure to recover on guarantees or assurance arrangements may lead to losses which may adversely affect the Group's financial condition and results of operations.

The Group has significant off-balance sheet credit related commitments that may lead to potential losses.

As part of its lending and foreign trade-related activities the Group provides guarantees and import letters of credit. See “Business – Banking Services and Activities – Corporate Banking – Services – Foreign Trade Transactions” and “Risk Management – Credit Risk – Credit Policies and Procedures for Legal Entities – Credit Related Commitments.” The volume of guarantees and import letters of credit issued by the Group grew by 570% and 28%, respectively, in 2003, and continued to grow in 2004, primarily due to an increase in business volumes of VTB’s strategic clients and medium clients. See “Business – Banking Services and Activities – Corporate Banking – Client Segmentation.” As of March 31, 2004, the Group had guarantees issued amounting to U.S.\$1.6 billion and import letters of credit amounting to U.S.\$143 million. Guarantees issued to one Russian company as of that date accounted for 61% (U.S.\$990 million) of the volume of guarantees issued by the Group. As of that date, the Group also had undrawn credit lines and commitments to extend credit amounting to U.S.\$740 million and a commitment to guarantee repayment in 2005 of a U.S.\$500 million loan by a European bank to a company operating in the energy sector. Although all such credit related commitments are classified as off-balance sheet items in the Group’s financial statements, they still subject the Group to credit risk. Credit related commitments are subject to credit approval and compliance procedures and commitments to extend credit are contingent on clients maintaining specific credit standards, but these exposures are not fully secured. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Contingencies, Commitments and Derivative Financial Instruments” and “Risk Management – Credit Risk – Credit Approval Procedures for Legal Entities – Credit Related Commitments.”

As of March 31, 2004, the Group had an allowance of U.S.\$8 million for its off-balance sheet credit related commitments. There can be no assurance that such allowances will be sufficient to cover the actual losses that the Group may potentially incur on its credit related commitments.

The Group may face liquidity risks and may fail to mitigate these risks.

Historically, the Group relied on the CBR for a large portion of its funding. However, the CBR has gradually withdrawn funding from the Group. CBR deposits have declined from U.S.\$1,286 million as of December 31, 2001 to U.S.\$380 million as of December 31, 2002 and nil as of December 31, 2003. See “Business – History.” In connection with VTB’s acquisition of Guta Bank, the CBR provided financial assistance by placing a U.S.\$700 million deposit with VTB to help maintain Guta Bank’s liquidity and for use in its operations. See “Business – Other Group Banks – Domestic Banks and Participations – Domestic Banks – Guta Bank.”

Russian companies have significant liquidity requirements. As a result, they must often withdraw their deposits and are not in a position to place significant funds with the Group on a long-term basis. In addition, the Russian Civil Code (the “Civil Code”) entitles retail depositors to withdraw deposits, including term deposits, at any time. There can be no assurance that unanticipated decreases in corporate client deposits and/or unexpected withdrawals of retail deposits will not result in liquidity gaps that the Group will have to cover.

Furthermore, the Group’s ability to receive funding in the domestic and international capital, syndicated loan, interbank and special-purpose financing markets in amounts sufficient to meet its liquidity needs could be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian financial and market systems.

The Group may also be exposed to maturity mismatches between its assets and liabilities, which may lead to lack of liquidity at certain times. See “Risk Management – Liquidity Risk.”

The Group believes that its level of access to Russian and international capital, syndicated loan, interbank and special-purpose financing markets, its favourable credit standing and its sophisticated liquidity risk management policy, which includes maintaining liquidity reserves sufficient to meet current obligations, allow and will continue to allow it to meet its liquidity needs. Nevertheless, a deterioration of Russian companies’ liquidity, or of the Russian and international capital, syndicated loan, interbank and special-purpose financing markets, significant withdrawals of corporate and retail deposits and maturity mismatches between the Group’s assets and liabilities may, together or separately, have a material adverse effect on its business, financial condition, results of operations and prospects. See “Risk Management – Liquidity Risk.”

The Group's risk management strategies and techniques may leave it exposed to unidentified and unanticipated risks.

Although VTB and the other Group banks invest substantial time and effort in their risk management strategies, they may nevertheless fail under some circumstances, particularly when confronted with risks that VTB or the other Group banks did not identify or anticipate. Furthermore, risk methodologies and techniques may not take all risks into account. If circumstances or risks that VTB or other Group banks did not identify or anticipate in developing their risk management methods come to pass, the Group's losses could be greater than VTB or the other Group banks expect.

The Group's banking business entails operational risks.

The Group in general, and VTB in particular, are exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorised transactions by employees or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. Given VTB's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, VTB's IT systems do not fully support its operations and a number of transactions at VTB are processed manually, which may further increase the risk that human error or employee tampering or manipulation will result in losses that are difficult to detect. See "– VTB's IT systems may be insufficient to support its operations" and "Business – IT Infrastructure."

VTB maintains a system of controls designed to keep operational risk at appropriate levels. See "Risk Management – Internal Controls." However, there can be no assurance that it will not suffer losses from failure of these controls to detect or contain operational risk in the future. VTB also manages its operational risk through obtaining outside insurance. See "Risk Management – Overview." However, VTB does not carry insurance coverage at levels comparable to those customary in other countries for a bank of its size and nature and, under some circumstances, its insurance coverage may prove insufficient. The same is true of many Russian companies, as the Russian insurance sector is not fully developed and insurance is not widely relied upon to manage operational risk.

The Group may fail to manage its growth properly.

The Group continues to expand in Russia and abroad. See "Business – Strategy," "Business – VTB's Branch Network" and "Business – Other Group Banks – Foreign Banks – Development." Expansion, including acquiring banks or opening new banks and/or branches, may entail significant investment, as well as increased operating costs. There is no guarantee that the Group will be able to integrate its acquisitions successfully or to achieve a positive return on the investment that it makes in the acquisition and/or development of VTB's branches and new banks and its overall business expansion.

Overall growth in the Group's business requires greater allocation of management resources away from daily operations, continued development of the Group's financial and information management control system, continued training of management and other personnel, adequate supervision and maintenance of consistency of client services. If the Group fails to manage its growth whilst at the same time maintaining adequate focus on current operations, this failure may have a material adverse effect on its business, financial condition, results of operations and prospects.

A loss of senior VTB personnel may adversely affect the Group's ability to implement its strategy.

VTB's current Russian management team was assembled in 2002 and includes a number of executives that were formerly employed by major Russian and international financial institutions. The Group believes that these executives contribute significant experience and expertise to VTB's management, including areas such as corporate banking, banking operations relating to foreign trade and risk management. The new management team has developed a new business strategy for the Group. See "Business – Strategy." The continued success of VTB's business and the Group's ability to execute its business strategy will depend, in large part, on the efforts of such senior VTB personnel.

On May 27, 2004, Vladimir A. Dmitriev, a Deputy Chairman of VTB's Management Board, departed VTB to become the President of VEB. If any other member of VTB's senior management becomes unable or unwilling to continue in their role, the business of the Group may be adversely affected.

VTB may be unable to recruit or retain experienced and/or qualified personnel.

VTB's continuing success depends, in part, on its ability to continue to attract, retain and motivate qualified and experienced banking and management personnel. Competition in the Russian banking

industry for personnel with relevant expertise is intense, due to the relatively small number of available qualified individuals. To recruit qualified and experienced employees and to minimise the possibility of their departure for other banks, VTB provides compensation packages consistent with evolving standards of the Russian labour market, as well as internal training opportunities. See “Business – Employees.” VTB’s failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

If VTB does not participate in the newly-established deposit insurance scheme, VTB will be unable to accept retail deposits and open bank accounts for individuals.

In June 2004, VTB applied to participate in the retail deposits insurance scheme established by the new Federal Law of December 23, 2003 No. 177-FZ “On Insurance of Deposits of Individuals in Banks of the Russian Federation” (the “Deposit Insurance Law”). VTB believes that it fully complies with the requirements set out in the Deposit Insurance Law for participation in the deposit insurance scheme. However, if it is refused participation in or is expelled by the CBR from the retail deposit scheme, VTB will not be able to accept retail deposits and open bank accounts for individuals which could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects. See “– Risks Relating to the Russian Federation – Risks Relating to the Russian Legal System and Russian Legislation – Russian banking and financial regulation has been undergoing significant changes.”

If VTB fails to receive licences required for it to conduct its operations, or if any existing licences are revoked, VTB will be adversely affected.

All banking and various related operations in Russia require licences from the CBR and/or other regulatory agencies. Operations in securities require licences from the Federal Service for Financial Markets. Most of the provisions of the Federal Law “On Currency Regulation and Currency Control” No. 173-FZ (the “New Currency Law”) came into force on June 18, 2004. Until then, certain capital transactions with foreign currencies required transaction-specific currency licences from the CBR. See “– Risks Relating to the Russian Federation – Risks Relating to the Russian Legal System and Russian Legislation – Russian banking and financial regulation has been undergoing significant changes.” VTB has current licences for its banking operations and operations with foreign currencies and securities. However, there is no assurance that it will be able to obtain such licences in the future. Applying for licences is a burdensome and time-consuming process. Regulatory agencies may impose additional requirements for a licence or deny VTB’s licence applications. The loss of a licence, a breach of the terms of any licence by VTB or its failure to obtain required licences in the future may result in cash flow difficulties, which would, in turn, affect its ability to fulfil payment obligations and would have a material adverse effect on the Group’s business, financial condition, results of operations or prospects. If VTB loses its general banking licence, it will be unable to perform any banking operations.

Risks Relating to the Russian Federation

The Group is a Russian banking group. A significant portion of its fixed assets is located in Russia and a significant portion of its revenues is derived from Russia. There are certain risks associated with an investment in Russia.

Governmental instability could adversely affect the value of investments in Russia.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy into a pluralist democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the ineffectiveness of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the result of privatisation in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

The course of reform has in some respects been uneven, and the composition of the Government – in particular, the prime minister and the other heads of federal ministries – has at times been highly unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin unexpectedly resigned and Vladimir Putin was subsequently elected President on March 26, 2000. Whilst President Putin has maintained governmental stability and even accelerated the reform process, he may adopt a different approach over time.

In late February 2004, President Putin dismissed Mikhail Kasyanov, the Prime Minister for most of Mr. Putin's presidency, and appointed Mikhail Fradkov as Prime Minister. Shortly after the appointment of Mr. Fradkov as Prime Minister, a Presidential decree significantly reduced the number of federal ministries, redistributed certain functions amongst various Government agencies and announced plans for a major overhaul of the federal administrative system. For example, the Ministry of Property Relations of the Russian Federation was abolished and certain of its functions were transferred to the Federal Property Service, which is now VTB's major shareholder.

Future changes in the Government, major policy shifts or lack of consensus between President Putin, the Government, Russia's parliament and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any disruption or reversal of the reform policies, recurrence of political or governmental instability or occurrence of conflicts with powerful economic groups could have a material adverse effect on the Group and the value of investments in Russia, including the Notes.

Conflict between federal and regional authorities and other conflicts could create an uncertain operating environment that would hinder VTB's long-term planning ability and could adversely affect the value of investments in Russia.

The Russian Federation consists of 89 sub-federal political units, some of which exercise considerable autonomy in their internal affairs. In certain areas, the division of authority between federal and regional governmental authorities remains uncertain. Lack of consensus between local and regional authorities and the Government often results in enactment of conflicting legislation at various levels and may result in political instability. This lack of consensus hinders the Group's long-term planning efforts and creates uncertainties in its operating environment, both of which may prevent the Group from effectively and efficiently carrying out its business strategy. However, the recent proposals of President Putin to amend Russian legislation whereby heads of sub-federal political units are proposed by the President of Russia and appointed by regional legislatures are designed to minimise conflicts between federal and regional authorities and secure stability across Russia.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighbouring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area, and recently, other parts of Russia have experienced violence related to the Chechen conflict. Violence and attacks relating to this conflict have also spread to other parts of Russia, and several terrorist attacks were carried out by Chechen terrorists in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect the Group's business and the value of investments in Russia, such as the Notes.

Economic Risks

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt the Group's business as well as cause the price of the Notes to suffer.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out herein may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in stock markets and prices for debt securities of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, emerging market companies can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could seriously disrupt the Group's business, as well as result in a decrease in the price of the Notes.

Economic instability in Russia could adversely affect the Group's business.

Since the dissolution of the Soviet Union, the Russian economy has at various times experienced, amongst others:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high Government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of “black” and “grey” market economies;
- high levels of capital flight;
- corruption and extensive penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- high poverty levels amongst the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Government defaulted on its rouble-denominated securities, the CBR stopped its support of the rouble and temporary restrictions were imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by the near collapse of the Russian banking sector after the events of August 17, 1998. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies, and resulted in losses of bank deposits in some cases.

From April through July 2004 the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. See “The Banking Sector And Banking Regulation In Russia – The Russian Banking Sector and Brief History of the Russian Banking Sector”. As a result of the circulation of various market rumors and, in some cases, certain regulatory and liquidity problems, several Russian privately-owned banks have collapsed or ceased or significantly limited their operations. A number of Russian privately-owned banks, including Guta Bank, were experiencing liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they were facing large withdrawals of deposits by both retail and corporate customers. Russian banks owned or controlled by the Russian Government, or the CBR, such as VTB, as well as foreign-owned banks, generally remained unaffected by the turmoil. Although VTB believes that this turmoil in the Russian banking market has not and will not have any material adverse effect on its business, VTB may face losses as a result of bankruptcy of other Russian banks or inability to perform their obligations or defaults by corporate customers that suffer from the problems of other Russian banks or if similar turmoil in the banking market occurs in the future and affects the overall economic situation in Russia.

In addition, the arrest of Mikhail Khodorkovsky on charges of fraud and tax evasion in October 2003 and, in connection with the arrest, the attachment of approximately 42% of the shares of Yukos Oil Company (“Yukos”) alleged to be beneficially owned by him, as well as tax claims brought by the Government against Yukos, have led some commentators to question the progress of market and political reforms in Russia and caused significant fluctuations in the market prices of Russian securities. Even if the current prosecutions relating to Yukos’ core beneficial shareholders and other investigations of Yukos are concluded, these events may continue negatively to affect the Russian market in the future.

Despite improvements in the Russian economic situation after the 1998 crisis, there can be no assurance that the positive trends experienced by the Russian economy, such as the increase in gross domestic product and a reduced rate of inflation, will continue or will not be abruptly reversed. A decline in international oil and natural gas prices, a further strengthening of the rouble relative to the U.S. dollar, a continuation of what appears to be a return to high levels of capital flight and other factors may adversely affect Russia's economy and the Group's business in the future.

Fluctuations in the global economy may adversely affect Russia's economy and the Group's business.

Russia's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Additionally, because Russia is one of the world's largest producers of, and a major exporter of, natural gas and oil, the Russian economy is especially sensitive to the price of natural gas and oil on the world markets, and a decline in the price of natural gas or oil could slow or disrupt the Russian economy. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. These developments could severely limit the Group's access to capital and could adversely affect the financial condition of the Group's clients and thus its business.

Changes in the Russian tax system could adversely affect the Group's business.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, amongst others:

- income taxes;
- value added tax, or VAT;
- unified social tax; and
- corporate property tax.

Because tax legislation is subject to frequent change and some of the sections and laws of the Tax Code related to the aforementioned taxes are comparatively new, implementation of these regulations is often unclear or nonexistent. Often, differing interpretations exist amongst various taxpayers subject to such taxes, the Ministry of Taxes and Levies or its successors and its various tax inspectorates, creating uncertainties. There is no established precedent or consistent court practice in respect of these questions.

Tax declarations, together with other legal compliance areas including, for example, customs and currency control matters, are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

Although the quality of tax legislation has generally improved with the introduction of the Tax Code, the possibility exists that, due to Russia's federal and local tax collection system and historically large government budget deficits, Russia will impose arbitrary or onerous taxes and penalties in the future, which could adversely affect VTB's business. In some instances, the Russian tax authorities have applied some provisions and rules retroactively although such application is in violation of Russian law.

Such changing conditions complicate tax planning and related business decisions. Historically, VTB has been a significant taxpayer in Russia and the introduction of new taxes or tax provisions may affect VTB's overall tax efficiency and may result in significant additional tax liabilities. Although VTB undertakes to minimise such exposures with effective tax planning, there is no assurance that in the future VTB will not be required to make higher tax payments, which may adversely affect the Group's financial results.

Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity.

As a general matter, Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are rail and road networks, power generation and transmission, communication systems and building stock. For example, during the winter of 2000-2001, electricity and heating shortages in Russia's far-eastern Primorye region seriously

disrupted the local economy. In August 2000, a fire at the main communications tower in Moscow interrupted television and radio broadcasting for weeks. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for usability and safety. The Government is actively pursuing plans to reorganise the nation's rail, electricity and telephone systems. These reorganisations may result in increased charges and tariffs whilst failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of Russia's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and can interrupt business operations, and this could have a material adverse effect on the Group's or its clients' business.

Social Risks

Crime and corruption could disrupt VTB's ability to conduct its business.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. Organised criminal activity, particularly property crimes in large metropolitan centres, has reportedly increased significantly since the dissolution of the Soviet Union. In addition, the Russian and international press have reported high levels of official corruption in Russia and the former Soviet Union, including the bribing of officials for the purpose of initiating investigations by the Government agencies. Press reports have also described instances in which the Government officials have engaged in selective investigations and prosecutions to further interests of the Government and individual officials. Additionally, published reports indicate that a significant number of Russian media regularly publish biased articles in exchange for payment. The Group's business, and the value of the Notes, could be adversely affected by illegal activities, corruption or by claims implicating the Group in illegal activities.

Social instability could increase support for renewed centralised authority, nationalism or violence and thus materially adversely affect the Group's ability to conduct its business effectively.

The failure of the Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes that included blocking major railroads. Such labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority; increased nationalism, with restrictions on foreign involvement in the economy of Russia; and increased violence. Any one or a combination of these could restrict operations of VTB or those of its clients and have material adverse affect on the Group's revenues.

Risks Relating to the Russian Legal System and Russian Legislation

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity.

Russia is still developing the legal framework required by a market economy. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution. VTB's business is subject to the rules of the Civil Code, other federal laws and decrees, orders and regulations issued by the President, the Government, the federal ministries and the CBR, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and results in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. Amongst the risks of the current Russian legal system are:

- inconsistencies amongst (1) federal laws, (2) decrees, orders and regulations issued by the President, the Government, federal ministries and regulatory authorities and (3) regional and local laws, rules and regulations;

- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges in interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

All of these weaknesses could affect the Group's ability to enforce its rights under contracts, or to defend against claims by others.

Inexperience and lack of independence of certain members of the judiciary and the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent VTB or investors in the Notes from obtaining effective redress in a court proceeding, including in respect of expropriation or nationalisation.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Russia is a civil law jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. VTB and/or its clients may be subject to such claims and may not be able to receive a fair trial. In addition, law enforcement agencies do not always enforce or follow court judgments.

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation of the Group's clients' businesses, or in the event the Group's business and/or its clients' businesses are reorganised. Expropriation or nationalisation of any of the Group's clients' assets or portions thereof, potentially with little or no compensation, could have a material adverse effect on the Group's operations and revenues, and on the value of the Notes.

In October 2003, in connection with the arrest of Mikhail Khodorkovsky on charges of fraud and tax evasion, the prosecutor general's office "arrested" or attached approximately 42% of Yukos' shares alleged to be beneficially owned by Mr. Khodorkovsky. Press reports have suggested that the decision of the court to grant this provisional remedy to the prosecutor general's office, as well as other decisions in the cases involving Mr. Khodorkovsky and Yukos, may have been influenced by political factors.

Russian banking and financial regulation has been undergoing significant changes.

Like most of Russia's legislation on business activities, Russia's laws on banks and banking activity have only recently been adopted. In addition to the Federal Law of July 10, 2002 No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)," as amended, (the "CBR Law") and the Federal Law of December 2, 1990 No. 395-I ("On Banks and Banking Activity"), as amended, (the "Banking Law"), Russia has adopted and continues to develop new banking legislation.

In December 2003, President Putin signed into law the Deposit Insurance Law, which mandates protection of bank deposits of individuals. The Deposit Insurance Law establishes a deposit insurance scheme in which all Russian banks must participate or lose their ability to accept retail deposits and open bank accounts for individuals. The enactment of the Deposit Insurance Law is expected to strengthen competition in the retail deposit market as all Russian banks that choose to participate in the deposit insurance scheme will have the ability to offer protected deposits.

In addition, the CBR has recently required banks to comply with certain regulatory requirements on a daily basis. See "The Banking Sector and Banking Regulation in Russia – The CBR Regulation of the Russian Banking Sector."

The recent changes in the Russian banking and financial regulation are aimed at bringing the regime more in line with that of more developed countries. However, due to the recent changes in the regulatory system

banks operate in a new and relatively unclear regulatory environment. It is difficult to forecast how the changes in the banking and financial regulation will affect the Russian banking system and no assurance can be given that the regulatory system will not change in a way that will impair the Group's ability to provide a full range of banking services or to compete effectively, thus adversely affecting the Group's business, financial condition, results of operations and prospects.

The new currency control regime could have an adverse effect on VTB's business.

On June 18, 2004, most of the provisions of the New Currency Law came into force. The New Currency Control Law is replacing the Federal Law "On Currency Regulation and Currency Control" No. 3615-1 of October 1992 (the "Old Currency Law"). Whilst the New Currency Law is generally aimed at the gradual liberalisation of Russian currency control regulations, it only establishes a broad regulatory framework and gives the Government and the CBR significant discretion on adopting implementing regulations for currency operations in Russia. The New Currency Law introduces some new forms of currency control, such as the formation of mandatory reserves and the use of special accounts. The CBR has implemented a number of regulations relating to the new currency control regime and other such regulations are expected in the near future.

It is not clear whether the CBR will enact further regulations relating to special accounts of credit organisations or whether any mandatory reserves requirements would apply to Russian credit institutions because the Government and the CBR have not yet adopted detailed regulations with respect to mandatory reserves. For example, under the New Currency Law, the CBR has the authority to adopt regulations that would require Russian borrowers (including banks) to reserve up to 20% of the amount of foreign currency loans received from foreign lenders for a period of up to one year, and require Russian lenders to reserve up to 100% of the amount of their foreign currency loans extended to foreign borrowers for a period of up to sixty days. In addition, Russian banks may be required to post such reserves at the CBR in connection with their operations not covered by their banking licences, including securities operations. These reserve requirements are intended to give the CBR additional tools to combat asset-price and currency instability by curbing the inflow of short-term speculative funds into, and preventing the outflow of funds from, Russia. The implementation of these new requirements by the Government and the CBR may make certain foreign currency operations burdensome and financially unattractive for Russian banks and their clients. Until the Government and the CBR have enacted and implemented regulations under the New Currency Law, it is not clear whether and to what extent the New Currency Law will affect VTB's business and the businesses of VTB's clients. Nonetheless, the introduction of additional restrictions on the foreign currency operations could hamper the ability of VTB and its clients to receive foreign funding and make loans to foreign borrowers, as well as the ability of VTB and its clients to engage in securities operations.

Unlawful or arbitrary Government action may have an adverse effect on the Group's business.

Government authorities have a high degree of discretion in Russia and have in the past exercised their discretion arbitrarily, without a hearing or prior notice, and sometimes in a manner that was contrary to law. Moreover, the Government also has the power in certain circumstances, by regulation or Government act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary governmental actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often for political purposes. Unlawful or arbitrary Government action, if directed at the Group, could have a material adverse effect on the Group's business, and on the value of the Notes.

Foreign judgments may not be enforceable against VTB.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only (i) if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgements is adopted. No such federal law has been passed and no such treaty exists between the United States and the Russian Federation or the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments. Thus, the enforcement of

the court judgements rendered in these countries against VTB in the Russian Federation may be impossible. Also, the Facility Agreement provides that controversies, claims and causes of action brought by any party thereto may be settled by arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the lack of experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, Russian courts' inability to enforce such orders, and corruption.

The legislative framework governing bankruptcy in the Russian Federation differs substantially from that of Western European countries, potentially adversely affecting the value of the Notes in the event of VTB's insolvency.

Russian bankruptcy law often differs from comparable law in the Western European countries and is subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders against VTB would be resolved in case of its bankruptcy. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and thus could have a material adverse effect on an investment in the Notes.

In addition, under Russian law, VTB's obligations under each Loan Agreement would be subordinated to the following obligations:

- costs related to bankruptcy litigation;
- claims of retail depositors and of individuals who have other types of accounts at VTB;
- personal injury obligations;
- severance pay and employment-related obligations;
- secured obligations; and
- quite possibly, tax and other payment obligations to the government.

In the event of VTB's insolvency, this subordination may substantially decrease the amounts available for repayment of any Loan and, as a result, the corresponding Series of Notes.

The rights of VTB's shareholders, the public reporting requirements and the Russian Accounting Regulations to which VTB is subject differ significantly from those applicable to comparable listed companies in other jurisdictions.

VTB's corporate affairs are governed by its charter, its internal regulations, by laws governing Russian banks and by laws governing companies incorporated in Russia. See "The Banking Sector and Banking Regulation in Russia." The rights of shareholders and the responsibilities of members of VTB's Supervisory Council and Management Board (the "Management Board") under Russian law are different from, and may be subject to certain requirements not generally applicable to, companies organised in the United Kingdom, the United States or other jurisdictions. See "Management."

The Banking Law contains certain periodic disclosure requirements including the requirement to publish annual financial statements in accordance with Russian Accounting Regulations. Due to the fact that VTB's systems and processes are tailored for Russian statutory requirements, it takes VTB longer than most Western companies to prepare its IFRS consolidated annual and interim financial reports and its IFRS consolidated periodic internal accounts.

In accordance with the Banking Law and the CBR regulations, VTB must publish quarterly reports within 40 days and file such quarterly reports with the CBR within 43 days of the end of the relevant quarter. Such reports, which are prepared in accordance with Russian statutory requirements, include certain financial information, including a balance sheet, income statement and information on VTB's assets, capital adequacy and allowances for problem loans, but do not contain all of the information contained in the Group's IFRS financial statements. VTB has generally complied with the relevant reporting requirements.

In accordance with Russian legislation applicable to securities issuers, VTB must file quarterly reports with the Federal Service for Financial Markets (a successor of the Federal Commission on Securities

Markets) within 45 days after the end of the relevant quarter. Such reports include certain information about VTB, its management, subsidiaries, affiliates, selected financial and business information (such as events of litigation and quarterly accounts prepared in accordance with Russian accounting standards) but do not contain all of the information contained in the Group's IFRS financial statements. VTB is regularly filing such reports and has generally complied with the reporting requirements.

Despite recent initiatives to improve corporate transparency in Russia, there is nonetheless less publicly available information about VTB than there is available for comparable banks in, for example, the United Kingdom or the United States.

Risks Relating to the Notes and the Trading Market

Payments under any Deposit and the corresponding Series of Notes are limited to the amount of certain payments received under the relevant Deposit and/or under the relevant Loan Agreement.

The Issuer is only obliged to make payments under a Series of Notes to the Noteholders in an amount equal to, and in the same currency as, sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer from the Fiduciary pursuant to the relevant Fiduciary Deposit Agreement or, in the event of a Loan Assignment, from VTB pursuant to the relevant Loan Agreement. The Fiduciary is only obliged to make payment under the relevant Fiduciary Deposit Agreement to the Issuer in an amount equal to, and in the same currency as, sums of principal, interest and additional amounts (if any) actually received by or for the account of the Fiduciary from VTB pursuant to the relevant Loan Agreement. Consequently, if VTB fails to meet its payment obligations under the relevant Loan Agreement in full this will result in the Noteholders of a Series of Notes receiving less than the scheduled amount of principal, interest and additional amounts (if any) on the relevant due date.

There is no direct recourse of the Noteholders to VTB.

Except as otherwise expressly provided in the "Terms and Conditions of the Notes" and in the Trust Deed, the Noteholders will not have any proprietary or other direct interest in the Issuer's rights under or in respect of the relevant Deposit, in the Fiduciary's rights under or in respect of the relevant Loan Agreement or in any rights that the Issuer may receive by way of assignment from the Fiduciary in respect of the relevant Loan Agreement. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the relevant Fiduciary Deposit Agreement or the relevant Loan Agreement or have direct recourse to VTB except through action by the Trustee under the Charge (as defined in the "Terms and Conditions of the Notes") or any assignment of rights, including any rights under a Loan Assignment.

In addition, Noteholders should be aware that neither the Issuer, the Fiduciary nor the Trustee accept any responsibility for the performance by VTB of its obligations under the relevant Loan Agreement. See "Terms and Conditions of the Notes – 1. Status."

The lack of a public market for the Notes could reduce their value.

There may not be an existing market for the Notes at the time they are issued. Each Series of Notes is expected to be listed on the Luxembourg Stock Exchange. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

VTB's payments under any Loan may be subject to withholding tax.

In general, interest payments on borrowed funds made by a Russian entity to a non-resident legal person are subject to Russian withholding tax at the rate of 20%, unless the withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Based on professional advice VTB has received, it believes that interest payments to the Fiduciary on each Loan should not be subject to withholding under the terms of the double tax treaty between Russia and Luxembourg. However, there can be no assurance that such an exemption will be available.

In circumstances where payments under any Loan Agreement become payable to the Trustee pursuant to the security arrangements described herein, benefits of the Russia – Luxembourg double tax treaty will cease and payments under such Loan Agreement to the Trustee may be required to be made subject to Russian income tax withholding at a rate of 20%, or such other rate as may be in force at the time of payment.

If the interest payments under any Loan or Deposit are subject to any withholding of Russian or Luxembourg tax (as a result of which the Issuer would reduce payments under the corresponding Series of Notes or the Fiduciary would reduce payments under the corresponding Deposit, as the case may be, in the amount of such withholding), VTB will be obliged under the terms of the relevant Loan Agreement to increase interest payments (pay additional amounts) as may be necessary so that the net payments received by the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging VTB to gross-up interest payments will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that interest payments made by VTB under the relevant Loan Agreement will be reduced by Russian income tax withheld by VTB at the rate of 20%, or such other rate as may be in force at the time of payment. See “Taxation.”

If VTB is obliged to increase payments (pay additional amounts), it may (without premium or penalty), subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes of the corresponding Series and the corresponding Deposit would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption. See “Terms and Conditions of the Notes – 6. Redemption and Purchase.”

Tax might be withheld on dispositions of the Notes in Russia, reducing their value.

If a non-resident Noteholder that is a legal person or organisation sells any Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to a 20% Russian withholding tax. Where proceeds from a disposition of the Notes are received from a source within Russia by an individual non-resident holder, a similar withholding tax would be charged at a rate of 30% on gross proceeds from such disposal of the Notes less any available cost deductions. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “Taxation.”

Financial instability in emerging markets could cause the price of the Notes to suffer.

Financial instability in Russia and other emerging market countries in 1997 and 1998 adversely affected market prices in the world’s securities markets for the debt and equity securities of companies that operated in those and similar countries. Future financial instability in emerging market countries other than Russia could adversely affect the market price of the Notes, even if the Russian economy remains relatively stable.

Risks Relating to Luxembourg Insolvency Proceedings

Provisions of the Luxembourg Commercial Code may adversely affect the security given pursuant to a Trust Deed.

Under each Trust Deed, the Issuer will charge and assign all its present and future rights and interests in respect of each Deposit and the Fiduciary Deposit Agreement relevant to such Deposit, including, but not limited to, any rights incurred as a result of a Loan Assignment, and the relevant Account to the Trustee as security for the payment obligations of the Issuer under the corresponding Series of Notes.

Article 445 of the Luxembourg Commercial Code provides that the creation of a charge, for pre-existing debts of the chargor, is void and without effect if created during the “suspect period” (as defined in the Commercial Code) or up to ten days before the suspect period. The suspect period is the period of time immediately preceding the date of the bankruptcy judgement. Its duration is fixed by the Court at a maximum of six months.

The provisions of the Article 445 of the Luxembourg Commercial Code may affect the security interests granted by the Issuer pursuant to any Trust Deed. If the security interests were created during the suspect period, or up to 10 days before the suspect period, for pre-existing obligations of the Issuer such charge would be declared void and invalid by the courts of Luxembourg.

Other Risks

The Group has not independently verified information regarding its competitors and official data from Russian government agencies and the CBR.

The Group has derived substantially all of the information contained in this document concerning its competitors from publicly available information, and VTB has relied on the accuracy of this information without independent verification.

In addition, some of the information contained in this document has been derived from official data of Russian government agencies and the CBR. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The veracity of some official data released by the Russian government may be questionable. In the summer of 1998, the Director of the Russian State Committee on Statistics and a number of his subordinates were arrested and charged with manipulating economic data to hide the actual output of various companies.

USE OF PROCEEDS

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Deposit with the Fiduciary. Such Deposit will be used by the Fiduciary for the sole purpose of financing the corresponding Loan to VTB. The gross proceeds of such Loan will be used by VTB for general corporate purposes (unless otherwise specified in the relevant Loan Agreement). In connection with the receipt of such Loan, VTB will pay an arrangement fee, as reflected in the relevant Pricing Supplement.

CAPITALISATION

The following table sets out the Group's consolidated capitalisation (excluding debt incurred in the normal course of the Group's banking business) as of March 31, 2004. For further information regarding the Group's financial condition see "Selected Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the IFRS Financial Statements included elsewhere in this Offering Circular.

	As of March 31, 2004⁽¹⁾ <i>(millions of U.S. dollars)</i>
Current portion of long-term debt⁽²⁾	732
Long-term debt	
Eurobonds and debentures	782
Other borrowings	15
Total long-term debt⁽³⁾⁽⁴⁾	797
Shareholders' equity	
42,137,236 ordinary shares with a par value of RUR1,000 each, issued and outstanding	2,153
Share premium	34
Retained earnings and other reserves	262
Total shareholders' equity	2,449
Total capitalisation	3,978

(1) Unaudited.

(2) Represents portions of long-term debt due within one year.

(3) None of this debt is secured or guaranteed by third parties.

(4) The Group's long-term debt (with remaining contractual maturity of over one year) also includes U.S.\$1,413 million, which includes long-term deposits, interbank loans, promissory notes and certificates of deposit incurred or issued in the ordinary course of its banking business.

The Group has issued two series of Notes under the Programme in 2004 since March 31, 2004. On April 28, 2004, the Group issued U.S.\$325 million Series 2 floating-rate Notes due 2005, and on July 27, 2004 it issued U.S.\$300 million Series 3 floating-rate notes due 2007. In June 2004, VTB repaid U.S.\$112 million of an outstanding syndicated loan, reducing the outstanding balance of that loan to U.S.\$270 million. On June 25, 2004, VTB obtained and fully drew down a syndicated floating-rate loan arranged by Citibank, N.A. London and HSBC Bank plc ("HSBC") in the amount of U.S.\$275 million. The loan is repayable within 364 days of the first drawdown, with an extension option for a further 364 days. In July 2004, the CBR placed a U.S.\$700 million deposit with VTB at one-year LIBOR rate for a term of one year. See "Business – Other Group Banks – Domestic Banks – Guta Bank." There have been no other material changes in the Group's consolidated capitalisation since March 31, 2004.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The Group's selected financial information presented below has been prepared in accordance with IFRS and derived from the Group's Interim IFRS Financial Statements as of and for the three months ended March 31, 2004 and 2003 and the Group's Annual IFRS Financial Statements as of and for the years ended December 31, 2003, 2002 and 2001. The Interim IFRS financial statements reflect normal and recurring adjustments that are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Results of operations for interim periods are not necessarily indicative of results for the full year ended December 31, 2004, for any other interim period or for any future fiscal year. The selected financial information presented below should be read in conjunction with the IFRS Financial Statements included elsewhere in this document and with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	For the three months ended March 31,		For the year ended December 31,		
	<u>2004⁽¹⁾</u>	<u>2003⁽¹⁾</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<i>(millions of U.S. dollars)</i>				
Selected Income Statement data					
Net interest income (before (provision)/release of provision for loan impairment).....	92	52	320	348	288
(Provision)/release of provision for loan impairment..	(42)	(30)	(78)	36	(207)
Net gains from trading securities ⁽²⁾	—	—	105	36	116
Net gains from investment securities available for sale ⁽²⁾	—	—	105	168	320
Net gains from securities ⁽³⁾	80	107	210	204	436
Net gains from dealing in foreign currencies	3	4	34	17	15
Net fee and commission income.....	24	16	68	38	31
Profit before taxation	97	81	270	384	496
Net profit	74	62	264	261	310

(1) Unaudited.

(2) The breakdown between trading securities and investment securities available for sale is not available for the three months ended March 31, 2004 and 2003.

(3) Includes gains from trading securities and from investment securities available for sale.

	As of March 31,	As of December 31,		
	2004 ⁽¹⁾	2003	2002	2001
	(millions of U.S. dollars)			
Selected Balance Sheet data				
Loans and advances to clients, net.....	5,136	4,795	3,016	2,198
Trading securities	1,341	1,270	921	233
Total assets.....	11,787	11,228	7,272	6,128
Related party assets	—	—	—	675
Client accounts	3,885	4,259	2,437	1,783
Due to other banks.....	1,632	1,812	1,285	597
Debt securities in issue.....	2,775	1,738	460	365
Total liabilities	9,233	8,750	5,078	4,243
Related party liabilities	—	—	—	1,290
Guarantees and import letters of credit issued	1,758	1,671	349	285
Related party guarantees and import letters of credit .	—	—	—	—
Shareholders' equity.....	2,449	2,373	2,118	1,835

(1) Unaudited.

	As of and for the three months ended March 31,		As of and for the year ended December 31,		
	2004 ⁽¹⁾	2003 ⁽¹⁾	2003	2002	2001
<i>(millions of U.S. dollars, except percentages)</i>					
Selected Financial Ratios and Other Information					
Average total assets ⁽²⁾	11,508	7,572	9,102	6,510	5,418
Average shareholders' equity ⁽²⁾	2,411	2,149	2,235	1,981	1,709
Profitability					
Return on average shareholders' equity ⁽³⁾	3.1%	2.9%	11.8%	13.2%	18.1%
Return on average total assets ⁽⁴⁾	0.6%	0.8%	2.9%	4.0%	5.7%
Average shareholders' equity as a percentage of average total assets	21.0%	28.4%	24.6%	30.4%	31.5%
Liquidity					
Net loans/total assets ⁽⁵⁾	43.6%	43.1%	42.7%	41.5%	35.9%
Net loans/client deposits ⁽⁶⁾	132.2%	115.9%	112.6%	123.8%	123.3%
Client deposits/total liabilities ⁽⁷⁾	42.1%	52.2%	48.7%	48.0%	42.0%
Capital adequacy					
Tier one capital ratio (BIS) ⁽⁸⁾	19.3%	23.8%	19.6%	26.1%	22.1%
Shareholders' equity/total assets ⁽⁹⁾	20.8%	27.7%	21.1%	29.1%	29.9%
Dividends payout ratio ⁽¹⁰⁾	n/a ⁽¹¹⁾	n/a	21.2%	20.3%	6.5%

(1) Unaudited.

(2) Calculated as a simple average of balances as of January 1 and March 31 or January 1, June 30 and December 31 of the relevant period.

(3) Net income divided by average shareholders' equity. The average shareholders' equity was calculated as a simple average of the Group's shareholders' equity as of January 1 and March 31 or January 1, June 30 and December 31 of the relevant period.

(4) Net income divided by average total assets. The average total assets were calculated as a simple average of the Group's total assets as of January 1 and March 31 or January 1, June 30 and December 31 of the relevant period.

(5) Loans and advances to clients (net of allowance for loan impairment) divided by total assets, calculated as of March 31 or December 31 of the relevant period.

(6) Loans and advances to clients (net of allowance for loan impairment) divided by client accounts, calculated as of March or December 31 of the relevant period.

(7) Client accounts divided by total liabilities, calculated as of March 31 or December 31 of the relevant period.

(8) Tier one capital ratio calculated in accordance with the Bank for International Settlements ("BIS") methodology as of the period end.

(9) Total shareholders' equity divided by total assets, calculated as of March 31 or December 31 of the relevant period.

(10) Dividends declared for the particular period divided by net income for that period.

(11) Not applicable.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Interim IFRS Financial Statements as of and for the periods ended March 31, 2004 and 2003 and Annual IFRS Financial Statements as of and for the years ended December 31, 2003, 2002, and 2001, appearing elsewhere in this Offering Circular. Unless otherwise specified, the financial data set forth below has been extracted without material adjustment from the IFRS Financial Statements. The IFRS Financial Statements have been prepared in accordance with IFRS, which differ in certain respects from U.S. GAAP. The financial data extracted from the Interim IFRS Financial Statements is unaudited. For a summary of certain differences between IFRS and U.S. GAAP that could be significant to the Group, see "Summary of Certain Differences between IFRS and U.S. GAAP."

Overview

Principal Activities

The Group conducts operations across Russia and in parts of Europe. VTB is Russia's second-largest commercial bank, as measured by total assets and profits (under RAR), offering a full range of banking services. VTB was established in October 1990 as a closed joint stock company aimed at servicing Russia's foreign trade transactions. In January 1998, VTB was transformed into an open joint stock company. The CBR was VTB's principal shareholder until late 2002. In October 2002, the CBR transferred its 99.9% shareholding in VTB to the predecessor of the Federal Property Service. See "Business – History."

The transfer of the ownership of VTB from the CBR to the predecessor of the Federal Property Service led to a change in the funding structure of the Group. Historically, deposits attracted from the CBR accounted for a significant part of the Group's funding, and amounted to U.S.\$1,286 million, or 30.3% of the Group's total liabilities, as of December 31, 2001. Following the transfer of its ownership in VTB to the predecessor of the Federal Property Service, the CBR reduced its deposits with the Group to U.S.\$380 million, or 7.5% of the Group's total liabilities, as of December 31, 2002. As of December 31, 2003 and March 31, 2004, the Group had no CBR funding. In July 2004, the CBR provided financial assistance to VTB in connection with its acquisition of Guta Bank, by placing a U.S.\$700 million deposit with VTB at the one-year LIBOR rate for the term of one year. The deposit is available to maintain Guta Bank's liquidity and for use in its operations. VTB and the CBR may agree to prolong the term of the deposit. See "Business – Other Group Banks – Domestic Banks and Participations – Guta Bank." VTB believes that as long as the Government remains its controlling shareholder, further Government funding will be available in case of a financial crisis. See "Business – History." VTB's shareholding may be diversified in the future. See "Business – Strategy."

The Group operates primarily in the commercial banking sector. Its main operations include taking deposits, lending, trading and investing in securities, providing account and settlement services, conducting foreign trade transactions and providing cash handling and custody services. It is also expanding its retail and investment banking businesses.

The Group operates in Russia through VTB's network of 45 full service branches, 82 sub-branches and 41 outlets, which offer a limited range of banking services, and four other domestic banks (including Guta Bank, acquired in July 2004). The Group operates outside Russia through four bank subsidiaries of VTB, located in Armenia (acquired in April 2004), Austria, Cyprus and Switzerland, associate banks in Germany and Luxembourg and representative offices of VTB in Belarus, China, Italy, and Ukraine. In July 2004, the CBR approached VTB to acquire Guta Bank, a large privately-owned bank that experienced temporary liquidity difficulties and had to suspend operations due to turmoil in the Russian banking sector. See " – General Market Conditions and Operating Environment" and " – Recent Developments," "Business – Other Group Banks – Domestic Banks and Participations – Guta Bank" and "The Banking Sector and Banking Regulation in the Russian Federation – Brief History of the Russian Banking Sector." On July 16, 2004, VTB purchased an 85.8% interest in Guta Bank for RUR1 million (U.S.\$34,000 at the exchange rate of RUR 29.07 per U.S.\$1.00). The ultimate impact of this acquisition on VTB's consolidated financial statements will be determined after the completion of an independent valuation of Guta Bank, which is currently taking place. VTB expects the valuation to be completed in October 2004, at which time it will be better able to assess the impact of the temporary liquidity shortage and the general state of the Russian banking market on Guta Bank's financial condition.

Historically, VTB focused on proprietary trading operations, primarily with Russian government debt securities. As of December 31, 2001, securities, both trading and available for sale, amounted to 36.2% of

the Group's total assets. In 2002, VTB made the decision to shift the focus of its operations away from proprietary trading to commercial banking activities that focus on servicing clients through deposit taking and lending. This shift continued in 2003 and the first quarter of 2004. As a result, securities declined to 25.9% and 21.8% of the Group's total assets as of December 31, 2002 and 2003, respectively, whereas net client loans and advances grew from 35.9% of the Group's assets as of December 31, 2001 to 41.5% and 42.7% as of December 31, 2002 and 2003, respectively. Partly as a result of this shift, net gains from securities also declined from 66.6% of operating income in 2001 to 31.5% in 2002, and 31.8% in 2003. As of March 31, 2004, securities comprised 21.6% of the Group's total assets, whereas net client loans and advances made up 43.6% of the Group's total assets. During the three-month periods ended March 31, 2003 and 2004, net gains from securities comprised 63.7% and 40.4% of operating income, respectively. The decrease of net gains from securities as a percentage of total operating income was due to the slower growth of securities market prices during the period. Whilst securities decreased as a percentage of total assets, the securities portfolio continued to grow. During the periods under review, the Group considered investments in securities, along with short-term placements with other banks, to be useful in managing its liquidity position and, therefore, placed excess liquid funds in such instruments.

Prior to 2003, VTB obtained its funding predominantly in the domestic markets. Its funding sources primarily consisted of short-term bank and corporate deposits, including funds from the CBR, domestic debt securities, and promissory notes. Since 2002, borrowing conditions for Russian borrowers in the international markets became more favourable and, in an effort to lengthen and diversify its liability profile and obtain longer-term funding, VTB accessed the international capital markets, which resulted in an increase in its borrowing costs, but, at the same time, led to a better match between the terms of its assets and its liabilities.

General Market Conditions and Operating Environment

The substantial majority of the Group's assets are concentrated in Russia (72.6% and 75.2% as of March 31, 2004 and December 31, 2003, respectively). As a result, the Group is substantially affected by Russian macro and microeconomic conditions. Whilst there have been improvements in recent years in the economic situation in Russia, its economy continues to display some characteristics of an emerging market, including, but not limited to, the existence of a currency that is not freely convertible in most countries outside Russia, high volatility of the securities market and relatively high inflation as compared to the inflation in developed countries.

The following table sets forth the leading Russian economic indicators as of or for the three months ended March 31, 2004 and 2003 and as of or for the years ended December 31, 2003, 2002 and 2001.

	As of or for the three months ended March 31,	As of or for the three months ended March 31,	As of or for the year ended December 31,		
	2004	2003	2003	2002	2001
Gross domestic product (GDP) (billions of RUR)	3,599	2,892	13,285	10,834	8,944
Surplus of Russian Federal budget (billions of RUR)	135	89	180	112	267
Foreign currency reserves (millions of U.S. dollars)	83,398	55,525	76,938	47,793	36,622
Inflation (CPI) (%)	3.5	5.2	12.0	15.1	18.9
Nominal (appreciation) depreciation of the RUR against the U.S. dollar (%) .	(2.7)	0.6	(7.3)	5.4	7.0
Real appreciation of the RUR against the U.S. dollar (%)	4.4	3.3	18.9	9.2	11.0

Source: CBR, VTB's internal calculations.

In 2003, Russia enjoyed its fourth consecutive year of economic expansion. The continuing rebound of domestic demand from very low levels following the financial crisis of August 1998, along with high market prices for key export commodities, particularly oil and gas, sustained economic growth and led to an increase in foreign currency reserves. In 2003, the Russian economy ceased to be hyperinflationary, as

the cumulative inflation rate in Russia over the past three years declined significantly below the level indicating hyperinflation and the purchasing power of the rouble strengthened. The significant cash inflows resulting from exports of commodities at high prices also led to the strengthening of the rouble against the U.S. dollar. Currently, the Russian economy generates large amounts of excess liquidity, which has resulted in significant competition among banks for good quality borrowers. This competition, along with the strengthening of the rouble against the U.S. dollar, has, however, resulted in a declining net interest margin generated by banks operating in the Russian financial markets. The economic expansion and the decline of banks' net interest margin continued in 2004.

The following table presents the average interest rates earned by Russia-based banks on U.S. dollar and rouble-denominated loans to corporate clients and average interest rates paid by such banks on U.S. dollar and rouble-denominated deposits from corporate and retail clients, which represent the majority of the Group's loan portfolio and client accounts, for the three months ended March 31, 2004 and for the years ended December 31, 2003, 2002 and 2001. These interest rates were calculated on the basis of statistical information published by the CBR.

	For the three months ended March 31,	For the three months ended March 31,	For the year ended December 31,		
	2004	2003	2003	2002	2001
			(%)		
Loans to corporate clients in U.S. dollars.....	8.6	10.7	9.5	10.5	11.7
Loans to corporate clients in RUR...	11.8	13.5	13.1	15.8	17.9
Deposits from corporate clients in U.S. dollars	2.4	2.1	2.5	1.6	3.2
Deposits from corporate clients in RUR.....	4.5	4.5	4.4	6.9	7.9
Deposits from retail clients in U.S. dollars.....	2.9	3.1	2.8	3.2	3.0
Deposits from retail clients in RUR..	5.1	5.5	5.4	5.7	5.3

Source: CBR.

As noted above, during the periods under review the average interest rates on loans to corporate clients declined significantly, whilst the average interest rates on deposits from retail clients remained relatively stable and the average interest rates on deposits from corporate clients declined at a slower pace than the average interest rates on loans to corporate clients. Declining interest margins in Russia adversely affected the Group's net interest income in 2003. It fell from U.S.\$348 million in 2002 to U.S.\$320 million in 2003 despite a 34.8% growth in average interest-earning assets during the period. Interest margins continued to decline in the first quarter of 2004, although the decline was offset by growth of the Group's loan portfolio. The increasingly competitive market in which VTB operates, together with the weakening of the U.S. dollar against the rouble, could result in continued downward pressure on VTB's interest margins in future periods. To the extent this is not offset by growth of average interest-earning assets, VTB may experience periods of flat or declining net interest income in the future. See "Risk Factors – Risks Relating to the Group's Business and Industry – The Group's financial position and results of operations are affected by declines in interest rates."

Approximately a quarter of the Group's assets are concentrated in VTB's foreign subsidiary banks. These assets include significant proprietary trading portfolios (28.0% of the total securities held by the Group as of December 31, 2003 and 31.8% as of March 31, 2004). Due to the strength of the Russian debt and equity securities markets in 2003, when market prices experienced significant growth throughout the year, with the exception of late October and November, these banks generated 42.2% of the Group's profit before tax in 2003. However, due to the portfolios' asset composition, the profitability of foreign subsidiary banks is susceptible to market risks. Foreign subsidiary banks generated 25.2% of the Group's profit before income taxes in the first three months of 2004 compared to 42% in the first three months of 2003. This decline was mainly due to the significant share of Russian government securities in the portfolios of foreign subsidiary banks, which did not perform as strongly as in 2003.

VTB's foreign subsidiary banks do not generate significant interest income and are thus less affected by interest rate fluctuations. The loan portfolio of the foreign subsidiaries, mainly concentrated in Russian Commercial Bank (Cyprus) Limited ("RCB-Cyprus"), consists primarily of loans funded by back-to-back client deposits. See "Business – Other Group Banks – Foreign Banks – Services and Activities – RCB-Cyprus." The net interest margin on these loans is relatively small due to the low risk associated with back-to-back lending.

The Russian banking sector is particularly sensitive to adverse currency fluctuations and economic conditions. 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 also contribute to difficulties experienced by banks currently operating in Russia. See "Risk Factors – Risks Relating to the Group's Business and Industry – It may be difficult for VTB to enforce security under Russian law" and "Risk Factors – Risks Relating to the Russian Legal System and Russian Legislation – Russian banking and financial regulation has been undergoing significant changes." Ongoing political stabilisation has been a positive contributing factor in the further development of Russian political and legal environment. The continued success and stability of the Russian economy will be significantly affected by the Government's continued implementation of administrative, legal, and economic reforms. See "Risk Factors – Risks Relating to the Russian Federation – Economic Risks – Economic instability could adversely affect the Group's business".

Exchange Rate Fluctuations

The national currency of Russia, where VTB is domiciled, is the rouble. However, the Group's assets and liabilities are mostly denominated in U.S. dollars and other freely convertible currencies. The U.S. dollar is used to a significant extent in, and has a significant impact on the operations of, the Group, and its cash flows are primarily denominated in U.S. dollars and euro. Beginning in 2002, the rate of inflation in Russia began to decline significantly, the rouble strengthened against the U.S. dollar in real terms in 2001 and 2002 and both in real and nominal terms in 2003 and 2004; and Russian demand for rouble-denominated loans increased. As a result, VTB began increasing the share of rouble-denominated funding in its liabilities. As of March 31, 2004, the Group's rouble-denominated interest-bearing liabilities were U.S.\$2,925 million, amounting to 32% of the Group's total interest-bearing liabilities. As of December 31, 2003 and 2002, rouble-denominated interest-bearing liabilities were U.S.\$2,532 million and U.S.\$1,132 million, respectively, amounting to 29.7% and 23.2% of the Group's total interest bearing liabilities. These liabilities were U.S.\$618 million, or 15.1% of the Group's interest-bearing liabilities as of December 31, 2001.

To reduce the currency exposure relating to depreciation of the U.S. dollar against the rouble in 2003, the Group also significantly increased its rouble net balance sheet position (the excess of rouble-denominated assets over rouble-denominated liabilities) from U.S.\$426 million and U.S.\$357 million as of December 31, 2001 and 2002, respectively, to U.S.\$1,287 million as of December 31, 2003 and U.S.\$1,053 million as of March 31, 2004, respectively. As a result, the percentage of the rouble net balance sheet position grew from 22.6% and 16.3% of the Group's total net balance sheet position as of December 31, 2001 and 2002, respectively, to 51.9% as of December 31, 2003, although it began to decline in 2004 to 43% as of March 31, 2004, due to the U.S.\$296 million decrease in rouble cash balances with the CBR.

The future share of rouble-denominated funding in the Group's liability structure and the rouble net balance sheet position will depend to a significant extent on the stability of the rouble against the U.S. dollar and the other major currencies in which the Group conducts operations, as well as the level of inflation in Russia.

Measurement Currency

In addition to the predominant role the U.S. dollar plays in the Group's business, as noted above, the U.S. 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 U.S. dollar and, therefore, the IFRS Financial Statements are measured and presented in U.S. dollars. The Group's accounting records provide sufficient accounting information regarding the original U.S. dollar equivalent of transactions executed in other currencies. In the future, the Group may consider switching its measurement currency to the rouble, if rouble-denominated assets and liabilities continue to grow and come to represent the majority of the Group's assets and liabilities.

Critical Accounting Policies

The Group's accounting policies are integral to understanding its results of operations and financial condition. The Group's significant accounting policies are described in Note 4 to the IFRS Financial Statements appearing elsewhere in this Offering Circular. The preparation of the IFRS Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to the allowance for loan impairment, provisions, investments, income taxes, financing operations, contingencies, litigation, and arbitration. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results will differ from estimates under different assumptions and conditions and such differences may be material.

Consolidation

The Group conducts its operations through subsidiaries located both in Russia and abroad. The Group consolidates subsidiaries and other entities in which it has an interest, directly or indirectly, of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or currently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are removed from consolidation from the date such control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued, or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of an acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

Allowance for Loan Impairment

A credit risk allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to the original contractual terms. The amount of the allowance is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. The allowance for loan impairment represents management's estimate of such probable losses. These losses have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers, and the discounted cash flows of loans in the portfolio, and reflect the current economic environment in which the borrowers operate.

Changes in allowances are reported in the consolidated statement of income for the related period. When a loan is deemed uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income. If the amount of the allowance for loan impairment subsequently decreases due to an event occurring after the writedown, the release of the allowance is credited to the provision for loan impairment in the consolidated statement of income.

Financial Instruments

With effect from January 1, 2001, the Group implemented International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). The adoption of IAS 39 had no material effect on opening retained earnings at January 1, 2001. IAS 39 has been applied prospectively in accordance with its requirements and historical financial statements have not been restated. Upon implementation of IAS 39, the Group divided its securities portfolio into three categories: "trading securities," "investment securities available-for-sale," and "investment securities held to maturity." Management determines the appropriate classification of the securities at the time of purchase.

Trading securities are securities that are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term

trading exists. The Group classifies securities as trading securities if it has the intention to sell them within one year after purchase. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently remeasured at estimated fair value based on their fair market value. In determining fair value, all trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

Investment securities available for sale are securities which management intends to hold for an indefinite period of time that may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices. Investment securities available for sale are initially recognised at cost (which includes transaction costs) and are subsequently remeasured to fair value based at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price, or fair value as estimated by management. Certain investments available for sale for which there is no available independent quotation have been valued by management at cost less allowance for impairment. To estimate impairment management makes judgments by taking into account recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Investment securities held to maturity are securities which management intends to hold until maturity. Initially, investment securities held to maturity are recorded at cost (which includes transaction costs), which is the fair value of the consideration given, and subsequently are carried at amortised cost less any allowance for impairment. Amortised cost less allowance for impairment is based on the fair value of expected future cash inflows discounted at the market rate on acquisition.

Trading securities and investment securities available-for-sale are assessed at each balance sheet date, resulting in positive or negative fair value adjustments to the Group's income statement. Investment securities held to maturity are assessed at amortised cost, net of any impairment, which would be reflected in the income statement in the relevant period.

Foreign Currency Translation

Monetary assets and liabilities originally denominated in U.S. dollars are stated at their original U.S. dollar amounts. Monetary assets and liabilities in other currencies have been translated into U.S. dollars using the exchange rate existing at the balance sheet date. Non-monetary assets and liabilities, which are denominated in currencies other than the U.S. dollar, have been translated into U.S. dollars at the exchange rates in effect at the date of the transaction. Income and expenses which were earned and incurred in currencies other than the U.S. dollar, have been translated into U.S. dollars using a basis that approximates the rate of exchange existing at the date of the transaction. Gains and losses arising from the translation of assets and liabilities into U.S. dollars are reflected in the consolidated statement of income as foreign exchange translation gains less losses.

As certain members of the Group located outside Russia operate independently of VTB, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21"), these entities are considered foreign entities whose operations are not integral to those of the parent. Thus balance sheets of these foreign entities are translated into U.S. dollars at the applicable period-end exchange rate and the statements of income are translated into U.S. dollars using a basis approximating the rate of exchange at the date of the relevant transactions. This method of translation leads to the translation of non-monetary assets and liabilities existing as of December 31 of a given year at two different rates, a rate as of the beginning and a rate as of the end of the relevant year. In accordance with IAS 21, the exchange difference arising from the use of two different exchange rates forms part of the Group's net investment in the foreign entity and is classified as an element of equity in the consolidated financial statements until disposal, at which time it is recognised as income or expense. This exchange difference is reflected within the "Other Movements" line in the consolidated statement of changes in shareholders' equity.

As of December 31, 2003, 2002, and 2001, the principal rate of exchange used for translating balances in roubles to U.S. dollars was RUR29.45 per U.S.\$1.00, RUR31.78 per U.S.\$1.00 and RUR30.14 per U.S.\$1.00, respectively. As of March 31, 2004 and 2003, the principal rate of exchange used for translating balances in roubles to U.S. dollars was RUR28.49 per U.S.\$1.00 and RUR31.38 per U.S.\$1.00, respectively.

Deferred Income Tax Assets

Deferred income tax is provided using the balance sheet asset and liability method for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial

reporting purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets, including tax losses carry forwards, are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised, and the Group has enough history in earnings to support utilising such assets.

Interim Income Tax Expense

Income tax expense is recognised in each interim period using the tax rates that would be applicable to the expected total annual earnings in each relevant jurisdiction, *i.e.* the estimated average annual effective income tax rate is applied to the pre-tax income of the interim period.

Recent Developments

In April through July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of the circulation of various market rumours and, in some cases, certain regulatory and liquidity problems, several Russian privately-owned banks collapsed or ceased or significantly limited their operations. A number of Russian privately-owned banks experienced liquidity problems and were unable to attract funds on the interbank market or from their clients or shareholders. Simultaneously, they faced large withdrawals of deposits by both retail and corporate clients. On July 16, 2004, VTB acquired Guta Bank, one of the banks that experienced liquidity difficulties as a result of the banking sector turmoil. See “– Overview – Principal Activities,” “Risk Factors – Risks Relating to the Group’s Business and Industry – VTB is still evaluating the financial impact of its acquisition of Guta Bank” and “Business – Other Group Banks – Domestic Subsidiaries and Participations – Guta Bank.”

Russian banks owned or controlled by the Government, or the CBR, such as VTB, generally remained unaffected by the state of the banking system. As a result of the banking sector turmoil, VTB’s retail deposits rose slightly due to higher confidence of retail clients in Government-owned banks. The CBR took steps to combat the crisis. The rate of mandatory reserves that banks were required to deposit with the CBR had been reduced from 7% to 3.5%. To implement these measures, the CBR permitted banks to immediately reduce their mandatory reserves to the lower level. Accordingly, banks’ borrowing costs have declined. See “The Banking Sector and Banking Regulation in Russia – Brief History of the Russian Banking Sector.”

In August 2004, the Russian banking sector began to recover from the turmoil. However, Russian banks may face losses as a result of defaults by corporate clients that suffer from the problems of other Russian banks. See “Risk Factors – Risks Relating to the Russian Federation – Economic Risks – Economic Instability in Russia could affect the Group’s business.”

According to the CBR, capital outflows from the Russian Federation reached U.S.\$5.5 billion for the six-month period ended June 30, 2004 compared to U.S.\$3.9 billion for the six-month period ended June 30, 2003. Many commentators note that capital flight from Russia has increased in the first six months of 2004 due to the legal proceedings and investigations relating to Yukos.

The inflation rate and market interest rates both continued to decline in the second quarter of 2004 and competition on the Russian lending markets has continued to put pressure on the Group’s net interest margin.

The Russian debt and equity securities markets rose during the first quarter of 2004, reached their peak in April 2004, and declined thereafter. However, the market prices of Russian securities held in the Group’s portfolio have begun to rise again in the third quarter of 2004.

Whilst the Russian rouble appreciated against the U.S. dollar by 3.3% during the first quarter of 2004, it depreciated against the U.S. dollar by 1.9% during the second quarter of 2004.

Whilst the Group’s net interest income continued to grow in the second quarter of 2004, the external factors experienced in the second quarter of 2004, which are described above, 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. See “Risk Factors – The Group’s income from proprietary securities and currency operations is volatile.” These mark-to market losses were offset, in part, by a non-recurring reversal of an impairment allowance on certain equity 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 in the second quarter of 2004 on the basis of the continued improvement in the performance of the issuer of the securities. Finally, because the Group has a net rouble balance sheet position, the depreciation of the rouble against the U.S. dollar in the second quarter of 2004 resulted in unrealised foreign exchange losses.

As a result of these factors, management expects the Group to report a net loss for the second quarter of 2004, compared to a net profit in the second quarter of 2003 and the first quarter of 2004, and significantly lower net profit for the first half of 2004 compared to the first half of 2003.

On September 6, 2004, VTB and ICB 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. See “Business – Other Group Banks – Domestic Banks and Participations – Participations.”

Results of Operations for the Periods ended March 31, 2004 and 2003

Summary

The following table sets forth the principal components of the Group’s net profit for the periods indicated:

	For the three months ended March 31,		Change from prior period
	2004 ⁽¹⁾	2003 ⁽¹⁾	
	(millions of US dollars)		(%)
Net interest income.....	92	52	76.9
Provision for loan impairment	(42)	(30)	40.0
Gains less losses from securities.....	80	107	(25.2)
Gains less losses from dealing in foreign currencies...	3	4	(25.0)
Gains less losses from derivative financial instruments.....	(2)	–	n/a ⁽²⁾
Foreign exchange translation gains less losses.....	26	10	160.0
Fee and commission income (net)	24	16	50.0
Other operating income (net).....	17	9	88.9
Operating expenses.....	(101)	(87)	16.1
Profit before income taxes.....	97	81	19.8
Income taxes	(20)	(15)	33.3
Profit after income taxes	77	66	16.7
Minority interest	(3)	(5)	(40.0)
Share in profit of associated company.....	–	1	(100.0)
Net profit	74	62	19.4

(1) Unaudited.

(2) Not applicable

The Group’s net profit was U.S.\$74 million in the first quarter of 2004, compared to U.S.\$62 million in the same period of 2003. The Group’s profit before income taxes was U.S.\$97 million in the first quarter of 2004 compared to U.S.\$81 million in the same period of 2003.

The increase in profit before taxes in the first quarter of 2004, compared to the same period of 2003, resulted primarily from growth in net interest income, net foreign exchange translation gains, net fee and commission income, and other operating income. This increase was partially offset by a larger provision for loan impairment, resulting from the growth of the Group's loan portfolio, a decline in net gains less losses from securities, and a continuing increase in operating expenses resulting from continued expansion of the Group's business. In the first quarter of 2004, the effective income tax rate increased to 21% from 19% in the first quarter of 2003, due to a change in of the way the annual effective income tax rate was estimated. See "– Critical Accounting Policies – Interim Income Tax Expense."

In the first quarter of 2004, VTB's foreign subsidiary banks located in Europe continued to play a significant role in the Group's operations. The profit before income taxes generated by the foreign subsidiary banks located in Europe was U.S.\$24 million or 25.2% of the Group's profit before income taxes in the first quarter of 2004, compared to U.S.\$34 million or 42% in the first quarter of 2003. These banks hold significant proprietary trading portfolios (31.8% of the total securities held by the Group as of March 31, 2004) and, as a result, their assets are susceptible to market risks. See "Risk Management – Market Risks." They do not generate significant interest income and are thus less affected by interest rate fluctuations.

In the first quarter of 2004, the Group's return on average shareholders' equity was 3.1% (not determined on an annual basis) compared to 2.9% in the same period of 2003. These figures were calculated by dividing the Group's net income by its average shareholder's equity for the relevant period. The Group's average shareholders' equity was calculated as a simple average of its shareholders' equity as of March 31 and January 1 of the relevant year.

Interest Income, Interest Expense, Net Interest Income, and Provision for Loan Impairment

The following table sets out the principal components of the Group's interest income and interest expense, as well as average interest earning assets and average interest-bearing liabilities, calculated as the average of the opening and closing balances for the respective period.

	For the three months ended March 31,		Change from prior period
	2004⁽¹⁾	2003⁽¹⁾	
	<i>(millions of US dollars)</i>		<i>(%)</i>
Interest Income			
Due from other banks	23	12	91.7
Loans and advances to clients.....	125	97	28.9
Securities.....	41	28	46.4
Total interest income	189	137	38.0
Interest expense			
Client accounts	(50)	(41)	22.0
Debt securities in issue.....	(34)	(29)	17.2
Due to banks and other borrowed funds	(13)	(15)	(13.3)
Total interest expense.....	(97)	(85)	14.1
Net interest income before provision for loan impairment.....	92	52	76.9
Provision for loan impairment	(42)	(30)	40.0
Net interest income after provision for loan impairment.....	50	22	127.3
Average interest-earning assets			
Due from other banks	2,913	2,047	42.3
Loans and advances to clients.....	5,414	3,589	50.8
Securities.....	2,335	1,736	34.5
Total	10,662	7,372	44.6

	For the three months ended March 31,		Change from prior period
	2004 ⁽¹⁾	2003 ⁽¹⁾	
	(millions of US dollars)		(%)
Average interest-bearing liabilities			
Due to banks and other borrowed funds	2,432	1,626	49.6
Client accounts	4,072	2,681	51.9
Debt securities in issue.....	2,257	800	182.1
Total	8,761	5,107	71.5

(1) Unaudited.

Interest Income

Interest income increased by 38.0% to U.S.\$189 million for the three-month period ended March 31, 2004 from U.S.\$137 million for the same period of 2003, reflecting an increase in average balances of loans and advances to clients, securities and due from other banks of 44.6% to U.S.\$10,662 million in the first quarter of 2004 from U.S.\$7,372 million in the first quarter of 2003.

Interest income on due from other banks grew by 91.7% for the three-month period ended March 31, 2004 compared to the same period of 2003. The increase was due to an increase in long-term placements with other banks, which carry higher interest rates compared to overnight deposits.

Interest income on loans and advances to clients grew by 28.9% for the period ended March 31, 2004 compared to the same period of 2003. The growth of interest income was caused by the increase in the average loan balances, which was partially offset by the decline in average quarterly interest rates from 2.7% in the first quarter of 2003 to 2.3% in the first quarter of 2004. This was largely attributed to the general decline in interest rates caused by competition among domestics and foreign banks operating in Russia, as well as excess liquidity in the Russian financial markets.

Interest income on securities grew by 46.4% for the period ended March 31, 2004 compared to the same period of 2003. The increase in interest income earned on the Group's securities portfolio resulted from an overall growth of the Group's average securities portfolio by 34.5% in the first quarter of 2004, to U.S.\$2,335 million from U.S.\$1,736 million in the first quarter of 2003, as well as the shift during the period from investments in Russian government bonds, which bear lower yields, to higher-yield corporate debt instruments.

Interest Expense

Interest expense increased by 14.1% to U.S.\$97 million for the three-month period ended March 31, 2004 from U.S.\$85 million for the same period of 2003, following a growth in average interest-bearing liabilities, primarily client accounts and debt securities in issue, of 71.5% to U.S.\$8,761 million in the first quarter of 2004 from U.S.\$5,107 million in the first quarter of 2003. The growth in interest expense during the reporting period was, however, partially offset by a switch in funding from rouble-denominated domestic debt securities to U.S. dollar-denominated debt securities issued in the international capital markets, which have lower borrowing costs.

Average interest-bearing client accounts, both corporate and retail, increased by 51.9% to U.S.\$4,072 million for the three month period ended March 31, 2004 from U.S.\$2,681 million for the three month period ended March 31, 2003. The increase in average interest-bearing client accounts resulted in a corresponding increase of interest expense on client accounts from U.S.\$41 million for the period ended March 31, 2003 to U.S.\$50 million for the period ended March 31, 2004. The increase in client accounts, including interest-bearing deposits, was due to the expansion of VTB's branch network and the general growth of clients' confidence in Russia's large government-owned banks. The average quarterly interest rates paid on interest-bearing client accounts for the periods ended March 31, 2003 and 2004 were 1.5% and 1.2%, respectively.

Interest expense on debt securities in issue increased by 17.2% to U.S.\$34 million for the three month period ended March 31, 2004 from U.S.\$29 million for the three month period ended March 31, 2003. This increase was fully attributable to the growth of average balances of debt securities in issue from U.S.\$800

million to U.S.\$2,257 million during the respective periods. This growth was, however, partially offset by the aforementioned shift in funding from costly rouble-denominated domestic debt securities to the issuances of U.S. dollar-denominated debt securities in the international capital markets.

Interest expense on due to banks and other borrowed funds for the three-month period ended March 31, 2004 decreased by 14.1% versus the three-month period ended March 31, 2003 due to the shortening maturity profile of the Group's interbank borrowings, which was offset by the expansion of its operations on the interbank markets and its long-term borrowings from foreign banks.

Net Interest Income Before Provision for Loan Impairment

In the first quarter of 2004 and 2003, net interest income before provision for loan impairment accounted for 46.5% and 31.0%, respectively, of operating income. Net interest income before provision for loan impairment was U.S.\$92 million in the first quarter of 2004, as compared to U.S.\$52 million in the same period of 2003. The Group's net interest margin, defined as net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets (the average of the opening and closing balances for a respective period) was 0.9% for the three month period ended March 31, 2004, compared to 0.7% for the three month period ended March 31, 2003. The increase in net interest margin was mainly attributable to a continuing growth of the percentage of client loans and advances in the Group's total assets, as well as a decrease in the cost of funding due to the switch from rouble-denominated debt securities to U.S. dollar-denominated debt securities issued in the international capital markets, as interest rates payable on rouble-denominated domestic debt securities significantly exceeded interest rates payable on U.S. dollar-denominated debt securities in the international capital markets.

Provision for Loan Impairment

The provision for loan impairment includes changes in allowance for impairment of loans and advances to clients as well as changes in allowance for amounts due from other banks. The following table sets out movements in the Group's allowances for loan impairment relating to both client and interbank portfolios during the three-month period ended March 31, 2004.

	Loans and advances to clients	Due from other banks	Total
	<i>(millions of U.S. dollars)</i>		
Allowance for loan impairment at December 31, 2003	432	122	554
Provision for loan impairment ⁽¹⁾	33	9	42
Allowance for loan impairment at March 31, 2004⁽¹⁾	465	131	596

(1) Unaudited.

As of March 31, 2004, the allowance for loan impairment as a percentage of total client loans and advances remained at the same level as of December 31, 2003 and comprised 8.3%, reflecting the stable quality of the Group's client loan portfolio and its continued diversification. In the first quarter of 2004 the Group's provision for loan and advances to clients amounted to U.S.\$33 million, which was primarily attributable to the 7.2% growth in the Bank's gross client loan portfolio in the first quarter of 2004. The allowance for loan impairment as a percentage of total amounts due from other banks has further decreased to 5.1% as of March 31, 2004 from 6% as of December 31, 2003, reflecting the overall improvement in the quality of the Group's interbank loan portfolio. The Group's provision for loan impairment on due from other banks amounted to U.S.\$9 million in the first quarter of 2004. This provision was attributable to a 26.9% growth of the Group's interbank loans.

Non-interest Income

The following table sets out certain information regarding the Group's non-interest income for the three months periods ended March 31, 2004 and 2003.

	For the three months ended March 31,		Change from prior period
	2004 ⁽¹⁾	2003 ⁽¹⁾	
	(millions of US dollars)		(%)
Gains less losses from securities	80	107	(25.2)
Fee and commission income (net).....	24	16	50.0
Gains less losses from dealing in foreign currencies.....	3	4	(25.0)
Gains less losses from derivative financial instruments	(2)	–	n/a
Foreign exchange translation gains (losses).....	26	10	160.0
Other operating income (net)	17	9	88.9
Total non-interest income	148	146	1.4

(1) Unaudited

The Group's non-interest income increased by 1.4% to U.S.\$148 million in the first quarter of 2004 from U.S.\$146 million in the same period of 2003. The increase in the Group's non-interest income was primarily due to the growth in gains from foreign exchange translation, fee and commission income and increase in other operating income. The increase was almost entirely offset by a decline in gains less losses from securities and gains from dealing in foreign currencies.

Gains less losses from securities

During the first quarter of 2004 net gains from securities decreased by 25.2% to U.S.\$80 million, as compared to U.S.\$107 million during the same period of 2003. During the three-month period ended March 31, 2003 the Group recognised significant gains resulting from increases in the market prices of government securities, which, on average (calculated as a simple average of the opening and closing balance for the period ended March 31, 2003), amounted to 71% of the Group's securities portfolio during the period. During the three-month period ended March 31, 2004, the average share of government securities in the Group's portfolio was 42%, and, the market prices of these securities remained stable during the period, the Group recognised lower net gains from these securities than in the same period of 2003. The remaining part of the Group's securities portfolio in the first three months of 2004 consisted primarily of Russian corporate debt securities whose price did not change significantly during the three-month period ended March 31, 2004.

Net Fee and Commission Income

Net fee and commission income increased by 50% from U.S.\$16 million for the three-month period ended March 31, 2003 to U.S.\$24 million for the three-month period ended March 31, 2004. The increase in the first quarter of 2004 is primarily attributable to the increase in the Group's client base. The Group's client account balances increased by 32.8% from U.S.\$2,925 million as of March 31, 2003 to U.S.\$3,885 million as of March 31, 2004, which led to a larger volume of client transactions. Net fee and commission income is currently a relatively minor revenue stream for the Group, but it is expected to grow as the Group expands its retail and investment banking services. The Group develops its retail banking services by opening new branches as well as through acquisitions. See "Business – VTB's Branch Network."

Foreign Exchange Translation Gains net of Losses

Gains and losses arising from the foreign exchange translations of the values of the Group's assets and liabilities, as well as income and expenses, into U.S. dollars are reflected in the consolidated statements of income as foreign translation gains net of losses. Net gains from foreign exchange translation, which were U.S.\$26 million as of March 31, 2004, reflecting a 160% increase from U.S.\$10 million as of March 31, 2003, were predominantly attributable to gains and losses resulting from the continued appreciation of the

net balance sheet position of the Group in roubles against the U.S. dollar. As of March 31, 2004 and 2003, the principal rate of exchange used for translating balances in roubles to U.S. dollars was RUR28.49 per U.S.\$1.00 and RUR31.38 per U.S.\$1.00, respectively. The Group maintained a significant long position in roubles both in 2003 and the first quarter of 2004. Commencing in the second half of 2003, to reduce the currency exposure relating to the depreciation of the U.S. dollar against the rouble, the Group significantly increased its rouble net balance sheet position. This increase also led to a growth of net gains from foreign exchange translation from U.S.\$10 million in the first quarter of 2003 to U.S.\$26 million in the first quarter of 2004.

Other Operating Income, net

Other operating income increased to U.S.\$17 million in the first quarter of 2004 from U.S.\$9 million in the same period of 2003. This increase was mostly due to non-banking activities of the Group, primarily operating income generated by the Group's Russian subsidiaries: CJSC Almaz Press, a printing business, OJSC VTB – Leasing, a leasing company, and CJSC Trade House VTB, a company engaged primarily in commodities trading.

Operating Expenses

Operating expenses increased by 16.1% to U.S.\$101 million for the three-month period ended March 31, 2004, from U.S.\$87 million for the same period of 2003. The following table shows the composition of the Group's non-interest expense for the three months periods ended March 31, 2004 and 2003.

	For the three months ended March 31,		Change from prior period
	2004⁽¹⁾	2003⁽¹⁾	2003
	<i>(millions of US dollars)</i>		<i>(%)</i>
Staff costs	45	42	7.1
Depreciation and other expenses related to premises and equipment	4	4	–
Taxes other than income tax	6	5	20.0
Leasing and rent expenses	6	4	50.0
Administrative expenses	14	9	55.6
Professional fees	1	1	–
Amortisation of goodwill	1	–	n/a
Other	24	22	9.1
Total operating expenses	101	87	16.1

(1) Unaudited

The significant increase in operating expense in the first quarter of 2004 was primarily due to an increase in staff costs and other operating expenses attributable to the continued expansion of VTB's activities, including promotion of its retail and investment banking businesses and opening new regional branches, sub-branches and outlets across Russia. Driven by VTB's expansion, the Group's administrative expenses grew by 55.6% to U.S.\$14 million in the first quarter of 2004, from U.S.\$9 million in the first quarter of 2003.

Minority Interest

Minority interest fell from U.S.\$5 million for the three-month period ended March 31, 2003 to U.S.\$3 million for the three-month period ended March 31, 2004. This reduction was primarily due to a decline in net income generated by Donau-Bank in the first quarter of 2004 compared to the same period in 2003, which was attributable to the decrease in net gains from securities, which comprise a significant part of Donau-Bank's assets. During the periods under review, VTB held 85% of Donau-Bank's shares. See "Business – Other Group Banks – Foreign Banks – Services and Activities – Donau-Bank."

Income Tax Expense

The Group's income tax expense increased by U.S.\$5 million for the three-month period ended March 31, 2004, compared with the three-month period ended March 31, 2003, primarily reflecting the overall

growth of the Group's pre-tax income during the reporting periods. The income tax expense in both periods was calculated using an estimated average annual effective income tax rate applied to the pre-tax income for the interim period.

In the last quarter of 2003, the Group recognised an income tax benefit of U.S.\$17 million. This benefit was fully attributable to recognition of a deferred tax asset from loss carry forwards at Donau-Bank. Because the benefit was recognised by the Group only at the end of 2003, it had no impact on the Group's income tax expense for the first quarter of 2003. See "– Results of Operations for the Years Ended December 31, 2003, 2002 and 2001 – Income Tax Benefit (Expense)." The deferred tax asset relating to loss carry forwards will be adjusted depending on Donau-Bank's 2004 financial results.

Cash Flow

The following table sets out the Group's main sources of cash for the three month periods ended March 31, 2004 and 2003.

	For the three months ended March 31,		Change from prior period
	2004⁽¹⁾	2003⁽¹⁾	2003
	<i>(millions of US dollars)</i>		<i>(%)</i>
Net cash (used in) provided by operating activities ⁽²⁾ .	(910)	77	(1,281.8)
Net cash (used in) provided by investing activities ⁽³⁾ . .	(49)	258	(119.0)
Net cash provided by (used in) financing activities ⁽⁴⁾ . .	430	(180)	(338.9)
Effect of exchange rate changes on cash and cash equivalents	(4)	(5)	(20.0)
Cash and cash equivalents at beginning of the year . . .	929	487	90.8
Cash and cash equivalents at the end of the period . . .	396	637	(37.8)

(1) Unaudited.

(2) The Group's operating activities include daily operations conducted in the normal course of its banking business. See "Business – Banking Services and Activities."

(3) The Group's investing activities include the purchase and sale of subsidiaries, receipt of dividends and purchase and sale of investment securities available for sale and investment securities held to maturity.

(4) The Group's financing activities include raising funds outside of the normal course of its banking business. See "Capitalisation."

In the first quarter of 2004, the Group used net cash in the amount of U.S.\$910 million in its operating activities, whilst in the first quarter of 2003, it generated cash in the amount of U.S.\$77 million, from its operating activities. The net cash used in operating activities during the period ended March 31, 2004 was primarily due to a net increase in due from other banks and loans and advances to clients, as well as a decrease in due to other banks and client accounts, that was partially reduced by a net increase in promissory notes. See "– Financial Condition – Due to Other Banks," "– Financial Condition – Client Accounts" and "– Financial Condition – Debt Securities in Issue."

During the three-month periods ended March 31, 2004 and 2003, the Group used U.S.\$49 million in, and generated U.S.\$258 million, from, its investment activities, respectively. The net cash used in investing activities during the first quarter of 2004 was due primarily to purchases of investment securities available for sale, amounting to U.S.\$22 million and acquisitions of premises and equipment amounting to U.S.\$32 million, whilst net cash generated from investment activities during the first quarter of 2003 was due primarily to proceeds from the sale of investment securities available for sale and used for the repayment of other borrowed funds.

During the three-month periods ended March 31, 2004 and 2003, the Group generated U.S.\$ 430 million from, and used U.S.\$180 million in, its financing activities, respectively. The net cash generated from financing activities in the first quarter of 2004 was primarily due to the proceeds from the issuance of promissory notes, bonds and eurobonds. In the first quarter of 2003, net cash used in financing activities was primarily due to repayment of CBR deposits, as well as revolving credit lines, which was partially offset by proceeds from the issue of promissory notes and bonds.

Financial Condition

The following discussion of the Group's assets and liabilities, segments and off-balance sheet items should be read in conjunction with "Risk Management", and, in particular with the data provided under "Risk Management – Credit Risk – Problem Loans Experience," "Risk Management – Market Risks – Currency Risk," "Risk Management – Market Risks – Interest Rate Risk," and "Risk Management – Liquidity Risk" therein.

Total Assets

The following table sets out the Group's total assets as of March 31, 2004 and December 31, 2003.

	As of March 31, 2004⁽¹⁾	As of December 31, 2003	Change from Prior Period
	<i>(millions of U.S. dollars)</i>		<i>(%)</i>
Cash and due from other banks, net			
Cash and short-term funds	502	1,030	(51.3)
Mandatory cash balances with local central banks	405	382	6.0
Term placements with other banks	2,560	2,017	26.9
Allowance for loan impairment	<u>(131)</u>	<u>(122)</u>	7.4
Total cash and due from other banks, net	<u>3,336</u>	<u>3,307</u>	0.9
Client loans and advances, net			
Loans and advances to clients	5,601	5,227	7.2
Allowance for loan impairment	<u>(465)</u>	<u>(432)</u>	7.6
Total client loans and advances, net	<u>5,136</u>	<u>4,795</u>	7.1
Securities			
Trading securities	1,341	1,270	5.6
Investment securities available for sale	1,202	1,174	2.4
Investment securities held to maturity	<u>8</u>	<u>7</u>	14.3
Total securities	<u>2,551</u>	<u>2,451</u>	4.1
Premises and equipment	275	262	5.0
Other assets			
Accrued interest income	83	75	10.7
Deferred tax asset	86	83	3.6
Other	<u>320</u>	<u>255</u>	25.5
Total other assets	<u>489</u>	<u>413</u>	18.4
Total assets	<u>11,787</u>	<u>11,228</u>	5.0

(1) Unaudited

As of March 31, 2004, the Group had total assets of U.S.\$11,787 million, compared to total assets of U.S.\$11,228 million as of December 31, 2003. The increase in total assets of 5.0% in the first quarter of 2004 was primarily due to a 7.1% increase in net loans and advances to clients of U.S.\$341 million, a 4.1% increase in securities of U.S.\$100 million, and a 18.4% increase in other assets of U.S.\$76 million.

Cash and Due from other Banks, net. Cash and due from other banks, net, overall comprised U.S.\$3,336 million as of March 31, 2004 compared to U.S.\$3,307 million as of December 31, 2003.

The decrease in cash and short-term funds by 51.3% to U.S.\$502 million as of March 31, 2004 from U.S.\$1,030 million as of December 31, 2003 was primarily caused by a reduction of balances (other than mandatory balances) placed on accounts with the CBR and correspondent accounts with Russian banks. As of December 31, 2003 the Group had significant short-term funds placed on accounts with CBR and correspondent accounts with Russian banks. In the first quarter of 2004, the Group used these funds in interbank term placements and loans and advances to clients.

The Group uses term placements with other banks, mostly Western banks, as a liquidity and market risk management tool and, to a lesser degree, as a source of relatively low-risk income. The Group's foreign subsidiary banks also place funds with other banks as collateral for loans granted by such banks. The term placements with other banks increased by 26.9% to U.S.\$2,560 million as of March 31, 2004 from U.S.\$2,017 million as of December 31, 2003. This increase was due to a growth in VTB's interbank placements of U.S.\$1,062 million, partially offset by a decrease of interbank placements made by the Group's foreign subsidiary banks in the amount of U.S.\$430 million. The primary reason for the decrease in interbank placements by foreign subsidiary banks was a reduction in funds placed with other banks as collateral for loans granted to clients by such banks, amounting to U.S.\$254 million. The increase in VTB's term placements with other banks was primarily due to VTB attracting additional funds from the issue Series 2 Notes under the Programme, amounting to U.S.\$250 million, which were initially placed with other banks, as well as placement of short-term funds on the interbank market.

Client Loans and Advances, net. Client loans and advances, net, increased by 7.1% to U.S.\$5,136 million as of March 31, 2004 from U.S.\$4,795 million as of December 31, 2003. As a result, the percentage of net loans and advances to clients in the Group's total assets grew from 42.7% as of December 31, 2003 to 43.6% as of March 31, 2004. The growth in client loans and advances, net, in the first quarter of 2004 was primarily due to an increase of loans and advances to clients made by VTB of U.S.\$408 million, primarily comprised of new loans made by VTB's branches to existing clients. This increase was partially offset by a decrease in the loans and advances to clients made by RCB-Cyprus by U.S.\$67 million, as its clients repaid loans of U.S.\$82 million pursuant to their terms, whilst RCB-Cyprus made new loans amounting to U.S.\$15 million.

The following table sets out the composition of the Group's loan portfolio (excluding interbank loans) as of March 31, 2004 and December 31, 2003.

	As of March 31, 2004⁽¹⁾	As of December 31, 2003
	<i>(millions of U.S. dollars)</i>	
Current loans and advances	5,286 ⁽²⁾	4,925 ⁽³⁾
Rescheduled loans and advances ⁽⁴⁾	84	100
Overdue loans and advances ⁽⁵⁾	231	202
Less: Allowance for loan impairment	(465)	(432)
Total loans and advances to clients	5,136	4,795

(1) Unaudited

(2) Includes lease receivables amounting to U.S.\$10 million.

(3) Includes lease receivables amounting to U.S.\$9 million.

(4) Loans and advances where payment terms have been restructured.

(5) Loans and advances where repayment is overdue.

The following table sets out the composition of Group's loans to banks as of March 31, 2004 and December 31, 2003.

	As of March 31, 2004⁽¹⁾	As of December 31, 2003
	<i>(millions of U.S. dollars)</i>	
Current term placements with other banks	1,825	1,792
Reverse sale and repurchase agreements with other banks	614	112
Overdue placements with other banks ⁽²⁾	121	113
Less: Allowance for loan impairment	(131)	(122)
Total due from other banks	2,429	1,895

(1) Unaudited

(2) Loans and advances where repayment is overdue.

As of March 31, 2004, the Group had 18 borrowers (excluding interbank loans and off-balance sheet credit related commitments) with aggregate loan amounts above U.S.\$50 million. These loans amounted to U.S.\$2,204 million, or 39.4% of the gross loan portfolio. The single largest borrower was a state-owned ship builder with total loan exposure amounting to U.S.\$355 million, or 6.4% of the gross loan portfolio. As of December 31, 2003, the Group had 20 borrowers (excluding interbank loans and off-balance sheet credit related commitments) with aggregated loan amounts above U.S.\$50 million. These loans amounted to U.S.\$2.2 billion, or 43% of the gross loan portfolio. The single largest borrower was a state-owned ship builder with total loan exposure amounting to U.S.\$322 million, or 6% of the gross loan portfolio. Loans to this borrower have maturity dates from March 2005 to March 2006 and a fixed interest rate of 8.4% per annum.

The following table sets out economic sector risk concentrations within the Group's gross loan portfolio (excluding interbank loans and off-balance sheet credit related commitments) as of March 31, 2004 and December 31, 2003.

	March 31, 2004⁽¹⁾		December 31, 2003	
	<i>(millions of U.S dollars)</i>	<i>(%)</i>	<i>(millions of U.S dollars)</i>	<i>(%)</i>
Manufacturing ⁽²⁾	1,920	34	1,958	37
Trade and commerce.....	853	15	764	15
Finance	616	11	530	10
Energy.....	509	9	506	10
Transport.....	253	5	158	3
Food and Agriculture	230	4	205	4
Chemical	226	4	201	4
Construction.....	219	4	216	4
Government bodies.....	199	4	128	2
Telecommunications and media	190	3	161	3
Mining.....	134	2	185	4
Fishing.....	108	2	109	2
Other	144	3	106	2
Total loans and advances to clients	5,601	100	5,227	100

(1) Unaudited.

(2) The majority of the loans to the manufacturing sector are loans to Russian state-owned producers of civilian as well as military equipment.

The following table sets out the Group's net loan portfolio (excluding interbank loans and off-balance sheet credit related commitments) by maturity as of March 31, 2004 and December 31, 2003.

	March 31, 2004⁽¹⁾		December 31, 2003	
	<i>(millions of U.S dollars)</i>	<i>(%)</i>	<i>(millions of U.S dollars)</i>	<i>(%)</i>
On demand and less than one month	298	6	515	11
One to six months.....	1,335	26	1,393	29
Six to 12 months	1,524	30	1,200	25
More than one year.....	1,397	27	1,613	34
Overdue/no stated maturity.....	582	11	74	1
Total⁽²⁾	5,136	100	4,795	100

(1) Unaudited

(2) Net of allowances for loan impairment.

Short-term loans predominate in the Group's loan portfolio, as is customary in the Russian domestic lending market. The Group expects that as it implements its strategy of increasing corporate and retail lending volume and as the Russian economy becomes more stable, the "more than one year" category will experience growth.

The following table sets out the Group's net loan portfolio (excluding interbank loans and off-balance sheet credit related commitments) by currency as of March 31, 2004 and December 31, 2003.

	March 31, 2004⁽¹⁾		December 31, 2003	
	<i>(millions of U.S. dollars)</i>	<i>(%)</i>	<i>(millions of U.S. dollars)</i>	<i>(%)</i>
RUR ⁽²⁾	1,957	38	1,697	35
U.S. dollars ⁽²⁾	3,003	59	2,925	61
Other currencies ⁽²⁾	176	3	173	4
Total loans and advances to clients, net⁽²⁾	5,136	100	4,795	100

(1) Unaudited

(2) Net of allowances for loan impairment.

The following table sets out, on a consolidated basis, certain loan ratios of the Group as of March 31, 2004 and December 31, 2003.

	March 31, 2004⁽¹⁾	December 31, 2003
Loans to clients ⁽²⁾ as % of total assets	43.6%	42.7%
Loans to clients ⁽²⁾ as % of client deposits	132.2%	112.6%
Loans to clients ⁽²⁾ as % of total equity	209.7%	202.1%

(1) Unaudited

(2) Net of allowance for loan impairment.

Allowance for Loan Impairment. The following table sets out certain information relating to the Group's allowance for loan impairment for both client and interbank portfolios as of March 31, 2004 and December 31, 2003.

	As of March 31, 2004⁽¹⁾	As of December 31, 2003	Change from Prior Period
	<i>(millions of U.S. dollars)</i>		<i>(%)</i>
Loans and advances to clients			
Current loans and advances	5,286	4,925	7.3
Rescheduled loans and advances	84	100	(16.0)
Overdue loans and advances	231	202	14.4
Total loans and advances to clients	5,601	5,227	7.2
Less: Allowance for loan impairment	(465)	(432)	7.6
Total	5,136	4,795	7.1
Allowance for loan impairment/Total client loans and advances	8.3%	8.3%	—
Allowance for loan impairment/Overdue and rescheduled client loans and advances	147.6%	143.0%	3.2
Overdue and rescheduled client loans/Total client loans and advances	5.6%	5.8%	(3.4)

	As of March 31, 2004⁽¹⁾	As of December 31, 2003	Change from Prior Period
	<i>(millions of U.S. dollars)</i>		<i>(%)</i>
Due from other banks			
Current term placements with other banks.....	1,825	1,792	1.8
Reverse sale and repurchase agreements with other banks.....	614	112	448.2
Overdue placements with other banks.....	121	113	7.1
Total due from other banks.....	<u>2,560</u>	<u>2,017</u>	26.9
Less: Allowance for loan impairment	<u>(131)</u>	<u>(122)</u>	7.4
Total.....	<u>2,429</u>	<u>1,895</u>	28.2
Allowance for loan impairment/Total term placements with other banks.....	5.1%	6.0%	(15.0)
Allowance for loan impairment/Overdue placements with other banks.....	108.3%	108.0%	0.3
Overdue placements with other banks/Total term placements with other banks	4.7%	5.6%	(16.1)

(1) Unaudited

As noted above, the allowance for loan impairment as a percentage of total client loans and advances as of March 31, 2004 remained at the same level as of December 31, 2003 of 8.3%, reflecting the stable quality of the Group's loan portfolio. The allowance for loan impairment as a percentage of total amounts due from other banks has further decreased to 5.1% as of March 31, 2004 from 6% as of December 31, 2003, reflecting the overall improvement in the quality of the Group's interbank portfolio.

Securities. The following table sets out information relating to the Group's securities portfolios as of March 31, 2004 and December 31, 2003. See "– Critical Accounting Policies" for definitions of the carrying value of the Group's securities.

	As of March 31, 2004⁽¹⁾		As of December 31, 2003	
	<i>(millions of U.S. dollars)</i>	<i>% of VTB's shareholders' equity</i>	<i>(millions of U.S. dollars)</i>	<i>% of VTB's shareholders' equity</i>
Trading securities				
MinFin bonds	228	9.3	500	21.1
Russian corporate eurobonds	220	9.0	105	4.4
Bills of exchange and debentures	543	22.2	487	20.5
Federal loan bonds.....	192	7.9	92	3.9
Securities issued by foreign governments.....	3	0.1	3	0.1
Other.....	155	6.3	83	3.5
Total trading securities.....	<u>1,341</u>	<u>54.8</u>	<u>1,270</u>	<u>53.5</u>
Available for sale securities				
Debt securities				
Eurobonds of Russian Federation	435	17.8	483	20.4
MinFin bonds	83	3.4	100	4.2
Bills of exchange of Russian companies and banks.....	129	5.2	22	0.9
Bonds of Russian companies and banks.....	213	8.7	213	9.0
State bonds of foreign countries	65	2.7	122	5.1
Bonds of foreign companies and banks	79	3.2	58	2.4
Other.....	21	0.9	21	0.9

	As of March 31, 2004⁽¹⁾		As of December 31, 2003	
	<i>(millions of U.S. dollars)</i>	<i>% of VTB's shareholders' equity</i>	<i>(millions of U.S. dollars)</i>	<i>% of VTB's shareholders' equity</i>
Equity securities				
Corporate shares.	108	4.4	104	4.4
Other.	69	2.8	51	2.2
Total available for sale securities.	1,202	49.1	1,174	49.5
Investment securities held to maturity.	8	0.3	7	0.3
Total securities.	2,551	104.2	2,451	103.3

(1) Unaudited

Securities increased by 4.1% to U.S.\$2,551 million as of March 31, 2004 from U.S.\$2,451 million as of December 31, 2003. The share of the securities portfolio in the Group's total assets comprised 21.6% and 21.8% of the total assets as of March 31, 2004 and December 31, 2003, respectively.

At March 31, 2004, Russian government debt securities, including eurobonds of the Russian Federation, MinFin bonds and Federal loan bonds, represented 36.9% of the Group's securities portfolio. Russian government debt securities decreased from 48.1% of the Group's securities portfolio as of December 31, 2003 to 36.9% as of March 31, 2004 due to the Group's purchase of bills of exchange of Russian companies and banks of U.S.\$150 million, issued primarily by Russian banks, large companies in the manufacturing, telecommunications and oil and gas sectors, and local authorities, as well as its purchase of corporate bonds of Russian companies and banks of U.S.\$109 million, reflecting continued diversification of the Group's securities portfolio. Approximately 69% of the securities purchased in the first quarter of 2004 were rouble-denominated, reflecting the shift in VTB's investment strategy to rouble-denominated assets. See "Business – Banking Services and Activities – Proprietary Activities."

The Group believes that despite the fact that the majority of its securities portfolio matures after one year in accordance with the terms of issue, the majority of these securities are freely tradable on the market and represent a hedge against potential liquidity risks. See "Risk Management – Liquidity Risk." As such, the Group views the maturity of these securities as being "on demand and less than one month."

Other Assets. Other assets increased by 18.4% to U.S.\$489 million as of March 31, 2004 from U.S.\$413 million as of December 31, 2003. Other assets include primarily accrued interest receivable, trade debts and prepayments, unsettled transactions, prepaid taxes, loans for sale, goodwill, and positive fair value balances arising from derivative financial instruments. The increase in the first quarter of 2004 was primarily due to the increase in assets of VTB's Russian non-banking subsidiaries, which was largely caused by a growth in inventory balances of U.S.\$80 million in OJSC Trading House VTB, a company engaged primarily in commodities trading, as well as an increase of U.S.\$8 million in accrued interest income due to overall growth of the Group's interest-bearing assets. These increases were partially reduced by an offset of the Group's income tax prepayments against current tax liabilities.

Total Liabilities

The following table sets out the Group's liabilities as of March 31, 2004 and December 31, 2003:

	As of March 31, 2004 ⁽¹⁾	As of December 31, 2003	Change
	(millions of U.S. dollars)		(%)
Due to other banks			
Correspondent accounts and overnight deposits .	438	512	(14.5)
Sale and repurchase agreements with banks.	331	503	(34.2)
Term loans and deposits.	863	797	8.3
Total due to other banks	1,632	1,812	(9.9)
Client accounts			
State and public organisations.	221	174	27.0
Other legal entities	2,523	3,106	(18.8)
Individuals.	1,141	979	16.5
Total client accounts	3,885	4,259	(8.8)
Other borrowed funds			
Syndicated loans	558	560	(0.4)
Revolving credit lines	154	147	4.8
Total other borrowed funds.	712	707	0.7
Debt securities in issue			
Promissory notes	1,768	1,154	53.2
Eurobonds issued.	536	298	79.9
Debentures and deposit certificates	471	286	64.7
Total debt securities in issue	2,775	1,738	59.7
Other liabilities			
Deferred tax liability.	12	12	0
Accrued interest expense	52	45	15.6
Other	165	177	(6.8)
Total other liabilities.	229	234	(2.1)
Total liabilities	9,233	8,750	5.5

(1) Unaudited

The Group's liabilities grew by 5.5% to U.S.\$9,233 million during the three-month period ended March 31, 2004 from U.S.\$8,750 million as of December 31, 2003. The increase in total liabilities was primarily due to a 59.7% increase in debt securities in issue from U.S.\$1,738 million as of December 31, 2003 to U.S.\$2,775 million as of March 31, 2004, which was partially offset by a 9.9% decrease in due to banks from U.S.\$1,812 million as of December 31, 2003 to U.S.\$1,632 million as of March 31, 2004 and by a 8.8% decrease in client accounts for the same period from U.S.\$4,259 million as of December 31, 2003 to U.S.\$3,885 million as of March 31, 2004.

Due to Other Banks. Due to other banks decreased by 9.9% to U.S.\$1,632 million as of March 31, 2004 from U.S.\$1,812 million as of December 31, 2003. This decline was primarily caused by a decrease of U.S.\$250 million in funds due to banks of the Group's foreign subsidiaries due to repayment of collateralised deposits and reduction of securities sold under agreements to repurchase during the three-month period ended March 31, 2004, which was partially offset by an increase of U.S.\$66 million in term interbank deposits placed with VTB.

Client Accounts. Client accounts decreased by 8.8% to U.S.\$3,885 million as of March 31, 2004 from U.S.\$4,259 million as of December 31, 2003. This decrease was due to repayment in accordance with their terms of three short-term client deposits, together amounting to approximately U.S.\$410 million.

The following table sets out the Group's client accounts by maturity as of March 31, 2004 and December 31, 2003.

	March 31, 2004⁽¹⁾		December 31, 2003	
	<i>(millions of U.S dollars)</i>	<i>(%)</i>	<i>(millions of U.S dollars)</i>	<i>(%)</i>
On demand and less than one month ⁽²⁾	2,353	61	2,830	66
One to six months ⁽³⁾	994	26	878	21
Six to 12 months ⁽³⁾	329	8	361	8
More than one year ⁽³⁾	209	5	190	5
Overdue/no stated maturity	— ⁽⁴⁾	—	— ⁽³⁾	—
Total	3,885	100	4,259	100

(1) Unaudited

(2) The Group believes that although a substantial portion of client deposits are on demand and less than one month, diversification of these deposits by number and type of depositors and the Group's past experience indicate that these deposits provide a long-term and stable source of funding for the Group.

(3) According to Russian legislation depositors are allowed to withdraw their term deposits prior to maturity without penalties and earn interest rates applicable to demand deposits for the period prior to withdrawal.

(4) Dashes indicate where the Group had no accounts with the relevant maturity as of the applicable date.

Debt Securities in Issue. Debt securities in issue increased by 59.7% to U.S.\$2,775 million as of March 31, 2004 from U.S.\$1,738 million as of December 31, 2003. Debt securities include promissory notes, deposit certificates, rouble-denominated bonds, and other debentures issued predominantly in the domestic markets and eurobonds issued in the international markets. The Group uses debt securities as additional instruments to maintain its liquidity as well as to obtain long-term funding. The growth was predominantly attributable to the issuance of rouble-denominated short-term promissory notes amounting to U.S.\$606 million, which comprised 58.4% of the total increase. Such instruments are highly liquid and are actively used by VTB's clients to execute various settlements as well as to generate stable interest income. In the first quarter of 2004, the Group also issued U.S.\$176 million of rouble-denominated domestic bonds and U.S.\$250 million of Series 2 Notes under the Programme. Additional funds obtained by the Group in the first quarter of 2004 were used primarily for loans to clients and on the securities and interbank markets.

Selected Statistical Information for the Years ended December 31, 2003, 2002 and 2001.

Average Balance Sheet and Interest Rate Data

The following table sets forth the consolidated average balances of assets and liabilities of the Group for the periods indicated and, for interest earning assets and interest bearing liabilities, sets forth the amount of interest income or expense and the average rate of such interest for such assets and liabilities. For the purposes of this table, the consolidated average balances of assets and liabilities represent the average of the opening, mid-year, and closing balances for each year. The results of this analysis would likely be different if alternative averaging balance methods were used.

The Group's balance sheet grew significantly in the last eight months of 2003 due to the increase in funding sources, which was primarily attributable to VTB's focus shifting away from proprietary trading to banking activities such as deposit taking and lending.

	For the year ended December 31,								
	2003			2002			2001		
	Average Balance	Interest Income/Expense	Average Rate	Average Balance	Interest Income/Expense	Average Rate	Average Balance	Interest Income/Expense	Average Rate
(millions of U.S. dollars, except percentages)									
Assets									
Interest earning assets									
Due from banks ^{(1) (2)}	2,335	72	3.1%	1,549	39	2.5%	1,441	59	4.1%
Loans and advances to clients ^{(1) (2)}	4,281	454	10.6%	2,991	334	11.2%	1,733	172	9.9%
Securities ⁽³⁾	1,956	139	7.1%	1,821	157	8.6%	2,087	206	9.9%
Total interest-earning assets	8,572	665	7.8%	6,361	530	8.3%	5,261	437	8.3%
Non-interest earning assets									
Cash on hand	116			94			86		
Mandatory cash balances with local central banks	303			177			158		
Allowances for losses	(530)			(526)			(456)		
Equity investments and equity securities	164			81			34		
Premises and equipment	213			123			113		
Accrued interest income and other assets	236			200			222		
Deferred tax asset	28			—			—		
Total average assets	9,102			6,510			5,418		
Liabilities and Shareholders' Equity									
Interest bearing liabilities									
Due to banks and other borrowed funds ⁽⁴⁾	2,099	70	3.3%	1,806	43	2.4%	1,527	74	4.8%
Client accounts	3,235	154	4.8%	2,115	108	5.1%	1,572	46	2.9%
Debt securities in issue	1,179	121	10.3%	389	31	8.0%	373	29	7.8%
Total interest bearing liabilities	6,513	345	5.3%	4,310	182	4.2%	3,472	149	4.3%
Accrued interest expense and other liabilities	240			93			84		
Deferred tax liability	24			60			80		
Minority interest	90			66			73		
Shareholders' equity	2,235			1,981			1,709		
Total average liabilities and shareholders' equity	9,102			6,510			5,418		
Net interest spread ⁽⁵⁾			2.5%			4.1%			4.0%
Net interest income		320			348			288	
Net interest margin ⁽⁶⁾			3.7%			5.5%			5.5%

(1) Prior to deducting allowance for impairment and present value discounts.

(2) Includes loans and placements on which contractual interest was not accrued.

(3) Excludes equity securities and equity investments in non-subsidiary banks and companies, as these securities and investments are not interest-earning.

(4) Includes CBR deposits.

- (5) The difference between the average annual interest rate on interest-earning assets and the average annual interest rate on interest bearing liabilities. Average rate on interest-earning assets was calculated as total interest income divided by interest-earning assets representing the average of the opening, mid-year and closing balances for the respective year. Average rate on interest-bearing liabilities was calculated as total interest expense divided by interest-bearing liabilities representing the average of the opening, mid-year and closing balances for the respective year.
- (6) Net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets representing the average of the opening, mid-year and closing balances for the respective year.

Net Changes in Interest Income and Expense – Volume and Rate Analysis

The following table provides a comparative analysis of net changes in interest income and expense by reference to changes in average volume and rates for the periods indicated. Net changes in net interest income are attributed to either changes in average balances (volume change) or change in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as the change in volume multiplied by the previous rate, whilst rate change is the change in rate multiplied by the previous volume. The rate/volume change (change in rate multiplied by change in volume) is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total. Average balances represent the average of the opening, mid-year and closing balances for the respective year.

	For the year ended December 31,					
	2003/2002			2002/2001		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	<i>(millions of U.S. dollars)</i>					
Interest Income						
Due from banks	23	10	33	4	(24)	(20)
Loans and advances to clients	138	(18)	120	138	24	162
Securities	11	(29)	(18)	(25)	(24)	(49)
Total interest income	172	(37)	135	117	(24)	93
Interest Expense						
Due to banks and other borrowed funds	5	22	27	12	(43)	(31)
Client accounts	54	(8)	46	20	42	62
Debt securities in issue	79	11	90	1	1	2
Total interest expense	138	25	163	33	–	33
Net change in net interest income....	34	(62)	(28)	84	(24)	60

Results of Operations for the Years ended December 31, 2003, 2002, and 2001

Summary

The following table sets forth the principal components of the Group's net profit for the periods indicated:

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
Net interest income	320	348	288	(8.0)	20.8
(Provision for)/reversal of loan impairment	(78)	36	(207)	(316.7)	(117.4)
Non-interest income after (provision for)/reversal of loan impairment					
Gains less losses from trading securities and securities available for sale	210	204	436	2.9	(53.2)
Fee and commission income (net) ..	68	38	31	78.9	22.6
Gains less losses from dealing in foreign currencies	34	17	15	100.0	13.3
Gains less losses from derivative financial instruments	24	7	86	242.9	(91.9)
Foreign exchange translation gains less losses	22	(23)	(17)	(195.7)	35.3
Other operating income (net)	61	20	23	205.0	(13.0)
Operating expenses	(391)	(263)	(159)	48.7	65.4
Profit before income taxes	270	384	496	(29.7)	(22.6)
Income tax benefit (expense)	17	(106)	(170)	(116.0)	(37.6)
Profit after income taxes	287	278	326	3.2	(14.7)
Minority interest	(23)	(17)	(16)	35.3	6.3
Net profit	264	261	310	1.1	(15.8)

The Group's net profit grew to U.S.\$264 million in 2003 from U.S.\$261 million in 2002, which, in turn, represented a decline from U.S.\$310 million in 2001. The Group's profit before income taxes declined to U.S.\$270 million in 2003 from U.S.\$384 million in 2002, which, in turn, was a decline from U.S.\$496 million in 2001.

The decrease in profit before income taxes in 2003 compared to 2002 was caused by a decline in net interest income, a continuing increase in operating expenses caused by the expansion of the Group's business, and a larger provision for loan impairment resulting from the growth of the Group's loan portfolio. This decline was partially offset by growth in fee and commission income, gains from dealing in foreign currencies and derivative financial instruments, gains from foreign exchange translation and an increase in other operating income. In 2003, the Group recognised a deferred tax asset primarily relating to previously unrecorded tax losses carried forward at one of the foreign banks. Such deferred tax asset resulted in an income tax benefit of U.S.\$17 million, which resulted in increase of the Group's net profit in 2003 versus 2002. See "– Income Tax Benefit (Expense)."

The decrease in net profit and profit before income taxes for 2002 compared to 2001 was caused by a sharp reduction in gains from securities operations, non-recurrence of income from a non-recurring derivative transaction with VTB's then-shareholder, the CBR, and an increase in other operating expenses. This reduction was partially offset by the growth in net interest income.

VTB's foreign subsidiary banks located in Europe continued to play an increasing role in the Group's operations. The profit before income taxes generated by the foreign banks located in Europe grew to U.S.\$114 million or 42.2% of the Group's profit before income taxes in 2003 from U.S.\$96 million or 25.0% of the Group's profit before income taxes in 2002. This increase in the portion of the Group's profit before income taxes attributable to foreign banks was mainly due to the impact on the Group's profitability in

Russia of the significant costs incurred by VTB in developing its banking business. In 2001, the profit before income taxes of foreign banks was U.S.\$86 million or 17.3% of the Group's profit before income taxes. These banks hold significant proprietary trading portfolios (27.9% of the total securities held by the Group as of December 31, 2003) and, as a result, their assets are susceptible to market risks. See "Risk Management – Market Risks." They do not generate significant interest income and are thus less affected by interest rate fluctuations.

In 2003, the Group's return on average shareholders' equity was 11.8% compared to 13.2% in 2002 and 18.1% in 2001. These figures were calculated by dividing the Group's net income by its average shareholders' equity. The Group's average shareholders' equity was calculated as a simple average of its shareholders' equity as of January 1, June 30 and December 31 of the relevant year.

Interest Income, Interest Expense, Net Interest Income, and Provision for Loan Impairment

The following table sets out the principal components of the Group's net interest income and average interest earning assets, calculated as the average of the opening, mid-year and closing balances for the year, for the years ended December 31, 2003, 2002 and 2001.

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
Interest income					
Due from other banks	72	39	59	84.6	(33.9)
Loans and advances to clients	454	334	172	35.9	94.2
Securities	139	157	206	(11.5)	(23.8)
Total interest income	665	530	437	25.5	21.3
Interest expense	(345)	(182)	(149)	89.6	22.1
Net interest income before (provision for)/release of provision for loan impairment	320	348	288	(8.0)	20.8
(Provision for)/release of provision for loan impairment	(78)	36	(207)	(316.7)	(117.4)
Net interest income after (provision for) release of provision for loan impairment	242	384	81	(37.0)	374.1
Average interest-earning assets					
Due from other banks	2,335	1,549	1,441	50.7	7.5
Loans and advances to clients	4,281	2,991	1,733	43.1	72.6
Securities	1,956	1,821	2,087	7.4	(12.7)
Total	8,572	6,361	5,261	34.8	20.9

Interest Income

Interest income increased by 25.5% to U.S.\$665 million in 2003 from U.S.\$530 million in 2002, reflecting an increase in average balances of loans and advances and other interest-earning assets of 34.8% in 2003 to U.S.\$8,572 million from U.S.\$6,361 million in 2002. The positive effect on interest income attributable to this increase was offset, in part, by a decrease in the average annual rates on interest-earning assets to 7.8% in 2003 from 8.3% in 2002. Interest income in 2002 increased by 21.3% to U.S.\$530 million from U.S.\$437 million in 2001. The increase in interest income in 2002 over 2001 was a result of the U.S.\$1,100 million increase in average interest-earning assets during the year, although this was also partially offset by a decline in average annual yields.

Interest earned on bank deposits increased by 84.6% to U.S.\$72 million in 2003 from U.S.\$39 million in 2002, which, in turn, was a 33.9% decrease from U.S.\$59 million in 2001. The increase in 2003 was largely attributable to larger cash amounts being placed with banks on a term basis. The average annual yield on

amounts due from banks also grew from 2.5% in 2002 to 3.1% in 2003, as the Group increased the volume of its medium- and long-term placements with other banks. The decrease in interest earned on bank deposits in 2002 was attributable to a decline in average annual rates to 2.5% from 4.1% in 2001. This decline was caused by a significant decrease in interest rates on rouble-denominated placements with banks, primarily attributable to stabilisation of the exchange rate of the rouble against major foreign currencies and continuing reduction in inflation. This decline was partially offset by higher average balances maintained with banks during the year.

Interest income on loans and advances to clients grew by 35.9% in 2003 to U.S.\$454 million from U.S.\$334 million in 2002. Average balances of loans and advances increased by 43.1% to U.S.\$4,281 million in 2003 from U.S.\$2,991 million in 2002. The increase in the loan portfolio reflected the continuing shift in the Group's primary activities from proprietary securities trading to servicing clients through deposit taking and lending, as well as the continued improvement in the Russian economy which led to the growth of businesses requiring funding for operational expansion. The increase in interest income attributable to the increase in average balances during the period was partially offset by the decline in average annual interest rates earned on loans and advances to 10.6% in 2003 from 11.2% in 2002. This was largely attributable to the general decline in interest rates caused by competition among domestic and foreign banks operating in Russia, as well as excess liquidity in the Russian financial markets.

Interest income on loans and advances to clients grew by 94.2% in 2002 to U.S.\$334 million from U.S.\$172 million in 2001. Average balances of loans and advances increased by 72.6% to U.S.\$2,991 million in 2002 from U.S.\$ 1,733 million in 2001. As in the more recent period, the increase in the loan portfolio was also largely attributable to the shift of the Group's primary activities from proprietary securities trading to servicing clients through deposit taking and lending, as well as the growth resulting from the favourable business environment in Russia and the transfer of commercial loans amounting to approximately U.S.\$300 million from VEB to VTB. See "Business – History." The increase in interest income was complemented by the growth in average annual rates earned on loans and advances during the period to 11.2% in 2002 from 9.9% in 2001. The increase in average annual yield was largely attributable to the growth of RUR-denominated loans that carried a higher interest rate, compared to U.S. dollar-denominated loans.

Interest income on the Group's securities portfolio which historically has primarily consisted of interest earned on Russian government debt securities decreased by 11.5% to U.S.\$139 million in 2003 from U.S.\$157 million in 2002, which, in turn, represented a decrease of 23.8% from U.S.\$206 million in 2001. As noted above, in 2002 and 2003 the Group shifted its primary activities from proprietary securities trading to servicing clients through deposit taking and lending, which resulted in the reduction of investments in securities from 36.2% of total assets as of December 31, 2001 to 25.9% and 21.8% as of December 31, 2002 and 2003, respectively. However, the Group's average securities portfolio, which was calculated as the average of opening, mid-year and closing balances for each respective year, remained relatively stable, amounting to U.S.\$1,956 million in 2003, compared to U.S.\$1,821 million in 2002 and U.S.\$2,087 million in 2001. The decline in interest income earned on the Group's securities portfolio was attributable to a gradual sale of a significant portion of the high-yield Russian Federation Eurobonds which amounted to U.S.\$1,517 million, U.S.\$756 million and U.S.\$483 million as of December 31, 2001, 2002 and 2003, respectively. As of December 31, 2003, the value of the debt securities portfolio held by VTB's foreign subsidiary banks was U.S.\$684 million or 30.5% of the Group's debt securities portfolio.

The following table sets out certain information on average securities portfolio balances, including equity securities, calculated as the average of the opening, mid-year and closing balances for the year, for the years ended December 31, 2003, 2002 and 2001.

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
Trading securities					
MinFin bonds	472	210	107	124.8	96.3
Bills of exchange and debentures	252	72	52	250.0	38.5
Russian corporate bonds.....	112	69	7	62.3	885.7
Russian federal loan bonds.....	82	43	84	90.7	(48.8)
Securities issued by foreign governments	20	44	40	(54.5)	10.0
Other ⁽¹⁾	75	58	52	29.3	11.5
Total trading securities	1,013	496	342	104.2	45.0
Investment securities available for sale					
Eurobonds of the Russian Federation	559	1,036	1,394	(46.0)	(25.7)
MinFin bonds	130	306	357	(57.5)	(14.3)
Bonds of Russian companies and banks	128	— ⁽²⁾	—	n/a ⁽³⁾	n/a
State bonds of foreign countries	58	—	—	n/a	n/a
Bonds of foreign companies and banks	19	—	—	n/a	n/a
Bills of exchange of Russian companies and banks.....	64	—	—	n/a	n/a
Equity securities	125	63	28	98.4	125.0
Other	18	1	—	1700.0	n/a
Total investment securities available for sale	1,101	1,406	1,779	(21.7)	(21.0)
Total securities	2,114	1,902	2,121	11.1	(10.3)

(1) Includes equity securities

(2) Dashes indicate that the Group had no relevant securities in its securities portfolio during the applicable year.

(3) Not applicable.

The Group views investments in securities as a way of maintaining its liquidity position and generally a lower-risk asset than loans. Average annual interest rates earned on the debt investment securities portfolio for 2003, 2002, and 2001 were 7.1%, 8.6%, and 9.9%, respectively. The decline in average annual interest rates reflected the general trend of declining annual interest rates in the Russian financial markets during the periods under review.

Interest Expense

The following table sets out certain information relating to the Group's interest expense and average interest-bearing liabilities, calculated as the average of the opening, mid-year and closing balances for the year, for the years ended December 31, 2003, 2002 and 2001.

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	(millions of U.S. dollars)			(%)	
Interest expense					
Due to banks and other borrowed funds	(70)	(43)	(74)	62.8	(41.9)
Client accounts	(154)	(108)	(46)	42.6	134.8
Debt securities in issue	(121)	(31)	(29)	290.3	6.9
Total interest expense	(345)	(182)	(149)	89.6	22.1
Average interest-bearing liabilities					
Due to banks and other borrowed funds ⁽¹⁾	2,099	1,806	1,527	16.2	18.3
Client accounts	3,235	2,115	1,572	53.0	34.5
Debt securities in issue	1,179	389	373	203.1	4.3
Total average interest-bearing liabilities	6,513	4,310	3,472	51.1	24.1

(1) Includes CBR deposits.

Interest expense increased by 89.6% in 2003 to U.S.\$345 million from U.S.\$182 million in 2002, which, in turn, represented a 22.1% increase from U.S.\$149 million in 2001. Prior to 2003, the Group's funding sources primarily consisted of short-term deposits by Russian banks and legal entities, including the CBR, as well as domestic debt securities, and promissory notes. Since 2002, borrowing conditions for Russian borrowers in the international markets have become more favourable and, in an effort to lengthen and diversify its liability profile, the Group accessed the international capital markets which, due to higher borrowing costs, was the principal cause of the increase in interest expense during the period.

As noted above, beginning in 2002, the rate of inflation in Russia has declined significantly, the rouble has strengthened against the U.S. dollar and the Russian demand for rouble-denominated loans has increased. As a result, VTB began increasing the share of rouble-denominated funding in its liabilities. The cost of rouble-denominated domestic funding has been higher than the cost of U.S. dollar-denominated domestic funding, and this has also contributed to the increase in interest expense. In addition, VTB no longer receives short-term funding from its former majority shareholder, the CBR (CBR deposits bore annual interest rates ranging from 2.0% to 4.0% as of December 31, 2002 and 2001), and has obtained funding elsewhere at a higher cost. A significant increase in the number of the Group's depositors and in the number and the volume of deposit accounts during 2003 also led to an increase in interest expense. The increase in interest expense was, however, partially offset by a reduction in average rates paid on interbank borrowings.

Interest on amounts due to banks and other borrowed funds increased by 62.8% in 2003 to U.S.\$70 million from U.S.\$43 million, which, in turn, represented a decrease of 41.9% from U.S.\$74 million in 2001. The increase of interest expense paid on such funds in 2003 was mainly attributable to the growth of 16.2% in the average balances of amounts due to banks and other borrowed funds outstanding in 2003 compared to 2002 and an increase of 90 basis points in the cost of these funds. The 41.9%, or U.S.\$31 million decrease in interest expense paid on amounts due to banks and other borrowed funds in 2002 from 2001 was attributable to a decline in average annual interest rates payable on these funds from 4.8% in 2001 to 2.4% in 2002 which resulted from a significant reduction in interest rates on rouble-denominated deposits attracted by the Group, as well as from an overall reduction in the cost of funds in the international interbank markets. This decline was offset by an increase in average annual balances of amounts due to banks and other borrowed funds from U.S.\$1,527 million in 2001 to U.S.\$1,806 million in 2002.

Average interest-bearing client accounts, both corporate and retail, increased by 53.0% in 2003 to U.S.\$3,235 million from U.S.\$2,115 million in 2002. Average interest-bearing client accounts increased by 34.5% in 2002 from U.S.\$1,572 million in 2001. The increase in average interest-bearing client accounts resulted in a corresponding increase of interest expense paid on client accounts from U.S.\$46 million in 2001 to U.S.\$108 million and U.S.\$154 million in 2002 and 2003, respectively. The increase in client accounts, including interest-bearing term deposits for both years, was attributable to the improved conditions in the Russian economy, the expansion of VTB's branch network and the general growth in client confidence in Russia's larger banks. The average annual interest rates paid on interest-bearing client accounts for 2003, 2002, and 2001 were 4.8%, 5.1% and 2.9%, respectively. The increase in average interest rates paid on client accounts in 2002 compared to 2001 was attributable to the growth in average balances of term deposits which bear significantly higher interest rates compared to other client accounts.

The following table sets out certain information on average client accounts with the Group, calculated as the average of the opening, mid-year and closing balances for the year, for the years ended December 31, 2003, 2002 and 2001.

	For the year ended December 31,						Change from Prior Year	
	2003		2002		2001		2003	2002
	(millions of U.S. dollars)	(%)	(millions of U.S. dollars)	(%)	(millions of U.S. dollars)	(%)	(millions of U.S. dollars)	(%)
State and public organisations								
Current/settlement accounts	204	6.3	245	11.6	230	14.6	(16.7)	6.5
Term deposits	11	0.3	7	0.3	4	0.3	57.1	75.0
Total	215	6.6	252	11.9	234	14.9	(14.7)	7.7
Other legal entities								
Current/settlement accounts	1,047	32.4	744	35.2	705	44.8	40.7	5.5
Term deposits	1,218	37.7	743	35.1	460	29.3	63.9	61.5
Total	2,265	70.1	1,487	70.3	1,165	74.1	52.3	27.6
Individuals								
Current/settlement accounts	134	4.1	88	4.2	56	3.6	52.3	57.1
Term deposits	621	19.2	288	13.6	117	7.4	115.6	146.2
Total	755	23.3	376	17.8	173	11.0	100.8	117.3
Total client accounts	3,235	100.0	2,115	100.0	1,572	100.0	53.0	34.5

Interest on debt securities in issue almost tripled in 2003 to U.S.\$121 million from U.S.\$31 million in 2002. This increase was primarily due to significantly larger average balances of debt securities in issue outstanding during 2003 compared to 2002. As noted above, in 2003 the Group continued to lengthen and diversify its liability profile and issued large volumes of medium- and long-term debt securities in the domestic and international markets. These securities carried higher interest rates as compared to short-term debt, which resulted in a significant increase of average annual interest rates payable on debt securities from 8.0% in 2002 to 10.3% in 2003. The 6.9% increase in interest expense paid on debt securities in issue in 2002 over 2001 of U.S.\$2 million was also attributable to the lengthening of the maturity profile of the Group's debt securities in issue and, as a result, growth in average annual interest rates payable on such debts from 7.8% in 2001 to 8.0% in 2002. The average balances of debt securities in issue also grew from U.S.\$373 million in 2001 to U.S.\$389 million in 2002.

Net Interest Income before Provision for Loan Impairment

In 2003, 2002, and 2001, net interest income before provision for loan impairment accounted for 48.4%, 53.8% and 44.0%, respectively, of operating income. Net interest income before provision for loan impairment decreased by U.S.\$28 million in 2003, to U.S.\$320 million, from U.S.\$348 million in 2002, which, in turn, represented a 20.8% increase from U.S.\$288 million in 2001. The Group's net interest

margin, defined as net interest income before provision for loan impairment as a percentage of average interest-earning assets, was 3.7% for the year ended December 31, 2003, compared to 5.5% in both 2002 and 2001. The Group's net interest spread, defined as the difference between the average interest rate on interest-earning assets and the average interest rate on interest bearing liabilities, was 2.5% for the year ended December 31, 2003, compared to 4.1% in 2002 and 4.0% in 2001. The decreases in 2003 in net interest margin and net interest spread were primarily attributable to a decrease in the average annual interest rate earned on interest earning assets and a significant increase in the average annual interest paid on interest-bearing liabilities. After the change of VTB's majority shareholder from the CBR to the Government in late 2002 and the gradual withdrawal of CBR deposits, VTB had less cost-efficient funds available and competed more in the open market for funding. See "– Results of Operations for the Years ended December 31, 2003, 2002 and 2001 – Interest Income, Interest Expense, Net Interest Income, and Provision for Loan Impairment – Interest Expense." In addition, as noted above, in 2003 the Group began to lengthen and diversify its liability profile. See "– Overview – Exchange Rate Fluctuations." It obtained long-term funding in the international capital markets and also issued significant amounts of medium- and long-term debt securities, which had the consequence of increasing its borrowing costs. In 2002, net interest margin and net interest spread remained at the levels comparable to 2001.

Provision for Loan Impairment

The provision for loan impairment includes changes in allowance for impairment of loans and advances to clients as well as changes in allowance for amounts due from other banks. The following table sets out movements in the Group's allowances for loan impairment relating to both client and interbank portfolios during the years ended December 31, 2003, 2002 and 2001.

	Loans and advances to clients	Due from other banks	Total
	<i>(millions of U.S. dollars)</i>		
Allowance for loan impairment at 1 January 2001	214	176	390
Provision for loan impairment	181	26	207
Write-offs	– ⁽¹⁾	(29)	(29)
Allowance for loan impairment as of December 31, 2001	<u>395</u>	<u>173</u>	<u>568</u>
Provision for (reversal of) loan impairment	18	(54)	(36)
Write-offs	(51)	–	(51)
Allowance for loan impairment as of December 31, 2002	<u>362</u>	<u>119</u>	<u>481</u>
Provision for loan impairment	75	3	78
Write-offs	(5)	–	(5)
Allowance for loan impairment as of December 31, 2003	<u>432</u>	<u>122</u>	<u>554</u>

(1) Dashes indicate where no write-offs were made during the relevant year.

As of December 31, 2003, the allowance for loan impairment as a percentage of total client loans and advances decreased to 8.3% from 10.7% and 15.2% as of December 31, 2002 and 2001, respectively, which reflected the overall improvement in the quality of the Group's client loan portfolio and its increased diversification. In 2003, the Group's provision for impairment of loan and advances to clients increased by 316.7% to U.S.\$75 million from U.S.\$18 million in 2002, which, in turn, represented a decrease of 90.1% from U.S.\$181 million in 2001. The increase in 2003 was primarily attributable to the 54.7% growth in the Group's gross client loan portfolio. The decrease in 2002 was primarily attributable to the fact that, in 2001, client loans and advances grew by 120.5%, whilst, in 2002, the growth of the client loan portfolio was only 30.3%. The growth of the client loan portfolio slowed down in 2002 compared to 2001 because, in 2001, the loan portfolio grew from a relatively low base. In 2003 and 2002, the Group's write-offs were U.S.\$5 million and U.S.\$51 million, respectively, which also contributed to the reduction of the allowance for loan impairment as a percentage of total client loans and advances. No write-offs took place in 2001. In 2002, the Group wrote off U.S.\$51 million of loans made prior to the Russian financial crisis of 1998 which it no longer considered collectible.

The allowance for loan impairment as a percentage of total amounts due from other banks decreased to 6.0% as of December 31, 2003 from 8.7% and 23.2% as of December 31, 2002 and 2001, respectively, reflecting settlement of certain overdue loans to banks. The Group's provision for loan impairment on amounts due from other banks in 2003 was U.S.\$3 million. This provision was attributable to the growth of the Group's placements on the interbank market. In 2002, there was a reversal of impairment of amounts due from other banks of U.S.\$54 million attributable to the settlement of certain overdue loans to banks. In particular, in 2002, the Group recognised a benefit of U.S.\$48 million attributable to repayment in early 2003 of overdue loans to OJSC Most-Bank, which were extended in prior years to support the liquidity position of that bank and became overdue. The impact of this settlement was considered by the Group in calculating its allowance for loan impairment as of December 31, 2002. In 2001, the Group recorded in its consolidated income statement a provision of U.S.\$26 million to reflect a U.S.\$103 million increase in overdue placements with other banks. In 2001, the Group also wrote off U.S.\$29 million of uncollectable loans from other banks.

Non-interest Income

The following table sets out certain information regarding the Group's non-interest income for the years ended December 31, 2003, 2002 and 2001.

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
Gains less losses from securities	210	204	436	2.9	(53.2)
Fee and commission income (net)	68	38	31	78.9	22.6
Gains less losses from dealing in foreign currencies	34	17	15	100.0	13.3
Gains less losses from derivative financial instruments	24	7	86	242.9	(91.9)
Foreign exchange translation gains (losses)	22	(23)	(17)	(195.7)	35.3
Other operating income (net)	61	20	23	205.0	(13.0)
Total non-interest income	419	263	574	59.3	(54.2)

The Group's non-interest income increased by 59.3% in 2003 to U.S.\$419 million from U.S.\$263 million, which, in turn, represented a decrease of 54.2% from U.S.\$574 million in 2001. The increase in the Group's non-interest income in 2003 compared to 2002 was mainly due to growth in fee and commission income, gains from dealing in foreign currencies and derivative financial instruments, gains from foreign exchange translation and an increase in other operating income. The decrease in the Group's non-interest income in 2002 compared to 2001 was primarily caused by a sharp reduction in gains from securities operations and the non-recurrence of income from a derivative transaction with VTB's then-shareholder, the CBR. As noted above, the operations of VTB's foreign subsidiary banks generate primarily non-interest revenue and contributed significantly to the Group's non-interest income during the periods under review.

Gains and Losses From Securities

In 2003, net gains from securities of U.S.\$210 million, which represented 31.8% of operating income, remained on a level comparable to 2002. In 2002, net gains from securities declined by 53.2% from U.S.\$436 million, or 66.6% of operating income, in 2001 to U.S.\$204 million, or 31.5% of operating income. As noted above, a substantial portion of the Group's debt securities portfolio was held by foreign banks. The reduction in net gains from securities was primarily due to the fact that in prior years VTB's securities portfolios consisted primarily of federal foreign currency bonds (known as "MinFin bonds") and Russian Federation eurobonds. These securities lost significant value during the 1998 Russian financial crisis and started recovering their pre-crisis values in 2000 and 2001, reflecting positive trends in the Russian economy and the Government's budget. The recovery of the Russian government debt securities in 2001 of their pre-crisis values resulted in extraordinary net gains from these securities, which are unlikely to be repeated. The Group's 2001 net gains from securities were reduced by a U.S.\$85 million loss on securities with a fair value of U.S.\$111 million purchased at their face value of U.S.\$196 million.

These securities were the subject of a put option with the CBR, and the U.S.\$85 million loss on these securities was offset by a corresponding gain of U.S.\$85 million on the put option which was also recognised in 2001. See “– Gains and Losses from Derivative Financial Instruments.” In 2002 and 2003, the growth in market prices of MinFin bonds and Russian Federation eurobonds slowed down as effective yields on these securities decreased. In 2002 and 2003, the Group sold a significant amount of securities, including Russian Federation eurobonds, gains on which had been recorded in prior years. In 2003, the Group significantly diversified its securities portfolio by purchasing bills of exchange, debentures, and bonds of Russian companies and banks, which allowed it to maintain gains on its securities portfolio on a level comparable to 2002. See “Business – Banking Services and Activities – Proprietary Activities.”

Fees and Commissions

The following table sets out certain information on the Group’s fees and commission income and expense for the years ended December 31, 2003, 2002 and 2001.

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
Fee and commission income					
Settlement transactions	28	22	19	27.3	15.8
Cash transactions	12	9	8	33.3	12.5
Guarantees issued	16	4	3	300.0	33.3
Other	18	9	7	100.0	28.6
Total fee and commission income	74	44	37	68.2	18.9
Fee and commission expense					
Settlement transactions	(2)	(2)	(2)	0.0	0.0
Cash transactions	(1)	(1)	(1)	0.0	0.0
Cash collection	(1)	(1)	(1)	0.0	0.0
Other	(2)	(2)	(2)	0.0	0.0
Total fee and commission expense ...	(6)	(6)	(6)	0.0	0.0
Net fee and commission income	68	38	31	78.9	22.6

In 2003, net fee and commission income increased by 78.9% to U.S.\$68 million from U.S.\$38 million in 2002, which, in turn, represented an increase of 22.6% from U.S.\$31 million in 2001. Net fee and commission income is currently a relatively minor source of revenue for the Group, but it is expected to grow as the Group expands its retail and investment banking services. The increases in 2003 and 2002 were principally attributable to the growth in commissions on settlement services and an increase in commissions on guarantees issued resulting from a significant growth of guarantees issued by the Group due to an increase in business activities by VTB’s strategic clients and medium clients.

Gains and Losses from Dealing in Foreign Currencies

Net gains arising from dealing in foreign currencies in 2003 doubled to U.S.\$34 million from U.S.\$17 million in 2002, which, in turn, represented an increase of 13.3% from U.S.\$15 million in 2001. Net gains from dealing in foreign currencies represent a minor, but steady source of revenue for the Group, and its growth is primarily attributable to the growth in volume of foreign exchange operations undertaken on behalf of the Group’s clients.

Gains and Losses from Derivative Financial Instruments

Net gains from derivative financial instruments in 2003 more than tripled from U.S.\$7 million in 2002 to U.S.\$24 million, which, in turn, represented a decrease of 91.9% from U.S.\$86 million in 2001. The increase in net gains from derivative financial instruments in 2003 was attributable to a significant growth in the volume of derivative contracts entered into by the Group during 2003 compared to 2002 to mitigate currency risks relating to the depreciation of the U.S. dollar against the rouble. The sharp reduction in net

gains from derivative financial instruments in 2002 was mainly due to the fact that in 2001 such gains were increased by gains of U.S.\$85 million from a non-recurring put option agreement with the CBR relating to MinFin bonds held in the Group's securities portfolio. VTB had purchased these bonds at their face value of U.S.\$196 million, whilst their estimated fair value was U.S.\$111 million. The U.S.\$85 million loss on these securities was recorded in 2001 within gains less losses from securities. Under an agreement with the CBR, any potential losses that might have arisen from holding these MinFin bonds were guaranteed by a corresponding deposit from the CBR. In accordance with IAS 39, this guarantee was treated by the Group as a put option agreement with the CBR, resulting in gains of U.S.\$85 million. These bonds were sold in August 2002 in accordance with the option terms.

Foreign Exchange Translation Gains net of Losses

Gains and losses arising from the foreign exchange translations of the values of assets and liabilities, as well as income and expenses, into U.S. dollars are reflected in the consolidated statement of income as foreign exchange translation gains net of losses. Net gains from foreign exchange translation of U.S.\$22 million in 2003 versus net losses of U.S.\$23 million in 2002 and U.S.\$17 million in 2001, are predominately attributable to gains and losses resulting from appreciation and depreciation of the net balance sheet position of the Group in roubles against the U.S. dollar. The net balance sheet position represents the excess of the rouble-denominated assets over the rouble-denominated liabilities. As of December 31, 2003, 2002, and 2001 the principal exchange rates used for translating balances in roubles to U.S. dollars were RUR29.45 per U.S.\$1.00, RUR31.78 per U.S.\$1.00 and RUR30.14 per U.S.\$1.00, respectively. In 2003, to reduce currency exposure relating to the depreciation of the U.S. dollar against the rouble, the Group significantly increased its rouble net balance sheet position from U.S.\$426 million and U.S.\$357 million as of December 31, 2001 and 2002, respectively, to U.S.\$1,287 million as of December 31, 2003, which also contributed to the net gains from foreign exchange translation generated by the Group in 2003.

Other Operating Income, net

Other operating income, net of provision for losses on credit related commitments, increased to U.S.\$61 million in 2003 from U.S.\$20 million in 2002 and U.S.\$23 million in 2001. The 2003 increase was due to non-banking activities of the Group, primarily operating income generated by newly-acquired subsidiaries CJSC Almaz Press, a printing business and OJSC VTB-Leasing, a leasing company.

Operating Expenses

Operating expenses increased by 48.7% in 2003 to U.S.\$391 million from U.S.\$263 million in 2002. Operating expenses grew by 65.4% in 2002 from U.S.\$159 million in 2001. The following table shows the composition of the Group's non-interest expense for the years ended December 31, 2003, 2002 and 2001.

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
Staff costs.....	(165)	(117)	(79)	41.0	48.1
Depreciation and other expenses related to premises and equipment.	(40)	(24)	(16)	66.7	50.0
Taxes other than income tax	(40)	(23)	(16)	73.9	43.8
Leasing and rent expenses	(20)	(19)	(15)	5.3	26.7
Administrative expenses	(38)	(17)	(9)	123.5	88.9
Impairment charge on premises and equipment ⁽¹⁾	–	(10)	–	(100.0)	n/a ⁽²⁾
Professional fees.....	(7)	(3)	(2)	133.3	50.0
Other	(81)	(50)	(22)	62.0	127.3
Total operating expenses.....	(391)	(263)	(159)	48.7	65.4

(1) Dashes indicate where no impairment charges were taken during the relevant year.

(2) Not applicable.

The significant increase in operating expenses in both 2003 and 2002 was mainly due to an increase in staff costs and other operating expenses attributable to the significant expansion of VTB's activities in various areas, including promotion of retail and investment banking businesses and opening new regional branches, sub-branches and outlets across Russia. As a result of this expansion, the Group's efficiency ratio, calculated as operating expenses (excluding provision or benefit for loan impairment and other provisions) divided by total revenues, rose from 18.4% in 2001 to 43.0% and 52.9% in 2002 and 2003, respectively. The Group expected its efficiency ratio to rise in 2003, but believes it to be on a comfortable level compared to the efficiency ratios of other Russian banks.

Staff Costs

Staff costs increased by 41.0% in 2003 to U.S.\$165 million from U.S.\$117 million in 2002, which, in turn, represented an increase of 48.1% from U.S.\$79 million in 2001. The growth in staff costs generally correlated with the increase in the number of the Group's employees for the periods indicated. Staff growth was due to expansion of the Group's retail and investment banking businesses and enlargement of its branch network. Staff costs also increased because, beginning in the second half of 2002, VTB brought salaries of its employees into line with the Russian market.

Depreciation and other Expenses Related to Premises and Equipment

Depreciation and other expenses related to premises and equipment increased by 66.7% in 2003 to U.S.\$40 million from U.S.\$24 million in 2002, which, in turn, represented an increase of 50.0% from U.S.\$16 million in 2001. The increases in depreciation and other expenses related to premises and equipment over the past few years were mainly attributable to purchases of premises and equipment for new branches and sub-branches opened by VTB.

Taxes other than Income Tax

Taxes other than income tax increased by 73.9% in 2003 to U.S.\$40 million from U.S.\$23 million in 2002, which, in turn, represented an increase of 43.8% from U.S.\$16 million in 2001. The increases in 2003 and 2002 were largely attributable to value-added tax charged on repair expenses of the Group's newly acquired premises.

Leasing and Rent Expenses

Leasing and rent expenses increased by 5.3% in 2003 to U.S.\$20 million from U.S.\$19 million in 2002, which, in turn, represented an increase of 26.7% from U.S.\$15 million in 2001. The increases in leasing and rent expenses over the past few years were also primarily attributable to leases of premises for new branches and sub-branches opened by VTB. See "Business – VTB's Branch Network." There was no significant growth in leasing and rent expenses in 2003 compared to 2002. During this period, VTB generally purchased premises for its new regional branches, which resulted in a 66.7% growth of the Group's depreciation and other expenses related to premises and equipment.

Administrative Expenses

Administrative expenses increased by 123.5% in 2003 to U.S.\$38 million from U.S.\$17 million in 2002, which, in turn, represented an increase of 88.9% from U.S.\$9 million in 2001. The increases in 2003 and 2002 were largely attributable to additional costs such as marketing and other promotional expenses included in administrative expenses which were incurred by VTB to support its regional expansion.

Income Tax Benefit (Expense)

Income tax benefit (expense) has been provided for in the consolidated financial statements in accordance with tax legislation currently in force in the jurisdictions where 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. Taxes, other than on income, are recorded within operating expenses.

The income tax rate applicable to the majority of the Group's income is 24%, which became effective starting January 1, 2002. In 2001, such tax rate was 43%. The income tax rate applicable to the majority

of the income of VTB's subsidiaries during 2001, 2002, and 2003 ranged from 4.25% to 34%. The tax rate for interest income on Russian government securities was 15%. VTB and its subsidiaries have no right to set off current tax assets and tax liabilities. As a result, deferred tax assets and deferred tax liabilities are assessed separately for each entity.

As of December 31, 2003, the Group recognised a net deferred tax asset of U.S.\$83 million and a net deferred tax liability of U.S.\$12 million versus net deferred tax liabilities of U.S.\$27 million and U.S.\$88 million as of December 31, 2002 and 2001, respectively, resulting in a tax benefit of U.S.\$17 million in 2003 versus tax expense of U.S.\$106 million and U.S.\$170 million in 2002 and 2001, respectively. The tax benefit in 2003 was primarily due to recognition of previously unrecorded tax losses carried forward at Donau-Bank which were attributable to problem loans held in its loan portfolio prior to its acquisition by VTB. The Group's policy is to recognise tax assets only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The Group did not recognise these tax losses previously, as there was not enough history of Donau-Bank's earnings to support utilising such losses. As of December 31, 2003, Donau-Bank and RCB-Cyprus also had approximately U.S.\$203 million compared to U.S.\$502 million and U.S.\$479 million as of December 31, 2002 and 2001, respectively, of tax losses available for relief against future profits, none of which had been treated as a deferred tax asset due to uncertainty surrounding the Group's ability to utilise them at this time. At current tax rates, this U.S.\$203 million of tax losses available for relief against future profits would approximate U.S.\$51 million of reduced income tax expense. Under Austrian tax laws, these tax losses can be carried forward by Donau-Bank for an indefinite period of time. RCB-Cyprus' portion of the tax losses is U.S.\$3 million and VTB believes that it can be utilised to offset future profits in the next several years.

The following table shows the reconciliation between the expected and the actual income tax charge for the years ended December 31, 2003, 2002 and 2001.

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
IFRS profit before taxation	270	384	496	(29.7)	(22.6)
Tax charge at the applicable statutory rate .	76	92	203	(17.4)	(54.7)
Tax effect of items which are not deductible or assessable for taxation purposes:					
Non-deductible expenses	38	114	99	(66.7)	15.2
Income which is exempt from taxation . . .	(6)	(75)	(11)	(92.0)	581.8
Income on government securities taxed at different rates ⁽¹⁾	(9)	(5)	(16)	80.0	(68.8)
Other non-temporary differences	9	6	5	50.0	20.0
Tax losses utilised.	(14)	(26)	(15)	(46.2)	73.3
Translation effect	(33)	— ⁽²⁾	—	n/a ⁽³⁾	n/a
Effect of the change in tax rate.	21	—	(64)	n/a	(100.0)
Non-recognised net deferred tax asset movement	(99)	—	(31)	n/a	(100.0)
Income tax (benefit) expense for the year. .	<u>(17)</u>	<u>106</u>	<u>170</u>	(116.0)	(37.6)
Including:					
Current tax expense.	81	167	82	(51.5)	103.7
Deferred tax (benefit) expense	(119)	(61)	152	95.1	(140.1)
Effect of the change in tax rate.	21	—	(64)	n/a	(100.0)

(1) Tax rate for interest income on Russian government securities was 15% (less than statutory tax rate on securities).

(2) Dashes indicate no tax effects during the relevant year.

(3) Not applicable.

Minority Interest

Minority interest increased to U.S.\$23 million in 2003 from U.S.\$17 million and U.S.\$16 million in 2002 and 2001, respectively. This increase was primarily attributable to the growth of net income generated by Donau-Bank in 2003 compared to 2002 and 2001. During the periods under review, VTB held 85% of Donau-Bank's shares. See "Business – Other Group Banks – Foreign Banks – Services and Activities – Donau-Bank."

Cash Flow

The following table sets out the Group's main sources of cash for the years ended December 31, 2003, 2002 and 2001.

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
Net cash provided by (used in) operating activities ⁽¹⁾	532	(307)	(592)	(273.3)	(48.1)
Net cash (used in) provided by investing activities ⁽²⁾	(462)	1,016	(259)	(145.5)	(492.3)
Net cash provided by (used in) financing activities ⁽³⁾	326	(695)	1,078	(146.9)	(164.5)
Effect of exchange rate changes on cash and cash equivalents	46	(16)	(7)	(387.5)	128.6
Cash and cash equivalents at beginning of the year	487	489	269	(0.4)	81.8
Cash and cash equivalents at the end of the year	929	487	489	90.8	(0.4)

(1) The Group's operating activities include daily operations conducted in the normal course of its banking business. See "Business – Banking Services and Activities."

(2) The Group's investing activities include the purchase and sale of subsidiaries, receipt of dividends and purchase and sale of investment securities available for sale and investment securities held to maturity.

(3) The Group's financing activities include raising funds outside of the normal course of its banking business. See "Capitalisation."

In 2003, the Group generated net cash in the amount of U.S.\$532 million from its operating activities, whilst in 2002 and 2001 the Group used cash in the amounts of U.S.\$307 million and U.S.\$592 million, respectively, in its operating activities. The net cash provided from operating activities in 2003 was primarily attributable to the net increase in client accounts and debt securities in issue, partially reduced by a net increase in loans and advances to clients. In 2002 and 2001, net cash used in operating activities was mainly attributable to a net increase in loans and advances to clients. The excess of such increase over the net cash provided by operating activities was financed, in 2002, by net cash provided by investing activities and, in 2001, by net cash provided by financing activities.

In 2003 and 2001, the Group used net cash in the amounts of U.S.\$462 million and U.S.\$259 million, respectively, in its investing activities, whilst in 2002 the Group generated net cash in the amount of U.S.\$1,016 million from its investing activities. The net cash provided by investing activities in 2002 versus net cash used in investing activities in 2001 was attributable to proceeds from investment securities available for sale reflecting the Group's shifting its focus from proprietary securities trading to servicing clients through deposit taking and lending. In 2003, the Group diversified its portfolio of securities available for sale by purchasing bills of exchange, debentures, and bonds of Russian companies and banks, which resulted in net cash being used by the Group in its investing activities. See "Business – Banking Services and Activities – Proprietary Activities."

In 2003 and 2001, the Group generated net cash in the amounts of U.S.\$326 million and U.S.\$1,078 million, respectively, from its financing activities, whilst in 2002 the Group used net cash in the amount of

U.S.\$695 million in its financing activities. The net cash used in financing activities in 2002 as opposed to net cash provided by financing activities in 2001 was primarily attributable to new funds placed by the CBR with VTB in 2001, which were partially repaid in 2002. In 2003, the CBR withdrew the remaining funds placed with VTB, although the cash received under the Programme and additional funds from syndicated loans compensated for the withdrawal of the CBR funding.

Financial Condition

The following discussion of the Group's assets and liabilities, segments and off-balance sheet items should be read in conjunction with "Risk Management", and, in particular with the data provided under "Risk Management – Credit Risk – Problem Loans Experience," "Risk Management – Market Risks – Currency Risk," "Risk Management – Market Risks – Interest Rate Risk," and "Risk Management – Liquidity Risk" therein.

Total Assets

The following table sets out the Group's total assets as of December 31, 2003, 2002 and 2001:

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
Cash and due from other banks, net					
Cash and short-term funds	1,030	643	628	60.2	2.4
Mandatory cash balances with local central banks	382	211	153	81.0	37.9
Term placements with other banks . . .	2,017	1,365	747	47.8	82.7
Allowance for loan impairment	(122)	(119)	(173)	2.5	(31.2)
Total cash and due from other banks, net	<u>3,307</u>	<u>2,100</u>	<u>1,355</u>	57.5	55.0
Client loans and advances, net					
Loans and advances to clients	5,227	3,378	2,593	54.7	30.3
Allowance for loan impairment	(432)	(362)	(395)	19.3	(8.4)
Total client loans and advances, net . .	<u>4,795</u>	<u>3,016</u>	<u>2,198</u>	59.0	37.2
Securities					
Trading securities	1,270	921	233	37.9	295.3
Investment securities available for sale	1,174	961	1,987	22.2	(51.6)
Investment securities held to maturity	7	— ⁽¹⁾	—	n/a ⁽²⁾	n/a
Total securities	<u>2,451</u>	<u>1,882</u>	<u>2,220</u>	30.2	(15.2)
Premises and equipment	262	130	118	101.5	10.2
Other assets					
Accrued interest income	75	60	88	25.0	(31.8)
Deferred tax asset	83	—	—	n/a	n/a
Other	255	84	149	203.6	(43.6)
Total other assets	<u>413</u>	<u>144</u>	<u>237</u>	186.8	(39.2)
Total assets	<u>11,228</u>	<u>7,272</u>	<u>6,128</u>	54.4	18.7

(1) Dashes indicate where the Group did not hold the relevant assets in the applicable year.

(2) Not applicable.

As of December 31, 2003, the Group had total assets of U.S.\$11,228 million, compared to total assets of U.S.\$7,272 million as of December 31, 2002 and U.S.\$6,128 million as of December 31, 2001. The increase in total assets of 54.4% in 2003 was primarily due to a 59.0% increase in net client loans of U.S.\$1,779 million, a 57.5% increase in net cash and due from banks of U.S.\$1,207 million, and a 30.2% increase in securities of U.S.\$569 million. The increase in total assets of 18.7% in 2002 is primarily attributable to a 37.2% growth in net client loans of U.S.\$818 million and a 55.0% increase in net cash and due from other banks of U.S.\$745 million.

Cash and Due from other Banks, net. Cash and due from other banks, net, increased by 57.5% to U.S.\$3,307 million as of December 31, 2003 from U.S.\$2,100 million as of December 31, 2002, which, in turn, represented a 55.0% increase from U.S.\$1,355 million as of December 31, 2001. The Group uses term placements with other banks, mostly Western banks, as a liquidity and market risk management tool and, to a lesser degree, as a source of relatively low risk income. The increase in 2003 and 2002 was largely attributable to the growth of term placements with other banks, mainly with maturities of less than one month. In 2003, the Group also placed significant medium- and long-term deposits with other banks. As of December 31, 2003, the medium- and long-term placements with remaining contractual maturities from one to 12 months and over one year amounted to U.S.\$431 million and U.S.\$305 million, respectively.

Client Loans and Advances, net. Client loans and advances, net, increased by 59.0% to U.S.\$4,795 million as of December 31, 2003 from U.S.\$3,016 million as of December 31, 2002, which, in turn, represented a 37.2% increase from U.S.\$2,198 million as of December 31, 2001. As a result, the percentage of net client loans and advances in total assets grew from 35.9% as of December 31, 2001 to 41.5% as of December 31, 2002 and 42.7% as of December 31, 2003. On the other hand, during the periods presented, the Group's investments in securities, which represented 36.2% of its total assets as of December 31, 2001, declined to 25.9% and 21.8% of total assets as of December 31, 2002 and 2003, respectively.

As noted, the increases in the client loan portfolio in both 2003 and 2002 were largely due to the shift of VTB's focus from proprietary securities operations to servicing clients through deposit taking and lending, which was in line with the Group's strategy to expand services to its corporate clients, as well as the growth of the Group resulting from the favourable Russian business environment. The Group also continued diversifying its commercial loan portfolio by industry, resulting in the reduction of risk concentrations in the energy sector, which historically had been a principal area of exposure concentration, to 10% as of December 31, 2003 from 36% as of December 31, 2002 and 50% as of December 2001.

The following table sets out the composition of Group's loan portfolio (excluding interbank loans) as of December 31, 2003, 2002 and 2001.

	As of December 31,		
	2003	2002	2001
	<i>(millions of U.S. dollars)</i>		
Current loans and advances	4,925 ⁽¹⁾	3,097	2,344
Rescheduled loans and advances ⁽²⁾	100	100	118
Overdue loans and advances ⁽³⁾	202	181	131
Less: Allowance for loan impairment	<u>(432)</u>	<u>(362)</u>	<u>(395)</u>
Total loans and advances to clients	<u>4,795</u>	<u>3,016</u>	<u>2,198</u>

(1) Includes lease receivables amounting to U.S.\$9 million.

(2) Loans and advances where payment terms have been restructured.

(3) Loans and advances where repayment is overdue.

The following table sets out the composition of Group's loans to banks as of December 31, 2003, 2002 and 2001.

	As of December 31,		
	2003	2002	2001
	<i>(millions of U.S. dollars)</i>		
Current term placements with other banks	1,792	1,165	581
Reverse sale and repurchase agreements with other banks	112	35	–
Overdue placements with other banks ⁽¹⁾	113	165	166
Less: Allowance for loan impairment	<u>(122)</u>	<u>(119)</u>	<u>(173)</u>
Total due from other banks	<u>1,895</u>	<u>1,246</u>	<u>574</u>

(1) Loans and advances where repayment is overdue.

As of December 31, 2003, the Group had 20 borrowers (excluding interbank loans and off-balance sheet credit related commitments) with aggregated loan amounts above U.S.\$50 million. These loans amounted to U.S.\$2.2 billion, or 43% of the gross loan portfolio. The single largest borrower was a state-owned ship builder with total loan exposure amounting to U.S.\$322 million, or 6% of the gross loan portfolio. Loans to this borrower have maturity dates from March 2005 to March 2006 and a fixed interest rate of 8.4% per annum. As of December 31, 2002, the Group had 9 borrowers (excluding interbank loans and off-balance sheet credit related commitments) with aggregated loan amounts above U.S.\$50 million. These loans amounted to U.S.\$1.6 billion, or 48% of the gross loan portfolio. The single largest borrower was a company operating in the energy sector and its subsidiaries, with total loan exposure amounting to U.S.\$734 million, or 22% of the gross loan portfolio. As of December 31, 2001 the Group had eight borrowers (excluding interbank loans and off-balance sheet credit related commitments) with aggregated loan amounts above U.S.\$50 million. These loans amounted to U.S.\$1.3 billion, or 51% of the gross loan portfolio. The Group's single largest borrower was a company operating in the energy sector and its subsidiaries, with loan exposure amounting to U.S.\$670 million, or 26% of the loan portfolio.

The following table sets out economic sector risk concentrations within the Group's gross loan portfolio (excluding interbank loans and off-balance sheet credit related commitments), as of December 31, 2003, 2002 and 2001.

	As of December 31,					
	2003		2002		2001	
	<i>(millions of U.S. dollars)</i>	<i>(%)</i>	<i>(millions of U.S. dollars)</i>	<i>(%)</i>	<i>(millions of U.S. dollars)</i>	<i>(%)</i>
Manufacturing ⁽¹⁾	1,958	37	703	21	418	16
Trade and commerce	764	15	357	11	194	8
Finance	530	10	139	4	9	– ⁽²⁾
Energy	506	10	1,201	36	1,305	50
Construction	216	4	85	2	130	5
Food and agriculture	205	4	104	3	68	3
Chemical	201	4	161	5	120	5
Mining	185	4	183	5	71	3
Telecommunications and media	161	3	130	4	63	2
Transport	158	3	79	2	63	2
Fishing	109	2	101	3	100	4
Government bodies	128	2	66	2	3	–
Other	106	2	69	2	49	2
Total loans and advances to clients	<u>5,227</u>	<u>100</u>	<u>3,378</u>	<u>100</u>	<u>2,593</u>	<u>100</u>

(1) The majority of the loans to the manufacturing sector are loans to Russian state-owned producers of civilian as well as military equipment.

(2) Dashes indicate that the Group had no outstanding loans to companies in the relevant sector as of the applicable date or the percentage of such loans was negligible.

The following table sets out the Group's net loan portfolio (excluding interbank loans and off-balance sheet credit related commitments) by maturity as of December 31, 2003, 2002 and 2001.

	As of December 31,					
	2003		2002		2001	
	<i>(millions of U.S. dollars)</i>	<i>(%)</i>	<i>(millions of U.S. dollars)</i>	<i>(%)</i>	<i>(millions of U.S. dollars)</i>	<i>(%)</i>
On demand and less						
than one month	515	11	353	12	294	13
One to six months	1,393	29	969	32	605	28
Six to 12 months	1,200	25	636	21	421	19
More than one year	1,613	34	1,047	35	878	40
Overdue/no stated maturity	74	2	11	— ⁽²⁾	—	—
Total⁽¹⁾	4,795	100	3,016	100	2,198	100

(1) Net of allowances for loan impairment.

(2) Dashes indicate that the Group had no outstanding loans as of the applicable date or the percentage of such loans was negligible.

Short-term loans predominate in the Group's loan portfolio, as is customary in the Russian domestic lending market. The Group expects that as it implements its strategy of increasing corporate and retail lending volume and as the Russian economy becomes more stable, the "more than one year" category will experience significant growth.

The following table sets out the Group's net loan portfolio (excluding interbank loans and off-balance sheet credit related commitments) by currency as of December 31, 2003, 2002 and 2001.

	As of December 31,					
	2003		2002		2001	
	<i>(millions of U.S. dollars)</i>	<i>(%)</i>	<i>(millions of U.S. dollars)</i>	<i>(%)</i>	<i>(millions of U.S. dollars)</i>	<i>(%)</i>
RUR ⁽¹⁾	1,697	35	662	22	559	25
U.S. dollars ⁽¹⁾	2,925	61	2,299	76	1,629	74
Other currencies ⁽¹⁾	173	4	55	2	10	1
Total loans and advances to clients, net⁽¹⁾	4,795	100	3,016	100	2,198	100

(1) Net of allowances for loan impairment.

The following table sets out, on a consolidated basis certain loan ratios of the Group as of December 31, 2003, 2002 and 2001.

	As of December 31,		
	2003	2002	2001
Loans to clients ⁽¹⁾ as % of total assets	42.7%	41.5%	35.9%
Loans to clients ⁽¹⁾ as % of client deposits	112.6%	123.8%	123.3%
Loans to clients ⁽¹⁾ as % of total equity	202.1%	142.4%	119.8%

(1) Net of allowance for loan impairment.

Allowance for Loan Impairment. The following table sets out certain information relating to the Group's allowance for loan impairment for both client and interbank portfolios as of December 31, 2003, 2002 and 2001.

	<u>For the year ended December 31,</u>			<u>Change from Prior Year</u>	
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
Loans and advances to clients					
Current loans and advances	4,925	3,097	2,344	59.0	32.1
Rescheduled loans and advances	100	100	118	0.0	(15.3)
Overdue loans and advances.	<u>202</u>	<u>181</u>	<u>131</u>	11.6	38.2
Total loans and advances to clients	5,227	3,378	2,593	54.7	30.3
Less: Allowance for loan impairment	<u>(432)</u>	<u>(362)</u>	<u>(395)</u>	19.3	(8.4)
Total	<u>4,795</u>	<u>3,016</u>	<u>2,198</u>	59.0	37.2
Allowance for loan impairment/Total client loans and advances.	8.3%	10.7%	15.2%	(22.4)	(29.6)
Allowance for loan impairment/Overdue and rescheduled client loans and advances.	143.0%	128.8%	158.6%	11.0	(18.8)
Overdue and rescheduled client loans/Total client loans and advances	5.8%	8.3%	9.6%	(30.1)	(13.5)
Due from other banks					
Current term placements with other banks	1,792	1,165	581	53.8	100.5
Reverse sale and repurchase agreements with other banks	112	35	— ⁽¹⁾	220.0	n/a ⁽²⁾
Overdue placements with other banks	<u>113</u>	<u>165</u>	<u>166</u>	(31.5)	(0.6)
Total due from other banks.	2,017	1,365	747	47.8	82.7
Less: Allowance for loan impairment	<u>(122)</u>	<u>(119)</u>	<u>(173)</u>	2.5	(31.2)
Total	<u>1,895</u>	<u>1,246</u>	<u>574</u>	52.1	117.1
Allowance for loan impairment/Total term placements with other banks	6.0%	8.7%	23.2%	(31.0)	(62.5)
Allowance for loan impairment/Overdue placements with other banks.	108.0%	72.1%	104.2%	49.8	(30.8)
Overdue placements with other banks/Total term placements with other banks.	5.6%	12.1%	22.2%	(53.7)	(45.5)

(1) None were outstanding as of the relevant date.

(2) Not applicable.

As noted above, the allowance for loan impairment as a percentage of total client loans and advances decreased to 8.3% as of December 31, 2003 from 10.7% and 15.2% as of December 31, 2002 and 2001, respectively, reflecting an overall improvement in the quality of the Group's client loan portfolio. In 2003 and 2002, the Group's write-offs were U.S.\$5 million and U.S.\$51 million, respectively, which also contributed to the reduction of the allowance for loan impairment as a percentage of total client loans and advances. The allowance for loan impairment as a percentage of total amounts due from other banks decreased to 6.0% as of December 31, 2003 from 8.7% and 23.2% as of December 31, 2002 and 2001, respectively, reflecting settlement of overdue loans to banks against which the Group had created a specific allowance.

Securities. The following table sets out information relating to the Group's securities portfolios as of December 31, 2003, 2002 and 2001. See "– Critical Accounting Policies" for definition of the carrying value of the Group's securities.

	As of December 31, 2003		As of December 31, 2002		As of December 31, 2001	
	<i>(millions of U.S. dollars)</i>	<i>% of VTB's shareholders' equity</i>	<i>(millions of U.S. dollars)</i>	<i>% of VTB's shareholders' equity</i>	<i>(millions of U.S. dollars)</i>	<i>% of VTB's shareholders' equity</i>
Trading securities						
MinFin bonds.....	500	21.1	506	23.9	29	1.6
Russian corporate eurobonds.....	105	4.4	124	5.9	20	1.1
Bills of exchange and debentures	487	20.5	121	5.7	59	3.2
Federal loan bonds	92	3.9	54	2.5	39	2.1
Securities issued by foreign governments	3	0.1	43	2.0	40	2.2
Other.....	83	3.5	73	3.5	46	2.5
Total trading securities.....	1,270	53.5	921	43.5	233	12.7
Available for sale securities						
Debt securities						
Eurobonds of Russian Federation	483	20.4	756	35.7	1,517	82.7
MinFin bonds.....	100	4.2	93	4.4	431	23.5
Bills of exchange of Russian companies and banks.....	22	0.9	— ⁽¹⁾	—	—	—
Bonds of Russian companies and banks ...	213	9.0	—	—	—	—
State bonds of foreign countries	122	5.1	—	—	—	—
Bonds of foreign companies and banks ...	58	2.4	—	—	—	—
Other.....	21	0.9	2	0.1	—	—
Equity securities						
Corporate shares	104	4.4	68	3.2	16	0.9
Other.....	51	2.2	42	2.0	23	1.2
Total available for sale securities	1,174	49.5	961	45.4	1,987	108.3
Investment securities held to maturity	7	0.3	—	—	—	—
Total securities.....	2,451	103.3	1,882	88.9	2,220	121.0

(1) Dashes indicate that the Group did not hold the relevant securities in its securities portfolio as of the applicable date.

Securities increased by 30.2% to U.S.\$2,451 million as of December 31, 2003 from U.S.\$1,882 million as of December 31, 2002, which, in turn, represented a 15.2% decrease from U.S.\$2,220 million as of December 31, 2001. As noted above, in the past the Group's securities portfolios primarily consisted of U.S. dollar-denominated Russian government securities, including MinFin bonds and eurobonds. In 2003, the Group significantly diversified its securities portfolio by purchasing bills of exchange, debentures, and bonds of Russian companies and banks, which significantly contributed to the increase of the Group's securities portfolio in 2003. The decrease in 2002 was largely attributable to the sale of a significant portion of Russian Federation eurobonds held within the Group's investment securities available for sale, which was partially offset by purchases of MinFin bonds. See "Business – Banking Services and Activities – Proprietary Activities."

The Group believes that despite the fact that the majority of its securities portfolio matures after one year in accordance with the terms of issue, the majority of these securities are freely tradable on the market and represent a hedge against potential liquidity risks. See “Risk Management – Liquidity Risk.” As such, the Group views the maturity of these securities as being “on demand and less than one month.”

Other Assets. Other assets increased by 186.8% to U.S.\$413 million as of December 31, 2003, from U.S.\$144 million as of December 31, 2002, which, in turn, represented a 39.2% decrease from U.S.\$237 million as of December 31, 2001. Other assets include primarily accrued interest receivable, trade debts and prepayments, unsettled transactions, prepaid taxes, loans for sale, goodwill, and positive fair value balances arising from derivative financial instruments. The increase in 2003 was primarily due to the recognition of net deferred tax assets of U.S.\$83 million, which were largely attributable to tax losses carried forward in one of the foreign banks, growth in prepaid taxes of U.S.\$46 million, purchase of loans held for sale of U.S.\$34 million which the Group intends to sell and recognition of goodwill of U.S.\$20 million on CJSC Almaz Press, a newly-acquired subsidiary. The decrease in 2002 was largely attributable to reduction in accrued interest receivable and the fact, that as of December 31, 2001 other assets included a U.S.\$85 million asset resulting from positive fair value of a non-recurring put option agreement with the CBR. See “– Results of Operations for the Years ended December 31, 2003, 2002, and 2001 – Non-Interest Income – Gains and Losses from Derivative Financial Instruments.”

Total Liabilities

The following table sets out the Group’s liabilities as of December 31, 2003, 2002 and 2001:

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
Due to other banks					
Correspondent accounts and					
overnight deposits	512	495	341	3.4	45.2
Sale and repurchase agreements with					
banks	503	273	– ⁽¹⁾	84.2	n/a ⁽²⁾
Term loans and deposits	797	517	256	54.2	102.0
Total due to other banks	1,812	1,285	597	41.0	115.2
Client accounts					
State and public organisations	174	256	252	(32.0)	1.6
Other legal entities	3,106	1,637	1,307	89.7	25.2
Individuals	979	544	224	80.0	142.9
Total client accounts	4,259	2,437	1,783	74.8	36.7
Other borrowed funds					
CBR funding	–	380	1,286	(100.0)	(70.5)
Syndicated loans	560	225	–	148.9	n/a
Revolving credit lines	147	89	74	65.2	20.3
Other borrowing	–	–	1	0.0	(100.0)
Total other borrowed funds	707	694	1,361	1.9	(49.0)
Debt securities in issue					
Promissory notes	1,154	432	327	167.1	32.1
Eurobonds issued	298	–	–	n/a	n/a
Debentures and deposit certificates ..	286	28	38	921.4	(26.3)
Total debt securities in issue	1,738	460	365	277.8	26.0
Other liabilities					
Deferred tax liability	12	27	88	(55.6)	(69.3)
Accrued interest expense	45	40	19	12.5	110.5
Other	177	135	30	31.1	350.0
Total other liabilities	234	202	137	15.8	47.4
Total liabilities	8,750	5,078	4,243	72.3	19.7

(1) Dashes indicate the absence of the relevant liabilities as of the applicable date.

(2) Not applicable.

As of December 31, 2003, the Group had total liabilities of U.S.\$8,750 million, compared to total liabilities of U.S.\$5,078 million as of December 31, 2002 and U.S.\$4,243 million as of December 31, 2001. The increase in total liabilities of 72.3% in 2003 was primarily due to a 74.8% increase in client accounts of U.S.\$1,822 million, a 277.8% increase in debt securities in issue of U.S.\$1,278 million and a 41.0% increase in due to other banks of U.S.\$527 million. The increase in total liabilities of 19.7% in 2002 was primarily attributable to a 115.2% growth in amounts due to other banks of U.S.\$688 million, a 36.7% increase in client accounts of U.S.\$654 million and a 26.0% increase in debt securities in issue of U.S.\$95 million, partially offset by a 49.0% decrease in other borrowed funds of U.S.\$667 million. VTB is broadening its funding sources to help support its loan growth and to improve its asset and liability management.

Due to Other Banks. Due to other banks increased by 41.0% to U.S.\$1,812 million as of December 31, 2003 from U.S.\$1,285 million as of December 31, 2002, which, in turn, represented a 115.2% increase from U.S.\$597 million as of December 31, 2001. The increase in 2003 and 2002 was primarily attributable to the Group entering into repo and reverse repo agreements with other banks and obtaining more funding on the interbank market since the cost of such funding was less expensive compared to other funding sources.

Client Accounts. Client accounts increased by 74.8% to U.S.\$4,259 million as of December 31, 2003 from U.S.\$2,437 million as of December 31, 2002, which, in turn, represented a 36.7% increase from U.S.\$1,783 million as of December 31, 2001. As noted above, the increase in both 2003 and 2002 was primarily attributable to the improved conditions in the Russian economy, expansion of the VTB's branch network and the general growth in client confidence in Russian banks.

The following table sets out concentrations within the Group's client accounts by economic sector as of December 31, 2003, 2002 and 2001.

	As of December 31,					
	2003		2002		2001	
	(millions of U.S. dollars)	(%)	(millions of U.S. dollars)	(%)	(millions of U.S. dollars)	(%)
Individuals.....	979	23	544	22	224	12
Trade	940	22	398	16	154	9
Manufacturing	820	19	255	10	95	5
Finance	634	15	166	7	32	2
Government bodies.....	174	4	256	11	252	14
Energy.....	172	4	474	19	788	44
Transport.....	67	2	67	3	— ⁽¹⁾	—
Construction.....	52	1	19	1	—	—
Foreign entities and representative offices.....	50	1	66	3	30	2
Telecommunications and mass media	41	1	68	3	31	2
Other	330	8	124	5	177	10
Total client accounts⁽²⁾	4,259	100	2,437	100	1,783	100

(1) Dashes indicate where the Group had no accounts of companies operating in the particular sector as of the relevant date.

(2) Client accounts include restricted deposits, where matching deposits were placed by the Group in escrow accounts, amounting to U.S.\$52 million as of December 31, 2003, U.S.\$108 million as of December 31, 2002 and U.S.\$87 million as of December 31, 2001, as well as restricted deposits held as collateral for loans issued to a group of related borrowers amounting to U.S.\$200 million each as of December 31, 2002 and 2001 and restricted deposits held as collateral against import letters of credit amounting to U.S.\$60 million as of December 31, 2003, U.S.\$56 million as of December 31, 2002 and U.S.\$67 million as of December 31, 2001.

The following table sets out the Group's client accounts by maturity as of December 31, 2003, 2002 and 2001.

	As of December 31,					
	2003		2002		2001	
	(millions of U.S. dollars)	(%)	(millions of U.S. dollars)	(%)	(millions of U.S. dollars)	(%)
On demand and less than one month ⁽¹⁾	2,830	66	1,357	56	1,031	58
One to six months ⁽²⁾	878	21	568	23	420	24
Six to 12 months ⁽²⁾	361	8	233	10	166	9
More than one year ⁽²⁾	190	5	123	5	27	1
Overdue/no stated maturity	— ⁽³⁾	—	156	6	139	8
Total	4,259	100	2,437	100	1,783	100

(1) The Group believes that although a substantial portion of client deposits are on demand and less than one month, diversification of these deposits by number and type of depositors and the Group's past experience indicate that these deposits provide a long-term and stable source of funding for the Group.

(2) According to Russian legislation depositors are allowed to withdraw their term deposits prior to maturity without penalties and earn interest rate applicable to demand deposits for the period prior to withdrawal.

(3) Dashes indicate where the Group had no accounts with the relevant maturity as of the applicable date.

Other Borrowed Funds. Other borrowed funds of U.S.\$707 million as of December 31, 2003 remained on a level comparable to the 2002 balance of U.S.\$694 million, which, in turn, represented a 49.0% decrease from U.S.\$1,361 million as of December 31, 2001. The significant decrease in other borrowed funds in 2002 and 2003 was attributable to withdrawal of funds placed with VTB by the CBR, its former majority shareholder, which historically provided a large portion of the Group's funding. This withdrawal was partially offset by attraction of syndicated loans and additional drawdowns under VTB's revolving credit line with the EBRD.

Debt Securities in Issue. Debt securities in issue increased by 277.8% to U.S.\$1,738 million as of December 31, 2003 from U.S.\$460 million as of December 31, 2002, which, in turn, represented a 26.0% increase from U.S.\$365 million as of December 31, 2001. Debt securities include promissory notes, deposit certificates, rouble-denominated bonds, and other debentures issued predominantly in the domestic markets and eurobonds issued in the international markets. The Group uses debt securities as additional instrument to maintain liquidity as well as to obtain long-term funding. See "Risk Management – Liquidity Risk." The increase in 2003 was mainly attributable to the growth of promissory notes by U.S.\$722 million, and debentures and deposit certificates by U.S.\$258 million. These securities were issued by VTB and primarily had medium and long-term maturities. In 2003, the Group also obtained funding in the amount of U.S.\$300 million under the newly-established Programme. The issuance of such debts has significantly improved the maturity profile of the Group's liabilities, as U.S.\$905 million of the Group's securities issued now mature in over one year. The average balances of debt securities in issue in 2002 and 2001 remained relatively stable, amounting to U.S.\$389 million and U.S.\$373 million, respectively.

Other Liabilities. Other liabilities increased by 15.8% to U.S.\$234 million as of December 31, 2003 from U.S.\$202 million as of December 31, 2002, which, in turn, represented a 47.4% increase from U.S.\$137 million as of December 31, 2001. The increase in 2003 was primarily attributable to the growth of taxes payable of U.S.\$27 million. The increase in 2002 was largely attributable to an increase in accrued interest payable of U.S.\$21 million following the growth in interest-bearing liabilities and an increase in taxation payable of U.S.\$43 million and trade creditors of U.S.\$27 million.

Analysis by Segment

The Group's primary format for reporting segment information is geographical segments and the secondary format is business segments. The Group has one reportable business segment, which is commercial banking. Segment information for the two main reportable geographical segments of the Group, Russia and Europe, is set out below:

	For the year ended December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	(millions of U.S. dollars)			(%)	
Segment assets at the end of the year					
Russia					
Due from banks, net ⁽¹⁾	2,105	1,836	1,090	14.7	68.4
Loans and advances to clients, net	3,969	2,243	1,693	77.0	32.5
Securities	1,765	1,623	1,909	8.7	(15.0)
Other assets	602	230	330	161.7	(30.3)
Total Russia	8,441	5,932	5,022	42.3	18.1
Europe					
Due from banks, net ⁽¹⁾	1,202	264	265	355.3	— ⁽²⁾
Loans and advances to clients, net	826	773	505	6.9	53.1
Securities	686	259	311	164.9	(16.7)
Other assets	73	44	25	65.9	76.0
Total Europe	2,787	1,340	1,106	108.0	21.2
Total	11,228	7,272	6,128	54.4	18.7
Segment liabilities at the end of the year					
Russia					
Due to banks and other borrowed funds	1,679	1,641	1,542	2.3	6.4
Client accounts	3,470	1,829	1,307	89.7	39.9
Debt securities in issue	1,440	460	365	213.0	26.0
Other liabilities	179	150	122	19.3	23.0
Total Russia	6,768	4,080	3,336	65.9	22.3
Europe					
Due to banks and other borrowed funds	840	338	416	148.5	(18.7)
Client accounts	789	608	476	29.8	27.7
Debt securities in issue	298	—	—	n/a ⁽³⁾	—
Other liabilities	55	52	15	5.8	246.7
Total Europe	1,982	998	907	98.6	10.0
Total	8,750	5,078	4,243	72.3	19.7
Segment profit before income tax for the year					
Russia	156	288	409	(45.8)	(29.6)
Europe	114	96	87	18.8	10.3
Total	270	384	496	(29.7)	(22.6)

(1) Includes mandatory cash balances with local central banks.

(2) Dashes indicate the absence of the relevant assets or liabilities during the relevant year or a negligible percentage change, as applicable.

(3) Not applicable.

Over the past three years, foreign banks played an increasing role in the Group's operations. Their assets grew from U.S.\$1,106 million as of December 31, 2001 to U.S.\$1,340 million and U.S.\$2,787 million as of

December 31, 2002 and 2003, respectively. VTB's foreign subsidiary banks hold significant proprietary trading portfolios and, as a result, their assets are susceptible to market risks. See "Risk Management – Market Risks." The operations of these banks do not generate significant interest revenue and are thus less affected by interest rate fluctuations. The loan portfolio of the foreign subsidiaries, mainly concentrated in RCB-Cyprus, consists primarily of loans made from back-to-back client deposits. See "Business – Other Group Banks – Foreign Banks – Services and Activities – RCB-Cyprus." The net interest margin on these loans is relatively small due to low risk associated with back-to-back lending. Their profitability was not affected by the current declining net interest margin generated by banks operating in Russia. As a result, segment profit before tax generated by foreign banks increased from U.S.\$86 million in 2001 to U.S.\$96 million in 2002 and U.S.\$114 million in 2003. The percentage of the profit before income tax generated by foreign banks also grew from 17.4% of total segment results in 2001 to 25.0% in 2002 and 42.2% in 2003, due to significant costs incurred by VTB in developing its banking business. See "Business – Strategy."

Contingencies, Commitments and Derivative Financial Instruments

The Group enters into certain financial instruments with off-balance sheet risk in the normal course of business to meet the needs of its clients. Such instruments, which include guarantees, letters of credit, undrawn credit lines, and commitments to extend credits, involve varying degrees of credit risk and are not reflected in the Group's consolidated balance sheet. See "Risk Factors – Risks Relating to the Group's Business and Industry – The Group has significant off-balance sheet credit related commitments that may lead to potential losses." The primary purpose of these instruments is to ensure that funds are available to the client as required. The Group also enters on standardised terms and conditions into derivative contracts with professional counterparties. Such contracts are generally traded in the over-the-counter market. The following table sets out the Group's credit related commitments and derivative financial instruments as of March 31, 2004, December 31, 2003, 2002 and 2001:

		As of December 31,			Change from Prior Period		
	As of March 31, 2004 ⁽¹⁾	2003	2002	2001	First three months of 2004	2003	2002
	(millions of U.S. dollars)				(%)		
Credit related commitments							
Undrawn credit lines	510	718	292	102	(29.0)	145.9	186.3
Guarantees issued ⁽²⁾⁽³⁾	1,615	1,514	226	216	6.7	569.9	4.6
Import letters of credit ⁽⁴⁾	143	157	123	69	(8.9)	27.6	78.3
Commitments to extend credit ⁽⁵⁾	230	162	44	52	42.0	268.2	(15.4)
Other credit related commitments ⁽⁶⁾	502	500	– ⁽⁷⁾	–	0.4	n/a ⁽⁸⁾	n/a
Total credit related commitments	3,000	3,051	685	439	(1.7)	345.4	56.0
Less: Provision for losses on credit related commitments. . .	(8)	(10)	(10)	(10)	(20.0)	0.0	0.0
Total	2,992	3,041	675	429	(1.6)	350.5	57.3
Derivative financial instruments							
<i>Principal or agreed amount</i>							
Deliverable forward contracts . .	–	1	27	804	(100.0)	(96.3)	(96.6)
Spot contracts	311	165	41	17	88.5	302.4	141.2
Option contracts	–	–	–	196	–	n/a	(100.0)
Term contracts.	120	25	–	–	380.0	n/a	n/a
Swap contracts.	654	680	331	143	(3.8)	105.4	131.5
Total	1,085	871	399	1,160	24.6	118.3	(65.6)

	<u>As of December 31,</u>				<u>Change from Prior Period</u>		
	<u>As of March 31, 2004⁽¹⁾</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>First three months of 2004</u>	<u>2003</u>	<u>2002</u>
	<i>(millions of U.S. dollars)</i>					<i>(%)</i>	
<i>Positive (negative) fair value</i>							
Deliverable forward contracts . .	—	—	—	—	—	n/a	n/a
Spot contracts	1	—	—	—	n/a	n/a	n/a
Option contracts	—	—	—	85	—	n/a	(100.0)
Swap contracts.	<u>(3)</u>	<u>24</u>	<u>7</u>	<u>1</u>	(112.5)	242.9	600.0
Total	<u>(2)</u>	<u>24</u>	<u>7</u>	<u>86</u>	(108.3)	242.9	(91.9)

(1) Unaudited

(2) Irrevocable obligations of the Group to pay the guarantee's beneficiary upon receipt of a claim stating that a client failed in its obligations on the underlying transaction. See "Business – Banking Services and Activities – Corporate Banking – Services – Lending."

(3) Guarantees issued in 2003 and the first quarter of 2004 include guarantees issued to the Russian military sector amounting to U.S.\$932 million, or 62% of guarantees issued in 2003 and U.S. \$990 million, or 61% of guarantees issued in the first quarter of 2004. These guarantees are secured by promissory notes issued by VTB amounting to U.S.\$577 million 2003 and U.S.\$627 million in the first quarter of 2004.

(4) Written undertakings by the Group on behalf of a client authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions. See "Business – Banking Services – Corporate Banking – Services and Activities – Foreign Trade Transactions." Commitments under import letters of credit were collateralised by client deposits amounting to U.S.\$42 million as of March 31, 2004, U.S.\$60 million as of December 31, 2003, U.S.\$56 million as of December 31, 2002 and U.S.\$67 million as of December 31, 2001.

(5) Portions of authorisations to extend credit in the form of loans, guarantees or letters of credit.

(6) A commitment of the Group to guarantee repayment of a loan to a company operating in the energy sector enforceable on March 9, 2005.

(7) Dashes indicate where no credit related commitments or derivative financial instruments were outstanding as of the applicable date.

(8) Not applicable.

Credit related commitments decreased by 1.7% to U.S.\$3,000 million as of March 31, 2004 from U.S.\$3,051 million as of December 31, 2003. The decrease was primarily attributable to an increase of drawdowns under outstanding credit lines and as a result a reduction of undrawn credit lines, which were partially off-set by an increase in guarantees issued and commitments to extend credit.

Credit related commitments increased by 350.5% to U.S.\$3,041 million as of December 31, 2003 from U.S.\$675 million as of December 31, 2002, which, in turn, represented a 57.3% increase from U.S.\$429 million as of December 31, 2001.

The growth in 2003 was largely attributable to an increase of undrawn credit lines of U.S.\$426 million and guarantees issued of U.S.\$1,288 million due to an increase in business by VTB's strategic clients and medium clients. As of December 31, 2003, the Group had guarantees issued with respect to the Russian military sector of U.S.\$932 million. To secure these guarantees, the obligor whose obligations were guaranteed purchased promissory notes issued by VTB in the amount of U.S.\$577 million and pledged them to VTB as security. If VTB becomes obligated to make payment under the guarantee, it will no longer be obliged to make payment on the promissory notes. In 2003, the Group also issued a commitment to guarantee repayment of a loan issued by a European bank to a company operating in the energy sector in the amount of U.S.\$500 million. This commitment is enforceable until March 9, 2005.

In addition, the Group also received export letters of credit for further advising to its clients, amounting to U.S.\$1,345 million as of December 31, 2003, U.S.\$1,088 million as of December 31, 2002 and U.S.\$360 million as of December 31, 2001. See "Risk Management – Credit Risk – Credit Policies and Procedures for Legal Entities – Credit Related Commitments."

The increase in 2002 was predominately attributable to an increase in undrawn credit lines of U.S.\$190 million and import letters of credit of U.S.\$54 million.

The Group generally uses the same credit control and management policies in undertaking off-balance credit related commitments as it does for its on-balance sheet operations. See “Risk Management – Credit Risk.” A majority of the guarantees issued by VTB are not collateralised, but have guarantee or assurance arrangements and are issued within risk limits for off-balance sheet instruments approved by VTB’s Credit Committee. Guarantees issued by other Group banks are subject to their respective credit approval procedures. In 2003, VTB made payments under 8 out of 315 guarantees outstanding as of December 31, 2003 (not including guarantees issued by other Group banks), amounting to approximately U.S.\$12 million. See “Risk Management – Credit Risk.”

The principal, or agreed, amount of derivative financial instruments increased by 24.6% to U.S.\$1,085 million as of March 31, 2004 from U.S.\$871 million as of December 31, 2003. The increase was due to growth of volume of derivative contracts with OECD banks. The net losses from derivative financial instruments amounted to U.S.\$2 million as of March 31, 2004, representing a 108.3% decrease from net gains of U.S.\$24 million as of December 31, 2003. This decrease was due to U.S. dollar/euro exchange rate fluctuations, which resulted in losses on foreign currency swap contracts.

The principal, or agreed, amount of derivative financial instruments increased by 118.3% to U.S.\$871 million as of December 31, 2003 from U.S.\$399 million as of December 31, 2002, which, in turn, represented a 65.6% decrease from U.S.\$1,160 million as of December 31, 2001. The net gains from derivative financial instruments represented by their positive fair value increased to U.S.\$24 million as of December 31, 2003 from U.S.\$7 million as of December 31, 2002, which, in turn, represented a decrease from U.S.\$86 million as of December 31, 2001. The increase in net gains from such instruments in 2003 was attributable to larger volumes of derivative contracts entered by the Group in 2003 compared to 2002. The decrease in net gains from such instruments in 2002 was predominately attributable to the fact that the derivative contracts outstanding as of December 31, 2001 included a U.S.\$777 million forward agreement and a U.S.\$196 million option agreement with the CBR for the sale of U.S.dollar-denominated Russian government securities. These transactions were settled in 2002. As of December 31, 2001 the Group recognised a U.S.\$85 million gain from the option agreement with the CBR.

Capital Adequacy

The following table sets forth capital ratios of the Group as of March 31, 2004 and December 31, 2003, 2002, and 2001 calculated in accordance with International Convergence of Capital Measurement and Capital Standards dated July 1988 and prepared by the Basle Committee on Banking Supervision, as amended through 1996. The Group’s capital adequacy ratios are currently significantly higher than Russian regulatory requirements. The Group’s capital adequacy ratios are expected to decrease as the Group expands its operations or acquires new banking subsidiaries.

	As of March 31, 2004 ⁽¹⁾	As of December 31, 2003	As of December 31, 2002	As of December 31, 2001
	<i>(millions of U.S. dollars, except percentages)</i>			
Tier 1				
Share Capital.....	2,153	2,153	2,153	2,153
Share Premium.....	34	34	34	34
Retained earnings (Accumulated deficit)	262	186	(69)	(352)
Goodwill	(18)	(20)	— ⁽²⁾	—
Total qualifying capital	2,431	2,353	2,118	1,835
Risk Weighted Assets	12,599	11,996	8,124	8,308
Risk Adjusted Capital Ratio ⁽³⁾	19.3%	19.6%	26.1%	22.1%

(1) Unaudited

(2) Dashes indicate where no goodwill was recorded as of the relevant date.

(3) Tier 1 capital plus Tier 2 capital divided by total risk weighted assets.

BUSINESS

Overview

The Group is a leading Russian commercial banking group, offering a wide range of banking services and conducting operations across Russia and in parts of Europe. VTB is the Group's primary bank and the parent company of the other Group members. It oversees the Group's operations and sets its strategy.

According to a September 2004 survey by *Expert* magazine, a leading Russian business weekly, as of July 1, 2004 VTB was the second-largest commercial bank in Russia in terms of assets and lending volume and the third-largest in terms of profits and retail deposits (all as calculated under RAR). On the basis of the data published by the CBR, VTB believes that it is Russia's leading bank for foreign trade settlements, with an approximate 12% market share measured by volume as of June 30, 2004. *The Banker*, a banking industry journal, stated in June 2004 that in 2003 VTB was the second-largest bank in Central and Eastern Europe (including Russia) in terms of tier one capital, as defined by the Bank for International Settlements.

The Group's primary operations include taking deposits, lending, proprietary trading and investing in securities, providing account and settlement services, conducting foreign trade transactions and providing cash handling and custody services. The Group is expanding its retail and investment banking businesses. See "– Strategy."

The Group's revenues are primarily derived from its corporate banking and proprietary activities. In the year ended December 31, 2003, the Group generated operating income (net interest income, after the provision for loan impairment, plus other income) of U.S.\$661 million and net profit of U.S.\$264 million. Of the Group's operating income in 2003, net interest income after the provision for loan impairment (U.S.\$78 million) accounted for U.S.\$242 million, or 37% of operating income, gains less losses arising from securities, derivatives and foreign currency activities accounted for U.S.\$268 million, or 41% of operating income and net fee and commission income accounted for U.S.\$68 million, or 10% of operating income. In the quarter ended March 31, 2004, the Group generated operating income (net interest income, after the provision for loan impairment, plus other income) of U.S.\$198 million and net profit of U.S.\$74 million. Of the Group's operating income in the first quarter of 2004, net interest income after the provision for loan impairment (U.S.\$42 million) accounted for U.S.\$50 million, or 25% of operating income, gains less losses arising from securities, derivatives and foreign currency activities accounted for U.S.\$81 million, or 41% of operating income, and net fee and commission income accounted for U.S.\$24 million, or 12% of operating income.

The Group conducts banking business primarily with legal entities. The Group is focusing on attracting retail clients in Russia and has recently acquired Gута Bank, a large Russian retail and corporate bank. See "– Other Group Banks – Domestic Banks and Participations – Domestic Banks – Gута Bank."

The Government, acting through the Federal Property Service, holds 99.9% of VTB's shares and is the controlling shareholder. Of the nine seats on VTB's Supervisory Council, four are held by representatives of various Government ministries and agencies, two by the representatives of the Russian President and the remaining three by a representative of the CBR, the president of the Russian Marketing Association and VTB's Chairman and Chief Executive Officer.

VTB has a long-term counterparty credit and certificate of deposit rating of "BB+" and a short-term counterparty credit and certificate of deposit rating of "B" from S&P, a bank deposits rating of "Ba1/NP" and a bank financial strength rating of "D-" from Moody's, and a short-term foreign currency rating of "B," a long-term foreign currency rating of "BB+," an individual rating of "C/D" and a support rating of "3" from Fitch.

VTB's legal address is 16 Kuznetsky Most Street, Moscow 103031, Russian Federation and its Head Office is located at 6 Lesnaya Street, Moscow 125047, Russian Federation.

History

VTB was established in 1990 as a closed joint stock company. Its initial purpose was to be Russia's foreign trade bank. In 1998, VTB was reorganised into an open joint stock company.

VTB's charter was registered with the CBR on October 17, 1990 and has been amended several times. On January 2, 1991, VTB received a general banking licence (number 1000) from the CBR. It also holds other

licences that Russian laws and regulations require to engage in banking activities, including cash operations and operations with precious metals. In addition, VTB holds licences 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. As a Russian commercial bank, VTB is 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.

VTB's founding shareholders were the CBR, the Ministry of Finance of the Russian Federation and the Ministry of Foreign Economic Relations of the Russian Federation. In October 2002, in line with the Government's strategy for the development of the Russian banking sector, which, amongst other things, provides for diversification of the shareholding structure of state-owned banks and increases in their capital, the CBR transferred its 99.9% shareholding in VTB to the predecessor of the Federal Property Service.

Over the past decade, VTB has acquired shareholdings in Donau-Bank in Vienna, Austria, RCB-Cyprus in Limassol, Cyprus, East-West United Bank S.A. ("EWUB") in Luxembourg (an associate bank), Russische Kommerzbank AG ("RKB-Zurich") in Zurich, Switzerland, Armsavingsbank in Yerevan, Armenia and Ost-West Handelsbank ("OWH") in Frankfurt, Germany (an associate bank). These banks are currently the principal foreign subsidiaries and associates of VTB. See "– Other Group Banks – Foreign Banks." During that time, VTB also opened and/or acquired branches, sub-branches and outlets in 42 Russian regions. See "– VTB's Branch Network." On July 16, 2004 VTB acquired 85.8% of Gута Bank. See "– Other Group Banks – Domestic Banks and Participations – Domestic Banks – Gута Bank."

During the Russian financial crisis in 1998, the Group did not suspend operations and continued to execute payments and settlements in accordance with its clients' instructions and its own obligations to clients and creditors. The Group settled all of its obligations on outstanding forward contracts and fully repaid all of its other obligations as they became due. Following the 1998 crisis, the CBR provided the Group with additional liquidity and capital contributions in the amount of U.S.\$415 million in 1998 (repaid in 1999), U.S.\$886 million in 1999 and U.S.\$853 million in 2000. The CBR deposits held at VTB after the 1998 financial crisis peaked at U.S.\$1.29 billion as of December 31, 2001 and decreased afterwards to U.S.\$380 million as of December 31, 2002. As of March 31, 2004, VTB held no CBR deposits. In July 2004, the CBR provided financial assistance to VTB, in connection with its acquisition of Gута Bank, by placing a U.S.\$700 million deposit with VTB. See "– Other Group Banks – Domestic Banks and Participations – Domestic Banks – Gута Bank." VTB believes that as long as the Government remains its controlling shareholder, further Government funding will be available in case of a financial crisis.

In 2002, the Government decided to develop the Group as a universal commercial banking group, diversifying its prior focus on foreign trade activities. A new management team, including VTB's current Chairman and Chief Executive Officer, Andrei L. Kostin, joined VTB from VEB and other Russian and Western banks. On November 29, 2002, following the CBR's transfer of its shares in VTB to the predecessor of the Federal Property Service, VTB's shareholders elected a new Supervisory Council. VTB's new management developed a new strategy for the Group, which, amongst other things, has led to a shift in VTB's business focus from proprietary securities operations to providing a greater volume of corporate and retail deposit, lending and other banking services. See "– Strategy."

In 2002 and 2003, VEB transferred to the Group parts of its commercial activities not linked to Russian governmental programs that VEB has historically serviced. For example, in the second half of 2002, VEB transferred to the Group (with client permission) a portfolio of commercial loans amounting to approximately U.S.\$300 million. Certain large VEB clients have also voluntarily transferred some of their funds to the Group. This transfer has led to the expansion of the Group's business and client base and diversification of its assets.

Russian Market Position and Competitive Advantages

According to the CBR, as of August 1, 2004, 1,322 banks and other non-bank credit organisations that have banking licences were registered in Russia. An additional 252 credit organisations had had their banking licences revoked by the CBR as of that date. The largest Russian banks are concentrated in Moscow whilst large regional banks conduct most of their business in the central city of their home region. For a description of the Russian banking sector, see "The Banking Sector and Banking Regulation in Russia – The Russian Banking Sector."

Due to the large number of Russian banks and the differences in their businesses, VTB faces competition from different banks in the areas and locations in which it operates. In the corporate banking area, including commercial lending, VTB's primary competitors are Sberbank, Alfa-Bank, Bank of Moscow, IIB, MDM-Bank, International Moscow Bank, Petrocommertz, Rosbank and Uralsib, as well as some Western banks, each of which serves companies throughout Russia. In the retail banking area, VTB's primary competitors are Sberbank, Alfa-Bank, Bank of Moscow, Gazprombank, ICB and Rosbank. The majority of VTB's national competitors are based in Moscow, although a few have regional branch networks and Sberbank has a national one. In the Russian regions VTB competes with regional as well as Moscow-based banks. VTB's national and regional competitors offer services similar to VTB's and attempt to attract additional clients through discounts, exclusive service agreements and aggressive marketing campaigns.

According to VTB's calculations, based on the statistical information published by the CBR, as of June 1, 2004, it had, in Russia, an approximately 2% market share in retail deposits, an approximately 4.3% market share in deposits of legal entities and an approximately 4.6% market share in loans, all as measured by value, with its assets accounting for approximately 5.1% of the assets of the Russian banking sector (under RAR).

VTB believes that it has a number of competitive advantages over other banks operating in Russia:

- *Independence.* VTB is not controlled by or affiliated with any Russian financial-industrial group. As a result, VTB conducts its business in a commercially reasonable manner and enters into transactions with companies that compete with each other. In contrast, many other Russian banks are part of financial-industrial groups and continue to focus their operations on serving those groups and acting in their interest. VTB believes that its clients value its independence. Since becoming VTB's 99.9% shareholder in October 2002, the Government, now acting through the Federal Property Service, has not asserted control over the day-to-day decisionmaking or operations of the Group or its strategic planning.
- *International Experience and Reputation.* From its inception in 1990, VTB has been active in the international markets and has strong relationships with many international financial institutions. It has been successful in attracting funding in the international capital markets through syndicated loans and offerings of debt securities. VTB believes that it has more credit and cooperation agreements with foreign banks and export credit agencies than any other Russian bank. In addition, VTB has an international reputation as a stable and reliable bank. In the aftermath of Russia's 1998 financial crisis, it settled all of its obligations on outstanding forward contracts and fully repaid all of its other obligations as they came due.
- *Established Relationships with Leading Russian Companies.* VTB has a history of cooperation and good relationships with leading Russian companies operating in various sectors of the Russian economy. See "– Banking Services and Activities – Corporate Banking – Client Segmentation."
- *Strong Capital Position.* VTB's strong capital position allows it to enter into transactions not possible for many other Russian banks, such as providing large long-term loans to many clients in various industries. See "– Banking Services and Activities – Corporate Banking."
- *Experienced Management.* VTB's senior management team has substantial experience in the banking business. VTB's Chairman and Chief Executive Officer, Andrei L. Kostin, was previously President of VEB, where he oversaw significant commercial banking operations and operations relating to foreign trade. VTB's other senior managers have previously held senior positions at, amongst other banks, VEB and Sberbank.

Strategy

The Group's overall strategic goal, developed by VTB's new management team, is to strengthen its position as a pan-European banking group offering a comprehensive and competitive range of banking products and to be the partner of choice for businesses and individuals based or working in Russia and abroad.

To achieve this strategic goal, the Group, primarily through VTB, is expanding the range and volume of its commercial and retail banking services, upgrading VTB's IT infrastructure, expanding its operations in Russia and other CIS countries, restructuring its foreign banks, developing its investment banking business, diversifying VTB's shareholder base and improving VTB's governance and management systems.

Expansion of Corporate Client Services. The Group plans to expand the range and volume of its corporate client services through:

- Diversifying its corporate client base. VTB believes that a number of Russian industries with significant economic potential, such as metallurgy, information technology, food production, retail and wholesale trade, transportation, communications, chemical and petrochemical production and coal mining, have limited funding opportunities and/or are not adequately served by Russian banks. VTB will expand the range and volume of its banking services, particularly lending, that it offers to companies operating in these industries whilst seeking to maintain its market share in providing banking services to corporate clients in the oil and gas, energy and transport engineering (in particular, aeronautical and automotive) sectors.
- Financing new projects in the Russian economy. VTB believes that the need for financing for new projects in the Russian economy is significant. The Government's "Energy-Effective Economy" programme envisions approximately U.S.\$25 billion annually in financing for the Russian energy sector alone for the next seven years, and VTB believes that a number of other economic sectors, both domestic and export-oriented, such as manufacturing, require an equivalent amount of financing. VTB plans to seek to provide syndicated loans and project financing for projects in a number of economic sectors.
- Expanding services provided to small businesses in Russia. The Government has stated on a number of occasions that the development of small businesses in Russia should be encouraged. VTB plans to focus on working with small businesses in Russia in ways that will expand the volume of lending to small businesses and, at the same time, minimise its credit risk. See "– Banking Services and Activities – Corporate Banking – Services – Banking Services for Small Businesses."
- Maintaining and strengthening the Group's leading position in servicing foreign trade operations. The Group plans to continue to provide Russian corporate clients and foreign corporate clients that have business interests in, or export their products or services to, Russia, with the most efficient banking support for their foreign trade operations, using, amongst other things, the resources of the Group's foreign banks and funds provided by foreign banks and export credit agencies. See "– Banking Services and Activities – Corporate Banking – Services – Foreign Trade Transactions."
- Offering customised services to particular clients. The Group plans to provide Russian and foreign clients with services tailored to their business needs. For example, the Group intends to introduce international settlement arrangements for Russian and foreign corporate clients that engage in international transactions. These arrangements may include, amongst other things, several forms of settlement in relation to one contract. The Group also plans to widen the scope of consulting services that it provides to Russian and international companies.
- Developing and improving cross-selling arrangements for banking and related products, such as leasing, insurance and non-governmental pension fund services.

Expansion of VTB's Retail Services in Russia. In expanding its retail services, VTB will primarily target Russia's small but growing middle class. VTB plans to expand the range and volume of its retail banking services through:

- Raising the volume of retail deposits, in particular term deposits. To increase the volume of its retail deposits and attract more retail clients, VTB intends to introduce long-term (with maturity of up to 732 days) retail deposit products, pursue flexible interest rate policies, improve payment systems and broaden the range of transactions offered to individuals.
- Expanding retail lending. VTB intends to widen the range of its consumer loan and mortgage products and diversify its distribution channels for retail loans. See "– Banking Services and Activities – Retail Banking – Lending."
- Increasing VTB's presence in the debit card market. VTB intends to widen its selection of debit cards and increase the number of its ATMs.
- Attracting clients through marketing campaigns. VTB has initiated and will continue local and national marketing campaigns in Russia aimed at attracting the banking business of medium and high-income individuals in Moscow and regional industrial centres.

Upgrading VTB's IT Infrastructure. VTB believes that its existing IT infrastructure must be upgraded to support its current and future business activities and client base. The upgrade has begun and will continue for the next several years. See “– IT Infrastructure – Development.”

Expanding in Russia and the CIS. VTB believes that its business will benefit significantly from regional expansion in Russia. The standard of living and industrial output in a number of regions has risen and there is significant demand for banking services. VTB currently plans to open approximately 23 additional branches and approximately 187 additional sub-branches and outlets in Russia by 2008. See “– VTB's Branch Network.”

The Group believes that the CIS banking market has significant potential due to the improving economic situations in a number of CIS countries and the increasing trade volumes between CIS countries and Russia, and therefore plans to expand its operations within the CIS. See “– Other Group Banks – Foreign Banks – Development” and “Business – Other Group Banks – Domestic Banks and Participations”.

Restructuring its Foreign Banks. VTB plans to restructure the Group's foreign banks to increase the legal and regulatory benefits of its foreign operations and the foreign banks' transparency and profitability. VTB is now in the process of developing a restructuring plan which envisions transferring ownership of RCB-Cyprus, EWUB, RKB-Zurich and OWH from VTB to Donau-Bank. Donau-Bank will be the Group's primary foreign bank and will manage the operations of the foreign banks except Armsavingsbank and any other CIS banks that VTB may open or acquire. VTB may also, in the future, rebrand the foreign banks with the VTB name and convert some of them into branches of VTB. See “– Other Group Banks – Foreign Banks – Development.”

Developing Investment Banking in Russia. Partly due to inquiries by potential clients, and in the context of the current shortage of domestic investment banking services in Russia, VTB believes that substantial business opportunities exist in this area and that its reputation for independence will help it gain investment banking clients. VTB has begun developing its investment banking business and intends to continue to do so. See “– Banking Services and Activities – Corporate Banking – Services – Investment Banking Services.”

Diversifying VTB's Shareholder Base. VTB believes that diversifying its shareholder base will give it greater access to funding, increase its existing client business, facilitate establishing relationships with new clients and enhance its competitiveness and transparency. VTB plans to sell a 10% to 20% shareholding to outside investors in the next two years and a further 20% to 30% shareholding prior to 2008. It is in the process of evaluating participation of international financial institutions, such as the EBRD and the IFC, as well as privately-owned foreign banks and investment funds, in its capital. On the basis of the joint declaration by the Government and the CBR entitled “The Strategy of the Development of the Banking Sector of the Russian Federation,” VTB believes that the Government will retain at least a 51% shareholding in it through 2008. See “The Banking Sector and Banking Regulation in Russia – Banking and Other Relevant Reforms.”

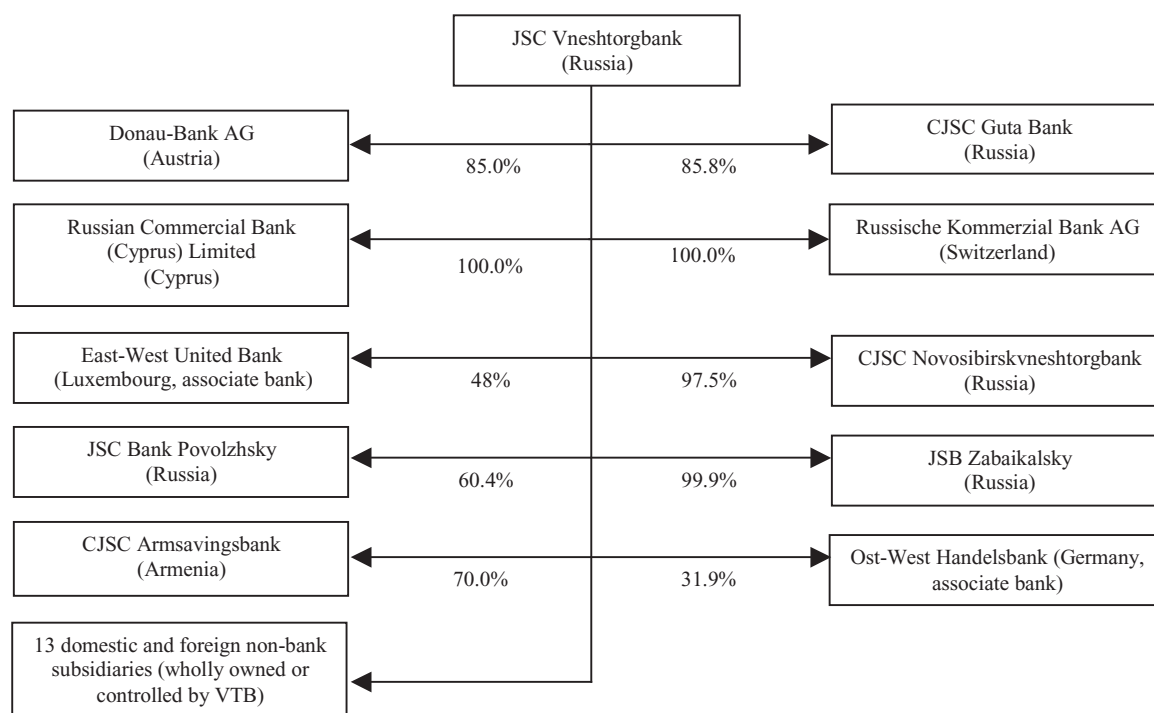
Improving Information, Governance and Management Systems of VTB. VTB is improving its governance and management systems through:

- Reviewing and enhancing its disclosure and procedures for communicating with holders of its equity and debt securities and the general public. In recent years, VTB has widened the scope of information available to the public through issuing financial reports and press releases that cover important events and trends in its development.
- Improving internal control, anti-money laundering and risk management procedures.
- Putting in place a code of corporate conduct based on standards developed by the predecessor of the Federal Service for Financial Markets and the Organisation for Economic Cooperation and Development.
- Implementing profitability monitoring mechanisms, taking steps to improve its strategic and current planning and putting in place an automated information processing system that is expected to reduce labour costs. Profitability monitoring mechanisms will include implementing a scale of fees for fee-based services, setting terms for specific operations, reviewing interest margins for particular operations, reviewing branches' and sub-branches' contribution to VTB's income on a weekly basis, monitoring branch activities in real time, analysing returns on investments, monitoring expenditures

and controlling administrative spending. VTB has developed these procedures in-house on the basis of procedures used by international banks, and internationally recognised consulting firms have reviewed them and are overseeing their implementation.

Organisational Structure

The Group operates in Russia through VTB's 46 full-service branches, 82 sub-branches and 41 outlets which offer a limited range of banking services and four other domestic banks. The Group operates outside Russia through four bank subsidiaries of VTB, located in Armenia (acquired in April 2004), Austria, Cyprus and Switzerland, associate banks in Germany and Luxembourg and representative offices of VTB in Belarus, China, Italy and Ukraine. The organisational structure of the Group and VTB's shareholdings in some of its subsidiaries and associates are set out below:



- (1) For a description of VTB's ownership interest in each of these subsidiaries and associates, see Note 30 to the Audited IFRS Financial Statements and Note 16 to the Interim IFRS Financial Statements and " – Other Group Banks – Foreign Banks".

Banking Services and Activities

Corporate Banking

Corporate banking is currently the Group's principal business area and one of its primary sources of revenue.

Client Segmentation

The majority of the Group's legal entity clients operate in the largest sectors of the Russian economy, such as oil and gas production, energy, manufacturing, retail and wholesale trade, construction, defence, telecommunications, food production and insurance. The Group has also historically provided banking services to Russian embassies and consulates abroad. As of August 1, 2004, VTB had, in Russia, approximately 66,000 legal entity clients, compared to approximately 46,000 as of December 31, 2002.

In Russia, VTB's internal corporate client categories include strategic clients, large corporate clients, medium clients and small businesses.

Strategic clients are companies with annual sales volume of U.S.\$100 million or more or with a market share in a region or an industry of 5% or more, government ministries and other national public

authorities. Regional and municipal public authorities playing key roles in particular regions and/or markets may also be considered strategic clients. Companies that are part of a single financial-industrial group are all treated as strategic clients, if the financial-industrial group's business with VTB as a whole rises to the level of a strategic client. As of August 1, 2004, VTB had approximately 970 strategic clients (including 78 financial-industrial groups, comprising 833 strategic clients), 470 of which were located in Moscow and 500 in the regions. Strategic clients include natural monopolies such as Russia's national gas company OJSC Gazprom ("Gazprom"), Russia's national electricity company Unified Energy Systems of Russia, and Russia's national railways company OJSC Russian Railways ("Russian Railways") as well as large enterprises operating in various sectors of the Russian economy, such as oil companies OJSC NK Rosneft ("Rosneft") and OJSC LUKOIL ("LUKOIL"), telecommunications companies OJSC Svyazinvest and AFK Sistema, diamond producer Alrosa Company Ltd. ("Alrosa"), metals producer OJSC MMC Norilsk Nickel ("Norilsk Nickel"), steel manufacturer OJSC Magnitogorsk Iron & Steel Works ("Magnitogorsk Iron & Steel Works"), Russia's largest airline OJSC Aeroflot – Russian Airlines ("Aeroflot"), dairy and juice company Wimm-Bill-Dann Foods OJSC ("Wimm-Bill-Dann Foods") and car maker OJSC Avtovaz ("Avtovaz"). Dedicated managers based at the Head Office supervise the services provided to strategic clients throughout Russia. Additional dedicated managers for strategic clients are located in the regional branches. Approximately 65% and 63% of VTB's corporate banking products and services, by value, were provided to strategic clients in 2003 and the first quarter of 2004, respectively.

Strategic clients often receive preferential pricing and interest rates. VTB also develops customised services for strategic clients, such as arrangements for treasury departments of large companies to work with VTB's treasury to determine optimal allocation of funds, assistance with cash flow management and specialised settlement services.

To strengthen its long-term relationships with new strategic clients and to secure their business, VTB enters into strategic partnership agreements with some of these clients. These agreements are not binding, but VTB believes that they increase strategic clients' business. These agreements generally set forth the framework for VTB's relationships with the relevant strategic client and usually provide for VTB to make a range of banking services, such as account services, lending, payment and settlement services, trade financing services and financial consulting services, available to the client. Some agreements also provide for products or services tailored to the needs of particular strategic clients and/or volume discounts. As of August 1, 2004, VTB had 82 strategic partnership agreements (including agreements with regional and city administrations).

VTB has business development programmes for particular industries and strategic clients which set forth plans for maintaining, developing and attracting strategic client business. To market its services to a potential strategic client, VTB evaluates its financial situation and relationships with various banks, determines its needs and what VTB can offer it and then makes its approach.

Large corporate clients are clients with annual sales volume of between U.S.\$10 million and U.S.\$100 million. Large corporate clients are served by dedicated managers at VTB's branches and may be provided with customised services.

Medium clients are clients with annual sales volume of between U.S.\$3 million and U.S.\$10 million and small businesses are clients with annual sales volume of less than U.S.\$3 million. However, for lending services, clients with annual sales volume of U.S.\$3 million or less and credit needs of no more than U.S.\$1 million are considered small businesses. Such clients receive standardised services at VTB's branches and sub-branches.

See "– Other Group Banks – Foreign Banks – Services and Activities" for a description of the client base of the other principal Group banks.

Services

The Group's corporate banking services to legal entities include bank account, deposit and settlement services, lending and foreign trade transactions, banking services for small businesses, precious metals operations, custody services and investment banking services.

Bank Account, Deposit and Settlement Services. The Group assists legal entities with opening bank accounts and advises them on various banking operations and the use of different banking products in

their business. VTB's bank accounts for legal entities include current and term accounts in roubles and in certain foreign currencies (predominantly U.S. dollars and euro), as well as special-purpose accounts such as payment accounts used to settle obligations with Russian counterparties and current accounts denominated in foreign currency used for currency operations. Companies operating nationwide receive services throughout VTB's branch network. VTB provides payment and settlement services on behalf of its clients through its branches and its correspondent banking network in Russia and abroad. The Group provides payment services to foreign subsidiaries of Russian clients through its foreign banks.

VTB issues VISATM, MasterCardTM and Diners' ClubTM debit cards for legal entities. In addition to ordinary debit cards, VTB issues and administers branded corporate debit cards. VTB also acts as a distributor for American Express charge cards for legal entities and individuals. As of August 1, 2004, VTB had issued 1,532 debit cards to legal entities. In addition, VTB offers legal entities salary payment arrangements, whereupon employees' salaries are paid into their VTB debit card accounts, and cash handling services.

In addition to placing funds on deposit with VTB, legal entities may invest in VTB's promissory notes, which they can hold to maturity or use as payment instruments, and certificates of deposits.

Lending. The Group offers a number of credit products to legal entities. The main credit products are loans and guarantees. The commercial terms of the loans differ depending on the clients' needs and the Group's capital position. Loans are available in roubles and in certain foreign currencies. Loans to legal entities generally have security, guarantee or other assurance arrangements. See "Risk Management – Credit Risk – Credit Policies and Procedures for Legal Entities."

The Group's traditional client base for loan products has been Russian companies engaged in oil and gas production and processing, defence, gold mining, aircraft and ship building, car manufacturing, and chemicals and metals production. More recently, the Group has begun providing loans to Russian retail chains, food production companies and companies in other growing industry sectors such as telecommunications and the media. In 2003, the Group provided loans to Russian industry leaders such as Gazprom, Russian Railways and equipment producer OJSC Power Machines and, in 2004, Gazprom, Rosneft, Russian Railways and Norilsk Nickel. In Russia, the majority of loans to legal entities over U.S.\$1 million are made from VTB's Head Office, but currently the branch loan portfolio is growing at a faster rate than that of the Head Office.

The Group also provides loans to public authorities such as Government ministries and regional and municipal administrations. As of December 31, 2003, gross loans to public authorities totalled U.S.\$128 million, or 2% of the Group's total loan portfolio. As of March 31, 2004, gross loans to public authorities totalled U.S.\$199 million, or 4% of the Group's total loan portfolio.

The Group is continuing to develop its portfolio of medium-term (one to three years) and long-term (over three years) loans to legal entities. The Group also arranges and acts as a lender on syndicated loans made to Russian companies and banks as well as banks in CIS countries, where the syndicates include foreign and Russian banks. In 2003, VTB acted as an arranger and a lender on syndicated loans provided to Aeroflot, JSC The State Export-Import Bank of Ukraine and JSC Priorbank and, in 2004, on syndicated loans provided to JSC Prominvestbank, JSC Russian Standard Bank and Moscow Bank for Reconstruction and Development. The Group believes that arrangement of syndicated loans can become a significant source of fee-based income in the future.

The Group's credit products for legal entities also include guarantees. Guarantees include, amongst others, loan guarantees, performance guarantees, advance guarantees, payment guarantees, customs guarantees and bid bonds. Loan guarantees secure repayment of a loan, performance guarantees secure obligations to deliver goods or provide services under export contracts, advance guarantees secure refunds of advance payments received under export contracts if the relevant obligations are not fulfilled, payment guarantees secure payment obligations under import contracts, customs guarantees secure payments of customs duties and bid bonds secure obligations incurred through participation in tenders.

The Group is continuing to develop and has begun to offer more complex credit products, such as financial leasing, project financing, merger and acquisition financing and refinancing of investment portfolios of specialised financial entities such as leasing companies and property investment funds. The Group's key partners in its financing projects are international commercial banks and other foreign financial institutions such as the EBRD. VTB believes that it is one of the few Russian banks that offers project financing for terms longer than five years.

Foreign Trade Transactions. VTB began as a bank primarily focused on foreign trade activities, and the Group continues to provide payment and settlement services for legal entities in connection with import and export operations, to issue import, export, stand-by and revolving letters of credit and to provide export and import financing and related services. See “Risk Management – Credit Risk – Credit Policies and Procedures for Legal Entities – Credit Related Commitments.” These revenues have increased as the Group took on clients from VEB. The Group provides export and import settlement services to, and assists with documenting foreign trade operations of, large companies such as OJSC Tyumen Oil Company (“TNK”), LUKOIL and OJSC Slavneft as well as medium clients and small businesses. The Group offers consulting services for legal entities on export and import settlements within the framework of Russian currency laws and complex banking and financial operations relating to exports and imports. The Group also provides pre-export financing (financing used by the borrower to produce goods for export) for legal entities. On April 19, 2004, VTB received an EBRD award for being the “Most Active Russian Bank in Intra-Regional Trade Finance.”

In addition, the Group, through VTB, provides import financing using funds from foreign banks and export credit agencies that are currently unwilling to assume direct credit risk of Russian companies. VTB was the first Russian bank to form relationships with foreign export credit agencies after the 1998 Russian banking crisis and, as of August 1, 2004 had 43 agreements with foreign banks and export credit agencies. For example, in 2003, VTB entered into a credit agreement with HSBC and the Export-Import Bank of the United States for a total of U.S.\$50 million to finance imports from the United States into Russia, a credit agreement with ABN AMRO Bank N.V. for a total of €100 million to finance European imports into Russia, and a memorandum of understanding with Export Development Canada for a total of U.S.\$50 million to finance Canadian imports into Russia. Bilateral credit agreements with foreign banks are used to finance imports of specific goods or services into Russia. These credit agreements are structured as framework agreements for provision of medium-term (one to three year) loans to VTB. VTB lends the proceeds of these loans, at higher interest rates, to Russian importers and/or provides them with letters of credit to pay foreign suppliers. VTB also enters into framework agreements with export credit agencies whereupon the credit agencies provide long-term (five to ten year) loans to VTB, the proceeds of which are also used to finance imports of good and services into Russia by Russian companies.

In addition, VTB buys, sells and collects foreign currencies for legal entities and provides consulting services relating to foreign currency operations. Legal entities in Russia use VTB’s correspondent banking network, which currently includes banks in 112 countries, for payments and settlements with foreign counterparties. The Group also engages in transactions in the international currency markets on its own and clients’ behalf.

Banking Services for Small Businesses. VTB believes that most Russian banks currently focus on serving large companies and do not offer banking products and services tailored to the needs of small businesses, such as relatively small short-term working capital loans. In line with the Group’s strategy to expand services to small businesses in Russia, in April 2004 VTB formed its Small Business Lending Department and recruited an experienced senior executive to oversee and develop it. The Small Business Lending Department will focus on providing lending, foreign trade and other banking services to small businesses with high economic potential.

Loans to small businesses generally have higher interest margins than loans to large companies, but may also carry greater credit risk. See “Risk Factors – Risks Relating to the Group’s Business and Industry – VTB may be unable to adequately assess the credit risk of potential borrowers.” VTB plans to lend a total of U.S.\$1 billion to medium clients and small businesses in 2004. In addition, VTB plans to participate in small business support programmes operated by international financial organisations such as the IFC and the EBRD. VTB is also improving simplified credit approval procedures for small businesses.

VTB is also developing standard packages of services designed to address other banking needs of small businesses, including bank accounts and payment and settlement services. Providing standard packages of services to small businesses will allow VTB to leverage its financial, information and communications technologies, thus reducing transaction costs and risks.

Precious Metals Operations. VTB sells and purchases precious metals (primarily gold) in physical and book-entry forms to and from legal entities. It also exports and sells gold on its own behalf and on behalf of banks and gold producers. In addition, it provides short-term (up to a year) and medium-term (up to three years) financing and hedging products to gold producers and purchases gold directly from them. In 2003, VTB purchased 24.4 metric tons of gold directly from producers, of which it exported 2.9 metric tons

and resold the remainder in Russia, and provided U.S.\$150 million dollars in financing to gold producers. In the first half of 2004, VTB purchased 7.4 metric tons of gold directly from producers, of which it exported 3.7 metric tons and resold the remainder in Russia, and provided U.S.\$137 million dollars in financing to gold producers. In respect of its precious metals operations, VTB's domestic clients include 64 gold producers, the CBR and commercial banks and its international clients are major banks such as JPMorgan Chase Bank and Commerzbank AG. As of March 31, 2004, the Group had U.S.\$388 million in outstanding commitments for the purchase of precious metals.

Custody services. VTB is one of the largest bank custodians in Russia and was one of the first Russian banks licensed to conduct a full range of custody services. In August 2004, Thomas Murray Ratings Limited awarded VTB an "A-" custody rating, with a stable outlook, for MinFin bonds and all other types of Russian assets. VTB is recognised for certain purposes as an eligible foreign custodian by global custodians and institutional investors. As of August 1, 2004, VTB maintained accounts for 290 depositary institutions, including 21 global custodians.

VTB provides custody services with respect to Russian corporate equity and debt securities, Russian Federation rouble-denominated bonds and eurobonds, Russian regional and municipal bonds, Global Depositary Receipts and American Depositary Receipts of Russian companies, and foreign government and corporate securities. VTB's custody services include safekeeping, trade processing and settlement on a delivery-for-payment and delivery-versus-payment bases, corporate actions services, income collection, tax support, securities pledging, verification of securities certificates, payment agent services, bills of exchange domicile services and client portfolio evaluation. VTB acts as the primary depositary and paying agent for MinFin bonds. In addition, it provides specialised depositary services and agency services for non-governmental pension funds and registrar services for mutual funds. Custody services are provided by VTB's Head Office and the majority of its Russian branches and sub-branches. As of August 1, 2004, VTB had approximately 3,150 depositary clients (including legal entities and individuals).

Investment Banking Services. In line with the Group's strategy to develop investment banking in Russia, VTB has recently assembled an experienced investment banking team and has begun arranging and underwriting domestic bond offerings and providing brokerage and financial advisory services.

In 2003, VTB took part in 18 domestic bond offerings, acting as an underwriter in offerings of, amongst others, steel producer Magnitogorsk Iron & Steel Works, telecommunications provider Vimpelcom OJSC and Wimm-Bill-Dann Foods. In 2004, VTB took part in, among others, domestic bond offerings of Gazprom and Avtovaz. According to *Cbonds*, a Russian bond market information agency, in 2003 VTB was the third-largest, and in the first half of 2004 the largest, underwriter of Russian domestic corporate bonds, in terms of volume of bonds underwritten.

VTB offers domestic and foreign legal entities brokerage services on all major Russian securities exchanges and the over-the-counter markets and investment advisory and market making services relating to government, municipal and corporate securities (primarily Russian debt securities). It has also started to produce research on the Russian fixed income market. In addition, VTB is beginning to provide asset management services, targeting conservative long-term investors such as insurance companies and pension funds.

Retail Banking

The Group's retail services currently focus on deposit taking, lending and certain ancillary services. These services are primarily provided by VTB and newly-acquired Gута Bank in Russia, although Armsavings-bank has a retail branch network and other foreign banks provide retail services to the extent permitted by their banking licences, primarily to employees of corporate clients and wealthy Russian individuals. VTB's retail business began by offering services to employees of corporate clients, who currently constitute approximately 60% of the Group's retail clients (not including clients of Gута Bank). Whilst VTB's retail business is growing and has become an important source of funding, it is not yet a material source of revenue for the Group.

VTB is committed to expanding its retail business. See "– Strategy – Expansion of VTB's Retail Services in Russia." It recently hired an experienced retail services team from another bank in order to develop its retail services, which it targets primarily at Russia's small but growing middle class. VTB has conducted market studies and employed external research providers to ensure that it is meeting the needs of retail clients in the major Russian regions and that its new products will succeed. For example, prior to offering

retail mortgages VTB conducted internal and commissioned external market research of demand for such mortgages and it is continuing to monitor Russian real estate and mortgage markets. VTB is also seeking to differentiate itself by the quality of services it provides to retail clients.

In 2003, VTB launched the “Energy of Success” marketing campaign to promote itself as a universal bank and to publicise its banking services in Moscow and the regions. As part of this campaign, VTB is publicising its retail services in Moscow and the regions. To date, the campaign has led to a significant inflow of retail clients.

Deposit Accounts. Retail deposit portfolio development is a priority for VTB, and it is offering its retail clients an increasing range of deposit accounts. VTB’s deposit accounts include demand and term accounts denominated in roubles, U.S. dollars and euro. Terms of the deposits vary from on demand to two years and may be extended. In accordance with Russian law, clients are currently allowed to withdraw their deposits prior to the expiration of the term, but the bank has the right to decrease the interest rate on the remainder of the deposit. As of July 1, 2003, VTB held 811,235 demand and term accounts for 620,000 individuals. In June 2004, VTB applied for participation in the new retail deposit insurance scheme established by the recently adopted Deposit Insurance Law, which mandates protection of deposits in all participating Russian banks up to RUR100,000 (U.S.\$3,422 at the exchange rate of RUR29.22 per U.S.\$1.00) per bank. See “Risk Factors – Risks Relating to the Group’s Business and Industry – If VTB does not participate in the newly-established deposit insurance scheme, VTB will be unable to accept retail deposits and open bank accounts for individuals” and “The Banking Sector and Banking Regulation in Russia – The Russian Banking Sector – Legislative Framework for the Russian Banking Sector.”

Individuals in Russia may conduct their banking through VTB’s branches, sub-branches, outlets, ATMs and subsidiary banks. As of September 21, 2004, VTB had 728 ATMs. VTB is also developing telephone-based and Internet banking.

VTB issues VISATM, MasterCardTM and Diners’ ClubTM debit cards to individuals. Debit card holders pay annual and transaction-based fees for using the cards. In 2003, the number of individual debit cards issued by VTB grew by 111%, to 341,071. As of August 1, 2004, VTB had issued approximately 500,000 debit cards to individuals. VTB’s retail clients may apply for debit cards via VTB’s Internet site. In addition, VTB has begun to offer debit cards with overdraft loans.

VTB provides a number of ancillary services to individuals in Russia. It buys, sells and exchanges all major foreign currencies and cashes foreign payment instruments and travellers cheques. Individuals can make direct payments from their bank accounts and pay for goods and services via the Internet with their VTB debit cards. They may also transfer funds domestically and internationally through VTB’s branch and correspondent banking network, purchase travellers cheques and rent safe deposit boxes to store valuables.

Lending. VTB’s retail loans include consumer loans and mortgages. Currently, all of VTB’s retail loans have fixed rates, but it is planning to introduce floating-rate retail loans in the near future. VTB advertises its retail loans in the media, and through company clients and insurance companies. Individuals can call VTB’s retail loan hotline to make initial inquiries about a retail loan.

In line with the Group’s strategy to expand retail lending in Russia, VTB plans to offer credit cards and is building relationships with retailers that can serve as distribution channels for consumer loans.

The Russian market and legal framework for mortgages is underdeveloped. See “The Banking Sector and Banking Regulation in Russia – Banking and Other Relevant Reforms.” Nevertheless, VTB believes that the Russian retail mortgage market has significant potential. Since October 2003, VTB has offered retail mortgages to finance apartment purchases in the secondary market and, since April 2004, to finance purchases of apartments under construction, which have higher interest rates due to the increased credit risk to VTB, since apartments cannot serve as collateral for the mortgage before construction is completed. See “Risk Management – Credit Risk – Credit Policies and Procedures for Individuals.”

In October 2003, VTB opened a centre for mortgage and other retail lending in Moscow and in April 2004, in St. Petersburg. These centres will engage in the development and launch of new retail mortgage products and will serve as training centres to facilitate mortgage lending throughout VTB’s branch network. VTB is also building relationships with developers and realtors to use them as distribution channels for mortgages.

Other Services. VTB's other services for individuals include securities accounts, other custody services and purchase and sale of precious metals and coins.

Proprietary Activities

The Group engages in transactions in securities for its own account. In the past, these transactions primarily involved government securities, but the share of Russian corporate and other securities in the Group's securities portfolio has been increasing. VTB is one of the major traders on the Moscow Interbank Currency Exchange and in the over-the-counter markets for Russian government securities and believes that it is one of the leading market-makers with respect to MinFin bonds and Russian Federation eurobonds. The Group also participates in rouble-denominated government securities auctions conducted by the CBR and in purchase and sale and repurchase ("repo" and "reverse repo") transactions with the largest Russian banks and with foreign banks. In addition, the Group engages in some transactions in derivatives, such as currency swaps, and trades foreign currencies for its own account. The Group no longer regards proprietary activities as a core business area and is shifting from proprietary activities to serving banking clients, but plans to continue to engage in proprietary activities as they contribute significantly to its operating income. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "– Strategy." In 2003, the Group's income from proprietary activities was U.S.\$268 million (41% of operating income). In the first quarter of 2004, the Group's income from proprietary activities was U.S.\$81 million (41% of operating income).

The Group conducts trading and investment activities in the following government securities: MinFin bonds, federal loan bonds and Russian Federation eurobonds. As of December 31, 2003, the Group's securities portfolio (trading securities and investment securities available for sale) was U.S.\$2.4 billion, constituting 22% of the Group's total assets. As of that date, Russian government securities accounted for 48% of the Group's securities portfolio (trading securities and investment securities available for sale), with foreign-currency denominated securities (MinFin bonds and Russian Federation eurobonds) accounting for 92% and rouble-denominated federal loan bonds accounting for 8% of the Group's portfolio of Russian government securities. As of March 31, 2004, the Group's securities portfolio (trading securities and investment securities available for sale) was U.S.\$2.5 billion, constituting 22% of the Group's total assets. As of that date, Russian government securities accounted for 37% of the Group's securities portfolio (trading securities and investment securities available for sale), with foreign-currency denominated securities (MinFin bonds and Russian Federation eurobonds) accounting for 80% and rouble-denominated federal loan bonds accounting for 20% of the Group's portfolio of Russian government securities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments."

The Group also conducts trading and investment activities in Russian corporate eurobonds, various debt securities issued by Russian companies and banks, foreign government securities, various debt securities of foreign companies and banks and bills of exchange and debentures. As of December 31, 2003, Russian corporate eurobonds accounted for 4%, various debt securities of Russian companies and banks accounted for 10%, bonds of foreign companies and banks for 2%, bills of exchange and debentures for 20% and various foreign government securities for 5% of the Group's securities portfolio (trading securities and investment securities available for sale). The Group also holds some corporate equity securities for investment purposes, which as of December 31, 2003 accounted for 6% of its securities portfolio. As of March 31, 2004, Russian corporate eurobonds accounted for 9%, various debt securities of Russian companies and banks accounted for 11%, bonds of foreign companies and banks for 3%, bills of exchange and debentures for 22% and various foreign government securities for 3% of the Group's securities portfolio (trading securities and investment securities available for sale). Corporate equity securities held for investment purposes accounted for 7% of the Group's securities portfolio as of March 31, 2004.

In 2003, due to the appreciation of the rouble against the U.S. dollar and declining yields on U.S. dollar-denominated securities, VTB changed its investment strategy and the structure of its proprietary securities portfolio and began to shift to rouble-denominated assets. A significant shift to rouble-denominated assets took place in early 2004.

VTB's Branch Network

VTB's branch network includes 46 full-service branches, 82 sub-branches and 41 outlets which offer a limited range of banking services, all of which were acquired or opened over the past decade. Of these,

28 sub-branches and seven outlets are located in Moscow and the rest in 42 Russian regions. Typically, a region has one branch and its operations are supplemented by one or more sub-branches and outlets. VTB's branches, sub-branches and outlets serve legal entities and individuals located in their regions and participate in financing programmes that VTB conducts through its branch network, such as financing of enterprises engaged in gold mining.

In line with the strategy to expand its business in Russia, VTB is continuing to develop its branch network. In 2003, it opened a branch in the city of Kemerovo in Siberia, 10 sub-branches in Moscow, two sub-branches in the Sverdlovsk Region and one sub-branch each in the cities of St. Petersburg and Astrakhan, the Chuvash Republic, the Republic of Tatarstan and Belgorod, Kostroma, Penza and Chelyabinsk regions. In 2004, VTB opened branches in the cities of Lipetsk and Smolensk, two sub-branches in the city of St. Petersburg, one sub-branch each in the cities of Kursk and Tula and outlets in the cities of Kazan, Tambov and Omsk.

On March 12, 2004, VTB's Supervisory Council approved VTB's Concept of Regional Network Development until 2008 (the "Development Concept"). Pursuant to the Development Concept, VTB plans to open more branches, sub-branches and outlets in a number of regions, to help diversify its client and funding base and raise the quality of client services. New branches, sub-branches and outlets will primarily be located in Moscow, the Moscow region, regional industrial centres and rapidly developing cities in the regions, and will serve national corporate clients with developed regional operations, regional clients engaged in export activities, small businesses and individuals. VTB plans to spend up to U.S.\$31 million in 2004 and \$14 million in 2005 on branch network enlargement and intends to open approximately 23 branches and approximately 187 sub-branches and outlets in Russia by 2008. VTB is currently revising the Development Concept to take into account the acquisition of Gута Bank.

Depending on the relative costs, VTB may purchase, construct or lease its branch or sub-branch buildings. VTB has generally been able to recover the capital expenditures for opening a new branch or a sub-branch within its first three to five years of operation.

VTB's Regional Network Development Department monitors the operations and the financial condition of the branches. VTB's Internal Control Department performs audits of each branch at least once a year. Risk management and other operating policies and procedures are set at the Head Office level and communicated to the branches. See "Risk Management."

Other Group Banks

Foreign Banks

Services and Activities

The Group includes four foreign subsidiary banks: Donau-Bank in Vienna, Austria, RCB-Cyprus in Limassol, Cyprus, EWUB in Luxembourg, RKB-Zurich in Zurich, Switzerland and Armsavingsbank in Yerevan, Armenia and two foreign associate banks: EWUB in Luxembourg and OWH in Frankfurt, Germany. As of December 31, 2003, the assets and liabilities of the foreign banks (excluding Armsavingsbank which was purchased in April 2004) accounted for 25% of the total assets and 23% of the total liabilities of the Group and as of March 31, 2004 for 27.4% and 29.0%, respectively.

VTB's Foreign Banking Subsidiaries Department performs monthly reviews of the financial information of the foreign banks and prepares reports for VTB's Management Board. Foreign banks provide VTB with quarterly IFRS reports and monthly local GAAP reports. VTB's representatives serve on the boards of directors or supervisory boards of each foreign bank.

Donau-Bank. Donau-Bank was established by the former State Bank of the USSR and Vneshtorgbank of the USSR in 1974 and is located in Vienna, Austria. VTB currently owns 85% of Donau-Bank, which it purchased from the CBR in increments during the 1990s, and the CBR owns 15%, which VTB is interested in purchasing. Whilst VTB and the CBR have been negotiating the terms of the purchase the negotiations have been slowed by changes in the senior management of the CBR in early 2004. Mr. Vladimir Dmitriev, a former Deputy Chairman of Management Board of VTB and the current President of VEB, is the chairman of Donau-Bank's six-member supervisory board, which also includes one representative each of the CBR and a strategic client, two representatives of Donau-Bank and an independent member. A representative of VTB will be elected to Donau-Bank's supervisory board at the next shareholders' meeting of Donau-Bank, which is expected to take place in October 2004.

Donau-Bank provides products and services for large and medium-sized Russian and foreign companies engaged in international trade. It currently specialises in transactions in promissory notes, investment banking and credit and settlement services for transactions between Russian and CIS legal entities and counterparties in Western and Central Europe. Its other services and activities include structured trade finance, trade-related documentary transactions, international account management, fiduciary operations and consulting services. Donau-Bank is active in the international correspondent banking market, allowing its clients to access banking services globally.

The primary sources of Donau-Bank's operating income in 2003 and early 2004 were transactions in promissory notes and investment operations. Donau-Bank purchases, at a discount, promissory notes of its clients (which are sometimes guaranteed by VTB) and later sells them in the market or in repo transactions. Donau-Bank also conducts trading and investment operations on its own and clients' behalf in Russian and European securities, money and foreign exchange markets and engages in repo transactions with Russian government and corporate debt securities.

In addition, Donau-Bank lends, either bilaterally or as part of syndicates including major international banks, to large Russian companies, such as Gazprom, LUKOIL, TNK and Alrosa. In 2003 and early 2004, Donau-Bank also provided loans to Russian airlines, freight forwarding companies and telecommunications providers. Most of the loans that Donau-Bank provides are short-term (up to one year), but the share of medium-term (one to three year) loans in Donau-Bank's loan portfolio is increasing. Donau-Bank also provides letters of credit and guarantees to Russian exporters and Western importers to Russia.

In past years, Donau-Bank made a significant contribution to the Group's operating income and net profit. In 2003, Donau-Bank's profit before taxation was U.S.\$121 million, and its net profit was U.S.\$165 million (due to the effect of the recognition of a deferred tax asset), compared to net profit of U.S.\$264 million for the Group as a whole. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Years Ended December 31, 2003, 2002 and 2001 – Income Tax Benefit (Expense)." Its total assets were U.S.\$1.2 billion as of December 31, 2003. As of March 31, 2004, Donau-Bank's profit before taxation was U.S.\$18 million, and its net profit was U.S.\$15 million, compared to net profit of U.S.\$74 million for the Group as a whole. Its total assets were U.S.\$1.1 billion as of March 31, 2004. Donau-Bank receives its funding primarily from operations with promissory notes and other securities, repo transactions and on the European interbank market.

The Group plans to expand Donau-Bank's activities to include structuring and syndication of more complex international financial transactions, lending to foreign subsidiaries of Russian companies, lending to Austrian exporters supported by Austrian government guarantees and acting as an underwriter in international securities offerings by Russian companies. VTB is also considering making Donau-Bank the primary foreign Group bank that would own and manage the other foreign banks (except Armsavingsbank and any other CIS banks that VTB may open or acquire). See "– Development."

RCB-Cyprus. RCB-Cyprus is located in Limassol, Cyprus. It was formerly a branch of VEB and became a separate bank in 1995. RCB-Cyprus is currently wholly-owned by VTB. It has a five-member board of directors, three of whom are representatives of VTB.

RCB-Cyprus has International Business Corporation status under Cyprus law. Tax Law no. 118(I)/2002, which went into effect as of January 1, 2003, significantly changed the Cypriot tax regime. However, as permitted by Tax Law no. 118(I)/2002, RCB-Cyprus chose to be taxed as an International Business Corporation until December 31, 2005. Until that date, RCB-Cyprus' net income will be taxed at the rate of 4.25% and thereafter at the rate of 10%.

RCB-Cyprus' activities include lending to Russian companies for tax optimisation purposes, securities and currency trading, accounts receivable factoring, deposit taking and trade financing. For example, RCB-Cyprus may take a deposit from a Russian company and then lend the amount of the deposit back to that company. Given Cyprus's entry into the European Union and the resulting changes to its taxation laws, RCB-Cyprus plans to position itself as a European bank that can provide trade-related services for Russian companies operating abroad and for trading partners of the Group's corporate clients as well as private banking services for wealthy Russian individuals.

Given the nature of RCB-Cyprus' business, it holds significant assets whilst generating relatively low fee-based operating income. In 2003, RCB-Cyprus had a net loss of U.S.\$3 million. Its total assets were

U.S.\$1.4 billion as of December 31, 2003. The assets and corresponding liabilities of RCB-Cyprus have decreased significantly in the first six months of 2004 as a result of its business activities, such as back-to-back loans being repaid. In the first quarter of 2004, RCB-Cyprus had a profit before taxation of U.S.\$0.9 million and a net income of U.S.\$0.9 million. Its total assets were U.S.\$972 million as of March 31, 2004. RCB-Cyprus receives approximately a third of its funding from VTB in the form of interbank loans and deposits. The remainder of its funding comes from client deposits and proprietary operations.

VTB believes that RCB-Cyprus will benefit from an increase in capital, and plans for it to issue additional shares before the end of 2004. This issue will be sold to a special-purpose vehicle owned by Donau-Bank and a strategic investor. Following the additional share issue, the Group will retain a controlling interest in RCB-Cyprus.

EWUB. EWUB was established in 1974 and is located in Luxembourg. VTB currently owns 48% of EWUB, AFK Sistema owns 35%, the CBR owns 15% and BCEN-Eurobank owns 2%. VTB has one representative on EWUB's six-member board of directors, which also includes a representative of the CBR and two each of AFK Sistema and of EWUB.

A significant volume of AFK Sistema's international transactions is currently serviced through EWUB. AFK Sistema has an option to purchase EWUB's shares from VTB that, if fully exercised, would reduce VTB's current shareholding to 32%. The option expires in 2004, and VTB plans to renew it. To exercise the option, AFK Sistema must receive permission from Luxembourg's *Commission de surveillance du secteur financier* ("CSSF"). VTB anticipates that the CSSF will permit AFK Sistema to purchase shareholdings in EWUB in 5% increments. A purchase by AFK Sistema of an additional 5% interest in EWUB, which reduced VTB's ownership interest to 48%, was completed on June 26, 2004. Effective from June 26, 2004, VTB will no longer consolidate EWUB in its financial statements and will account for its investment in EWUB under the equity method.

EWUB's services include transaction processing and financing services for commercial operations between Benelux countries and Russia, participating in syndicated loans to Russian clients, issuing credit confirmations and guarantees, conducting fiduciary operations and private banking and asset management services for wealthy Russian individuals. It also engages in proprietary transactions with Russian government and corporate securities. In 2003, EWUB generated profit before taxation of U.S.\$7 million and had a net profit of U.S.\$5 million. Its total assets were U.S.\$209 million as of December 31, 2003. In the first quarter of 2004, EWUB generated profit before taxation of U.S.\$1.1 million and had a net profit of U.S.\$0.8 million. Its total assets were U.S.\$287 million as of March 31, 2004. At present, EWUB receives its funding from client and proprietary operations. It has previously received funding from VTB, which it is currently repaying.

RKB-Zurich. RKB-Zurich was incorporated in 1992 and is located in Zurich, Switzerland. It is authorised to perform a full range of banking operations, except deposit taking. It is owned by VTB, with the exception of the shares held by members of its board of directors. VTB has two representatives on RKB-Zurich's six-member board of directors, one of which is the chairman. Four other members of the supervisory board are Swiss citizens. Each director holds one share of RKB-Zurich for the duration of his or her board service.

RKB-Zurich's primary activities include trade and project financing, provision of letters of credit and guarantees, payment and settlement services, arranging syndicated loans, trust and fiduciary services and consulting services, primarily for Russian clients engaged in oil and gas production, trading, machine building and manufacturing. RKB-Zurich also engages in transactions in securities, foreign exchange and precious metals on its own and its clients' behalf.

In 2003, RKB-Zurich generated profit before taxation of U.S.\$9 million and had a net profit of U.S.\$9 million. Its total assets were U.S.\$347 million as of December 31, 2003. In the first quarter of 2004, RKB-Zurich generated profit before taxation of U.S.\$2.7 million and had a net profit of U.S.\$2.4 million. Its total assets were U.S.\$284 million as of March 31, 2004. RKB-Zurich's primary sources of funding are deposits from Russian banks. It also receives funding from in the form of a loan and a revolving credit line, as well as on the interbank market.

Armsavingsbank. Armsavingsbank was established in 1923 and, until 1993, was a subsidiary bank of Sberbank of the USSR. In September 2001, it was reorganised as a privately-owned joint stock company. VTB acquired 70% of Armsavingsbank in April 2004 for approximately U.S.\$9 million. Mika-Armenia

Trading Ltd. owns the remaining 30% of Armsavingsbank. VTB has three representatives on Armsavingsbank's five-member supervisory council and a representative of VTB is the chairman of Armsavingsbank's management board.

Armsavingsbank is Armenia's second-largest universal bank. It provides a full range of banking services and has 101 branches throughout Armenia. Through its extensive branch network it serves medium and small businesses and individuals in major cities as well as more remote areas. Armsavingsbank's principal activities include retail and commercial deposit taking, services relating to foreign trade and documentary and interbank operations. Armsavingsbank plans to expand its services to provide a full range of banking services to Russian companies operating in Armenia, particularly in the energy sector, and to service trade flows between Russia and Armenia. Armsavingsbank receives its funding primarily from client deposits. VTB began consolidating Armsavingsbank into its financial statements as of the second quarter of 2004.

OWH. OWH, an associate bank of the Group, was established in 1971 and is located in Frankfurt, Germany. VTB currently owns 32% of OWH, the CBR owns 52%, Yukos owns 7% and a number of Russian entities own the remaining 9%. VTB's representative is the chairman of OWH's six-member supervisory board. The supervisory board also includes two representatives each of the CBR and OWH and one of Donau-Bank.

OWH's principal activities include clearing and settlements for international trade transactions, lending and proprietary securities trading. It has an extensive correspondent bank network throughout Europe, including Russia and the CIS. OWH also provides pre-export and post-export financing (financing provided to an exporter in advance of payment for an export transaction and repaid once the payment is received) and accounts receivable factoring for companies located in the Russian regions and CIS countries and to European companies that export goods or services to Russia. OWH also participates in syndicated loans to Russian companies.

In an effort to increase its profitability, OWH has recently undergone a number of cost-cutting measures, including relocating its offices and reducing its staff. Donau-Bank is currently conducting due diligence and a valuation of OWH with a view to purchasing a portion or all of the CBR's shareholding in OWH and if such purchase is completed may also seek to acquire the interests of other minority shareholders in OWH. See "– Development."

In 2003, OWH generated profit before taxation of U.S.\$431,400 and had a net profit of U.S.\$39,800. Its total assets were U.S.\$923 million as of December 31, 2003. In the first quarter of 2004, OWH generated profit before taxation of U.S.\$1.1 million and had a net profit of U.S.\$1.1 million. Its total assets were U.S.\$760 million as of March 31, 2004. OWH receives its funding primarily from client deposits. It also has a sizeable deposit from the CBR that serves as security for some of OWH's operations.

Development

On September 26, 2003, VTB's Supervisory Council approved the Concept of Restructuring of Foreign Banking Subsidiaries for 2003-2005, which supports the Group's overall strategy of becoming a pan-European banking group with a comprehensive and competitive range of banking products. Pursuant to this plan, VTB plans to restructure its foreign banking network. During the restructuring, VTB will reduce or eliminate duplicate functions and expenses, taking advantage of group synergies, and establish uniform risk management policies. VTB anticipates that the restructuring will increase legal and regulatory benefits of its foreign operations as well as the transparency and profitability of the Group's foreign banks.

VTB believes that the Group will become more profitable if the capital of all the foreign banks (excluding Armsavingsbank and any other CIS banks that VTB may open or acquire) is pooled in one entity. Capital pooling will allow the foreign banks to engage in larger transactions, better manage their risks and have larger risk and lending limits. Currently, VTB is considering transferring shares of the other foreign banks (except Armsavingsbank and any other CIS banks that VTB may open or acquire) to Donau-Bank, which will become the Group's primary foreign bank. Under the management of Donau-Bank, the Group's foreign banks will seek to offer a full range of banking services to Russian clients and foreign corporate clients that have business interests in, or export their products or services to, Russia. VTB is also considering eventually rebranding the foreign banks with the VTB name and transforming some foreign banks into branches in order to make their operations more transparent, merge their capital and achieve greater synergies. VTB believes, based on the advice it has received from outside consultants, that

regulatory approvals in Austria, Cyprus, Germany, Luxembourg and Switzerland will be required to effect the proposed restructuring. Currently, VTB is formulating a detailed restructuring plan that will be presented to its Supervisory Council for approval in the near future.

VTB also anticipates purchasing, through Donau-Bank, all or a portion of the CBR's 52% shareholding in OWH and becoming its major shareholder. The terms of the purchase will depend on the results of the due diligence review and valuation of OWH which Donau-Bank is currently conducting, as well as the terms that will be offered to VTB by the CBR. In accordance with Russian legislation, the purchase of the CBR's shareholding by Donau-Bank will have to be approved by the CBR and the Government as well as by the Austrian and German banking regulators. At the time of its purchase of the CBR's shareholding Donau-Bank may offer OWH's minority shareholders to purchase their shareholdings on the same terms.

In line with the Group's strategy of expansion in the CIS banking market, in April 2004, VTB acquired a controlling shareholding in Armsavingsbank. The acquisition of Armsavingsbank allows the Group to engage in a full range of banking activities in Armenia and to strengthen its position as the primary servicer of trade flows between Russia and Armenia. See "– Banking Services and Activities – Corporate Banking – Services – Foreign Trade Transactions." In May 2004, VTB reached an agreement to purchase a controlling interest in the United Georgian Bank, one of the largest banks in Georgia, where a number of large Russian companies that require banking services already operate. VTB expects to spend approximately U.S.\$7 million for this acquisition. VTB is also currently negotiating an acquisition of a controlling interest in a bank in Moldova, for which it expects to spend approximately U.S.\$5 million. VTB anticipates that both of these acquisitions will take place before the end of 2004. VTB is also currently registering a subsidiary bank in Ukraine, which will initially focus on providing international settlement services, loans and trade financing. VTB anticipates opening the Ukrainian bank before the end of 2004. Its initial share capital, contributed by VTB, will be approximately U.S.\$15 million, to be increased to U.S.\$50 million within a year. The Group is also planning, in the near future, to increase its activities in the banking markets of Belarus, Kazakhstan and other CIS countries, possibly through purchasing or opening subsidiary banks.

Domestic Banks and Participations

Domestic Banks

Guta Bank. In July 2004, as part of its measures to combat the turmoil in the Russian banking sector, the CBR approached VTB with a proposal to acquire Guta Bank, a large privately-owned bank that experienced temporary liquidity difficulties due to turmoil in the Russian banking sector. VTB believes that it was approached by the CBR due to its size and its track record of successfully integrating acquisitions. See "The Banking Sector and Banking Regulation in Russia – The Russian Banking Sector." In the late spring of 2004, when the turmoil in the Russian banking sector began, Guta Bank had a maturity mismatch between the terms of its liabilities and those of its assets, resulting in a liquidity gap. The turmoil also coincided with negative publicity about the Guta Group, a Russian financial-industrial group, a number of whose members held interests in Guta Bank. The banking sector turmoil and the negative publicity resulted in a large number of Guta Bank's retail depositors and holders of certificate of deposits withdrawing their funds prior to the expiration of their term, as permitted by Russian law, which significantly increased Guta Bank's liquidity gap. Due to the banking sector turmoil, Guta Bank was not able to obtain funds on the interbank market, call in a sufficient amount of its loans, or obtain shareholder funding. As a result, Guta Bank had to suspend its operations. On July 16, 2004, VTB acquired 85.8% of Guta Bank for approximately RUR1 million (U.S.\$34,223 at the exchange rate of RUR29.22 per U.S.\$1.00). The Federal Agency for the Management of Federal Property owns a 12.5% interest in Guta Bank and CJSC Metrovagonmash owns the remaining 1.7% interest. On July 19, 2004, Guta Bank's shareholders elected a new, five-member board of directors, four of whom represent VTB.

In connection with the acquisition of Guta Bank, the CBR has provided financial assistance by placing a U.S.\$700 million deposit with VTB at the one-year LIBOR rate for the term of one year. The deposit is available to maintain Guta Bank's liquidity and for use in its operations. VTB and the CBR may agree to prolong the term of the deposit. VTB has extended a credit line to Guta Bank without incurring any negative interest rate consequences. The credit line is secured by Guta Bank's loan portfolio. As of the date of this Offering Circular, the amount drawn down by Guta Bank under this credit line does not exceed the amount of the CBR's deposit with VTB. See "Risk Factors – Risks Relating to Group Business and Industry – VTB is evaluating the financial impact of its acquisition of Guta Bank."

As VTB had to decide quickly whether to acquire Guta Bank due to Guta Bank's liquidity difficulties, it was not in a position to conduct a due diligence review and valuation of Guta Bank. VTB believed that the CBR's proposal presented it with an opportunity to acquire a bank with a well-developed retail and corporate banking businesses at an attractive price, and therefore proceeded with the acquisition. The ultimate impact of the acquisition on VTB's consolidated financial statements will be determined after the completion of an independent valuation of Guta Bank, which is currently taking place. VTB expects the valuation to be completed in October 2004, at which time it will be better able to assess the impact of the temporary liquidity shortage and the general state of the Russian banking market on Guta Bank's financial condition. See "Risk Factors – Risks Relating to Group Business and Industry – VTB is still evaluating the financial impact of its acquisition of Guta Bank." VTB plans to begin consolidating Guta Bank into its financial statements in the third quarter of 2004, with consolidation beginning on July 16, 2004, the date of acquisition.

Guta Bank is focused on serving the banking needs of its corporate clients, predominantly small and medium enterprises, as well as providing retail and investment banking. It has 37 branches and sub-branches in Moscow and the Moscow Region and 39 branches and sub-branches elsewhere in Russia. It has well-developed retail banking technologies, including telephone and internet-based banking, and a securities brokerage business. The majority of its loans are made to corporate clients. Historically, Guta Bank had a significant volume of transactions with various members of Guta Group.

By August 2004, Guta Bank had resumed the majority of its corporate and retail banking operations, utilising the financial assistance provided by the CBR through VTB, and VTB believes that Guta Bank is not currently in default on any of its obligations. Guta Bank also plans to resume its investment banking operations and proprietary trading within limits to be set by VTB. At present, Guta Bank receives the majority of its funding from the CBR via VTB, but the volume of its client deposits is increasing.

VTB is still formulating its strategy with respect to Guta Bank and its position in the Group. At present, it plans to have Guta Bank continue to develop as an independent bank within the Group, under its own well-known brand, although the size and shape of Guta Bank remain under review. A number of senior managers have joined Guta Bank from VTB. They are currently formulating a new strategy for Guta Bank, which will take advantage of its relationship with VTB, and reviewing and revising Guta Bank's capital expenditure plans. In order to better manage its liquidity, Guta Bank will no longer offer retail certificates of deposits but will offer retail clients promissory notes, for which funds can be withdrawn only at the expiration of their term.

VTB purchased its interest in Guta Bank from a number of members of Guta Group. Guta Group members hold substantial assets in a number of Russian industries, including insurance, food and manufacturing. The Group may purchase some of these assets in the future. In particular, the Group expects to spend up to U.S.\$1 million to acquire the Guta Insurance Company.

Other Domestic Banks. In addition to VTB and Guta Bank, the Group includes three other Russian banks: CJSC Novosibirskvneshtorgbank in Novosibirsk, JSC Bank Povolzhsky (formerly JSB Ulyanovskvneshtorgbank) in Ulyanovsk and JSB Zabaikalsky in Chita. As of December 31, 2003 and March 31, 2004, these banks collectively accounted for 1% of the total assets and 1% of the total liabilities of the Group. VTB controls the supervisory board of each of these banks.

Each of these banks provides VTB's Centralised Accounting Department with information on its financial position and performance (under RAR) on a quarterly basis and VTB audits each of them at least once a year.

VTB believes that its domestic banking operations should be conducted in a uniform manner. VTB's Regional Network Development Department is currently in the process of determining whether to establish VTB branches in cities where its smaller domestic subsidiary banks are located. If a branch is opened in the current location of such subsidiary, VTB may transfer a portion of its business to the new branch and sell the subsidiary.

Development. VTB is currently negotiating possible acquisitions with a number of domestic banks that have branch networks. There can be no assurance that any negotiations will be successful or that any acquisitions will take place.

Participations

In December 2003, VTB acquired a 17% shareholding in All-Russia Regions Development Bank ("RDB"), a Russian bank with significant operations and clients in the Russian regions. RDB's other

significant shareholders are Rosneft, which holds 51% and the Government, which holds 26%. VTB's shareholding in RDB enables it to form relationships with RDB's regional clients and further expand its regional operations as well as to work with Rosneft, RDB's major client. In 2004, VTB made a decision to sell approximately a third of its RDB shareholding. As of June 25, 2004, VTB has sold approximately 17% of its RDB shareholding, reducing its interest in RDB to approximately 13%.

VTB believes that Russia's rapidly developing North West region has significant business potential. It has a number of established banks, and VTB believes that the optimal way to establish banking operations there is through an acquisition. VTB is currently negotiating the terms on which it will acquire a shareholding in ICB, a major corporate and retail bank in the North West region. ICB has 17 branches, 16 sub-branches and 14 outlets in St. Petersburg; 12 branches, two sub-branches and two outlets in the Leningrad Region; an operating centre and a sub-branch in Moscow; and 21 branches, 8 sub-branches and 25 outlets elsewhere in Russia, primarily in the North-West Region. VTB believes that acquisition of a shareholding in ICB will facilitate its ability to expand its banking operations in St. Petersburg, the Leningrad Region and other areas of Russia where it currently does not have a presence.

On September 6, 2004, VTB and ICB signed a non-binding memorandum of understanding providing for VTB's purchase of a 25% plus one share initial interest in ICB, once the approvals from the CBR and the Federal Anti-Monopoly Service are received. VTB and ICB are currently negotiating the terms of the acquisition of the initial interest, including the purchase price, which will be formalised in a purchase agreement. The purchase agreement may give existing shareholders the right to repurchase, in the future, some or all of the shares initially sold to VTB and may give VTB the right to resell some or all of the shares purchased from ICB's shareholders. VTB expects that the purchase agreement will be signed and the acquisition of the initial interest will be completed before the end of 2004. After VTB purchases the initial interest, VTB and ICB will seek to agree on the terms of VTB's purchase of an additional 51% minus one share interest, which would give VTB a controlling interest in ICB. VTB expects that the purchase of the controlling interest would take place no later than two years after the purchase of the initial 25% plus one share interest, although there can be no assurance that VTB will purchase the additional interest.

In 2003, ICB had operating income of RUR4.8 billion (U.S.\$167 million at the exchange rate of RUR29.22 per U.S.\$1.00) and a net profit of RUR974 million (U.S.\$33 million at the exchange rate of RUR29.22 per U.S.\$1.00). Its total assets as of December 31, 2003 were RUR66 billion (U.S.\$2.3 billion at the exchange rate of RUR29.22 per U.S.\$1.00).

IT Infrastructure

Current IT Systems

A core information system developed in-house by VTB and implemented in 2001 supports the key functions of VTB's Head Office, such as accounting, financial reporting, transaction processing and settlement and treasury operations. This system also supports the operations of VTB's 27 Moscow sub-branches. Each branch uses one of nine different software packages developed by Russian software providers that are not integrated operationally with the Head Office core information system. See "Risk Factors – Risks Relating to the Group's Business and Industry – VTB's IT systems may be insufficient to support its operations."

Information flows between the Head Office and regional branches occur via daily data updates. RAR financial information is collected and consolidated regularly. However, most IFRS financial reporting, including transformations from IFRS to RAR, is still performed manually. See "Risk Factors – Risks Relating to the Group's Business and Industry – VTB's IT systems may be insufficient to support its operations" and "Risk Factors – Risks Relating to the Group's Business and Industry – The Group's banking business entails operational risks."

VTB has two computer centres in Moscow. These centres maintain and support the core information system of the Head Office and have redundancy capabilities that ensure the continuity of VTB's operations in cases of failure. The centres are linked by fibre optic communication lines, and all critical data is replicated and backed up in real time. Branches have their own computer centres that maintain and support regional information systems. Branch centres have at least two servers for critical applications and

data is backed up at least on a daily basis. VTB has service agreements with vendor firms to ensure uninterrupted around-the-clock hardware operations. VTB's core information systems and hardware have operated consistently in recent years. In 2003, there were two instances where service was disrupted, but in both cases the systems were back in operation in one hour. To date in 2004, no disruptions have taken place.

Currently, the Head Office and the Moscow sub-branches are connected by a high-speed wide area network. Some of the branches are already connected to the Head Office by a wide area network and VTB expects the rest of the branches to be connected to the Head Office in this manner, with the appropriate redundancies in place, by the end of 2004. Some regional branches are connected to sub-branches in their regions and others are in the process of being connected. There are no wide area network connections between VTB and other Group banks.

Development

VTB believes that IT is essential to ensuring its operational continuity and efficiency and is committed to modernising its existing IT infrastructure and investing in IT in order to support the expansion of its operations. In Russia, VTB spent U.S.\$19 million in 2001, U.S.\$70 million in 2002 and U.S.\$25 million in 2003 on its IT infrastructure and has budgeted U.S.\$40 million to be spent for IT infrastructure between 2004 and 2007, part of which will be spent on maintenance and part on IT developments in line with the strategy described below.

In early 2004, VTB's IT systems were evaluated by outside advisers and were found deficient in a number of areas. In particular, the IT systems do not provide automated processing of data and operations for a number of products and services on a VTB-wide basis, do not fully support operations of branches, sub-branches, outlets and other Group banks and will not support the expansion of VTB's business and client base. See "Risk Factors – Risks Relating to the Group's Business and Industry – VTB's IT systems may be insufficient to support its operations" and "Risk Factors – Risks Relating to the Group's Business and Industry – Successful implementation of VTB's business strategy in Russia requires an upgrade of its IT systems." With the assistance of outside advisers, VTB formulated an IT infrastructure development strategy and recruited an experienced senior executive to oversee its implementation.

VTB plans to focus its IT infrastructure development on three goals: the reengineering of VTB's core information systems, the improvement of technical infrastructure and the reorganisation of IT services. Reengineering VTB's core information systems includes modernising the Head Office core information system, standardising branch information systems and enhancing management information systems. Improvement of technical infrastructure includes an upgrade of VTB-wide area telecommunications network, achieving full reliability and security and creation of a single platform for centralised monitoring of branch functions. Reorganisation of IT includes increasing the role of VTB's IT committee, coordination between the IT department and other departments and improvement of project management systems. Whilst VTB's IT strategy is being implemented, its IT staff plans to work closely with business departments to ensure minimal disruption of operations.

In line with its IT development strategy, VTB expects to make a number of key changes to its IT infrastructure before the middle of 2005. VTB plans to upgrade its Moscow computer centres. After the upgrade, one centre is expected to support the core information system of the Head Office and the Moscow sub-branches on a primary basis and the other centre is expected to function as its back-up. In cases of any failure at the primary centre, its functions will instantly be rerouted to the back-up centre. In the future, VTB expects the centres to also support branch operations. VTB also plans to upgrade its network and telecommunications infrastructure. In addition, it anticipates replacing the core information system currently used at the Head Office with a more advanced software package developed by an outside provider and configured specifically for VTB. Furthermore, VTB plans to replace the nine different systems currently used at its branches, sub-branches outside Moscow and outlets with two systems, one for branches, sub-branches and outlets located in cities with a population of over one million and another for those located in smaller cities and to standardise the configuration of these systems. VTB also intends to automate certain key banking functions such as loan processing, tax accounting, documentary operations and client relationship management and to upgrade back office software for debit card processing. Work is also expected to begin on creating a management data warehouse. During this time, VTB plans to reorganize its IT services. VTB expects the cost of these projects to range from U.S.\$9 million to U.S.\$11 million.

VTB expects that by the end of 2006 the management data warehouse containing VTB-wide operational data, updated daily, will be functioning. In addition, VTB plans to automate VTB-wide payment and settlement systems and retail, depositary and budgeting functions. VTB expects the cost of these projects to range from U.S.\$15 million to U.S.\$22 million.

VTB is also considering establishing, by the end of 2008, a number of area IT centres. These centres would support operations of several branches, sub-branches and outlets. During that time, VTB also plans to continue to develop its centralised IT architecture. VTB expects the cost of these projects to range from U.S.\$2 million to U.S.\$6 million. VTB believes that it will be able to transition to a centralised IT architecture by 2009. VTB also may, in the future, consider outsourcing some of its IT activities within Russia.

Employees

As of March 31, 2003, the Group had 7,552 employees, 3,222 of whom were based in Moscow, 4,190 elsewhere in Russia and 140 outside Russia.

The Russian market for qualified financial institutions personnel, especially for junior and middle management, is highly competitive. See “Risk Factors – Risks Relating to the Group’s Business and Industry – VTB may be unable to recruit or retain experienced and/or qualified personnel.” VTB’s personnel management policy is aimed at developing a skilled, highly productive staff that is successful in conducting its business. VTB has developed a comprehensive training programme which provides for both internal and external professional training of employees at all levels. Currently, VTB is planning to implement special personnel training programmes for interaction with small businesses. VTB believes that its current compensation package is generally comparable to that offered by other major Russian banks.

VTB believes that creating a corporate culture is important for its business development. To that end, it organises regular seminars, during which senior managers share their experience with VTB’s other employees, as well as working groups aimed at developing separate business segments and seminars and roundtable discussions for mid-level managers.

Staff costs accounted for 42% of the Group’s operating expenses in 2003 and for 45% in the first quarter of 2004.

VTB has a trade union to which a number of its employees currently belong. Most employees of foreign banks also belong to trade unions. The Group has not to date experienced any strikes, work stoppages, labour disputes or actions that have had a material effect on the operations of its business and it considers its relationship with its employees to be good.

Litigation

The Group is, from time to time, the subject of legal proceedings and other investigations in the ordinary course of its business. It is not currently a defendant in any litigation that it deems material and has not been a defendant in any such litigation in the 12 months prior to the date of this Offering Circular. In Russia, VTB is currently a plaintiff in one litigation against a defaulted borrower involving a total of U.S.\$51 million. The defendant in this litigation counterclaimed against VTB for U.S.\$31 million.

VTB is currently a plaintiff in an action against the CBR and Moscow Narodny Bank (“MNB”) in connection with a transaction where VTB, as an intermediary for the CBR, placed a U.S.\$100 million deposit with MNB. The CBR subsequently assigned its rights to the deposit to VEB. On October 1, 2003, Moscow State Arbitration Court ruled that the real intention of the parties was to acquire participation rights in loan agreements on behalf of the CBR, which was not allowed under applicable legislation (thereby rendering the subsequent transfer of rights by the CBR to VEB invalid). MNB was required to return the funds to the CBR and VTB was absolved of any liability for the deposits. However, on January 22, 2004, the appeals court reversed the decision and on July 26, 2004 confirmed the reversal after reconsidering the case. VTB is currently considering whether it will appeal this decision.

RISK MANAGEMENT

The following description primarily covers the risk management procedures of VTB in Russia; the risk management procedures of other banks within the Group are discussed under “– Risk Management Policies of Other Group Banks.” Financial information is presented on a consolidated basis, unless otherwise noted.

Overview

VTB's asset, liability and risk management strategy aims to increase its profitability over time subject to specific risk parameters and business needs. The Assets and Liabilities Committee (“ALCO”) establishes major balance sheet parameters for use in asset and liability management and, with the assistance of VTB's Risk Analysis Department (“RAD”) and its middle office (“Middle Office”) monitors compliance with them. The ALCO sets interest rates on deposits, minimum interest rates on loans, as described in more detail below, and determines the overall allocation of VTB's funds.

The RAD, divided into the Credit Risks Unit, the Financial Risks Unit and the Summary Analytical Unit, identifies and evaluates the risks that VTB faces. It proposes risk limits on various banking operations and prepares recommendations regarding market risk (interest rate, currency and securities portfolio risks) and liquidity risk management for the ALCO. The RAD reports to the ALCO, VTB's Credit Committee (“CC”) and the Management Board. The CC sets limits on VTB's credit operations and approves individual credit transactions. It currently has twelve members and meets on a weekly basis. As described in more detail below, the Management Board must approve certain decisions of the CC and the ALCO, and VTB's other departments assist the RAD, the CC and the ALCO in performing their functions.

The ALCO, the CC, the RAD, the Loan Administration Department and Treasury Department carry out risk management functions in respect of credit, market (interest rate, currency and securities portfolio) and liquidity risks. These risks are managed in an integrated manner and evaluated in terms of the correlation of the overall risk level and VTB's capital, using the value at risk (“VaR”) methodology for currency and securities portfolio risks and gap analysis techniques for interest rate and liquidity risks. Risk limits are established for credit, market and liquidity risks and the level of VTB's risk exposure is then maintained within these limits. Risk assessment is also the basis for optimal risk-adjusted capital allocation, transactional pricing and performance assessment.

VTB manages its operational and legal risks through internal monitoring and compliance policies as well as through outside insurance. VTB's Internal Control and Legal Departments monitor compliance with, and ensure the proper functioning of, internal policies and procedures designed to minimise operational and legal risks. VTB's insurance policies include a banker's blanket bond covering losses from computer, personnel and external crimes with maximum coverage of U.S.\$10 million, depositary insurance with maximum coverage of U.S.\$50 million at the Head Office and total maximum coverage of U.S.\$5 million elsewhere, insurance for cash, securities and precious metals in transit, with maximum coverage ranging from U.S.\$1 million to U.S.\$30 million, insurance of ATMs and change machines, with maximum coverage amount of approximately U.S.\$43 million (the amount changes periodically due to changes in the amounts of cash placed in these machines) and banking cards liability coverage of U.S.\$300,000. However, VTB does not carry insurance coverage at levels comparable to those customary in other countries for a bank of its size and nature and, under some circumstances, its insurance coverage may prove insufficient. The same is true of many Russian companies, as the Russian insurance sector is not fully developed and insurance is not widely relied upon to manage operational risk. See “Risk Factors – Risks Relating to the Group's Business and Industry – The Group's banking business entails operational risks.”

In 2003, VTB's risk management procedures were evaluated by international management consultants and were found adequate in light of the nature of VTB's operations. Nevertheless, VTB is committed to upgrading its asset, liability and risk management practices. Recently, VTB introduced contingency plans for both financial and non-financial crises and improved and standardised its risk management methodologies. VTB's contingency plans for financial crises set forth actions that its departments must take to secure immediate liquidity, including suspending trading operations and limits, actively seeking to sell holdings in securities and reducing expenses. VTB is currently working on enhancing its credit procedures. See “– Credit Risk – New Credit Risk Management Tools.”

Credit Risk

Credit risk is the risk that a counterparty will not be able to make payments in full when due. VTB manages its credit risk by establishing limits in relation to single borrowers, groups of borrowers, industries, regions and foreign countries, which are set and regularly reviewed by the RAD and approved by the CC as well as by complying with exposure limits established by the CBR. See “The Banking Sector and Banking Regulation in Russia – The CBR Regulation of the Russian Banking Sector – 2. Mandatory Economic Ratios.” VTB also mitigates its credit risk by conducting thorough investigations of prospective borrowers, obtaining collateral, corporate and personal guarantees and other assurance arrangements and ongoing credit monitoring.

Exposure Limits

Exposure limits to single borrowers that are legal entities are approved on a case-by-case basis by the CC. Such limits are set for all current and potential borrowers, irrespective of their size or the industry in which they operate. The size of the exposure limit depends on VTB’s assessment of the borrower’s financial condition and of the borrower’s likely credit needs. Exposure limits to large corporate borrowers may include some or all of their subsidiaries and other related parties. Exposure limits are set at the Head Office level and apply to all branches that make loans to the relevant borrower or its subsidiaries. Compliance with these limits and actual exposures are monitored by the CC, branch credit committees and the Loan Administration Department. The Loan Administration Department monitors branch limit compliance on a monthly basis. The exposure to any one borrower, including groups of related borrowers and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits relating to trading items, such as forward foreign exchange contracts. Currently, there are no exposure limits for retail loans made at the Head Office level.

VTB is currently in compliance with the CBR exposure limits for single borrowers and groups of related borrowers. However, in 2002, VTB violated CBR exposure limits to a single borrower with respect to loans that it extended to a company operating in the energy sector. No regulatory action was taken against VTB by the CBR with respect to this violation, which was remedied. In March 2004, VTB violated the non-mandatory CBR limit on borrowings from a single creditor due to the increase of its loan from VTB Capital S.A. under the Programme from U.S.\$300 million to U.S.\$550 million. As of April 1, 2004, this limit is no longer in effect.

Exposure limits are also set for each Russian industry sector, Russian region and country in which VTB’s borrowers operate or where their cash flows originate, as applicable. The RAD sets these limits, which are approved by the CC, and monitors compliance with them. Every three months, the RAD reviews the limits and recommends modifications to the CC, if appropriate. Transactions in excess of exposure limits are reviewed by the CC, and if they are approved the relevant limit is increased for the duration of the transaction.

Russian industry sector exposure limits are set using a scoring system, which takes into account the industry’s growth rate, volume of direct investment, profitability, strategic role in the Russian economy and development forecasts prepared by the RAD, the ratio of overdue loans to outstanding loans and VTB’s experience with enterprises in the industry. Each of the factors is assigned a score. The industry’s combined score determines the risk group in which it is placed. In April 2004, VTB began placing industries into one of five risk groups: Group A (low risk), Group B (moderate risk), Group C (medium risk), Group D (high risk) or Group E (maximum risk). After placing an industry into a risk group the RAD calculates exposure limits for each industry. If VTB’s strategic clients operate in a particular industry, the CC may approve higher exposure limits for that industry.

Russian regional exposure limits are set using a scoring system, which takes into account the region’s industrial and investment volume, ratio of overdue loans to outstanding loans and dependence on federal assistance. In April 2004, VTB began placing regions, on the basis of their combined score, into one of five risk groups: Group A (low risk), Group B (moderate risk), Group C (medium risk), Group D (high risk) or Group E (maximum risk). If a strategic client is located in a high-risk region, the CC may approve a higher exposure limit for that region. There is also no limit for the city of Moscow, as it is the location of Russia’s prime borrowers. Legal entities with head offices in Moscow that operate elsewhere in Russia are considered Moscow-based borrowers.

In April 2004, VTB began placing countries into risk groups and determining country limits on the basis of ratings assigned by Moody’s, S&P and Fitch. If a country has a long-term sovereign rating of at least

“Aa” from Moody’s and/or AA- from S&P and Fitch, it is placed in Group A (low risk). If it has a long-term sovereign rating of A from Moody’s, S&P and Fitch it is placed in Group B (moderate risk). A country with a rating of “Baa” from Moody’s and/or “BBB-” from S&P and Fitch is assigned to Group C (medium risk) and a country with a rating between “Ba” and “B” from Moody’s and/or a rating between “BB” and “B” from S&P and Fitch is assigned to Group D (high risk). If a country does not have a sovereign rating or has a rating lower than “B” from Moody’s, S&P and Fitch, it is assigned to Group E (maximum risk).

Exposure limits on operations with banks and other financial institutions are established by VTB’s Financial Institutions Department and the RAD and approved by the CC and the Management Board. Prior to July 2004, the RAD analysed banks and other financial institutions on the basis of such factors as liquidity ratios estimated in accordance with the requirements of the CBR and the Basle Committee on Banking Supervision, credit ratings and percentages of overdue loans to outstanding loans. The limits for credit operations with particular banks were set on the basis of such bank’s financial position, size, reputation and the volume of its transactions with VTB. In July 2004, VTB implemented a new procedure for setting exposure limits for foreign and Russian banks, credit organisations, financial companies and exchanges. Pursuant to this procedure, the RAD performs an analysis of such banks, taking into account their size, shareholding structure, capital adequacy, asset quality, liquidity, funding, balance sheet composition, profitability, efficiency and reputation, as well as the volume of transactions with VTB. Each of the factors is assigned a score. On the basis of the combined score, the RAD assigns an internal credit rating to each bank and financial company and calculates exposure limits for them. Exposure limits are reviewed semi-annually for Russian banks and annually for foreign banks. If a transaction may result in an exposure limit violation for a particular bank, the transaction is reviewed by the CC.

VTB’s Management Board assigns limits on credit operations to branches, within which they can make their own credit decisions. Branch limits set by the Management Board include an overall exposure limit for all branches (currently U.S.\$1.5 billion), overall exposure limits per branch, exposure limits for single borrowers and groups of related borrowers, maximum terms of loans and guarantees, and the maximum amounts and terms of credit roll-overs. For loans to legal entities, branch limits include overall lending limits ranging from U.S.\$5 million to U.S.\$150 million per branch and single borrower exposure limits ranging from U.S.\$0.5 million to U.S.\$4 million per branch. Currently, the maturity limits for branch loans to legal entities range from one to three years. Branches may roll-over loans once for a period not exceeding three months. Branches also have limits for groups of related legal entity borrowers, ranging from U.S.\$0.8 million to U.S.\$6 million. For those branches that extend retail loans, the limits include overall limits ranging from U.S.\$150,000 to U.S.\$20.5 million per branch, limits on long-term (over five years) loans ranging from U.S.\$30,000 to U.S.\$14 million per branch, and single borrower exposure limits for loans with a term of five years or less and over five years, ranging from U.S.\$20,000 to U.S.\$50,000 and U.S.\$25,000 to U.S.\$150,000 per branch, respectively. VTB’s Internal Control Department monitors compliance with these limits.

Exposure limits for branches are reviewed semi-annually by the CC, on the basis of analyses by the RAD, the Loan Administration Department and the Regional Network Development Department. The RAD monitors branch limits and recommends necessary changes. Branch credit committees may establish exposure limits for branch clients, but such limits cannot exceed the overall limit set for the branch by the Management Board.

In March 2004, in order to increase loan quality and ensure compliance with branch lending limits, VTB implemented new internal rules for identifying related borrowers, which take into account legal and economic relationships. These rules are more detailed and impose stricter criteria of the relevant CBR rules.

Credit risk of off-balance sheet financial instruments such as guarantees and derivatives is defined as a possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The CC sets limits for off-balance sheet exposures and counterparty limits for off-balance sheet transactions with banks and other financial institutions, including foreign exchange limits (including derivatives) and documentary transaction limits, reviews transactions that exceed the limits and, if necessary, adjusts the limits. VTB’s Corporate Clients Departments, Financial Institutions Department and the Middle Office regularly monitor VTB’s off-balance sheet commitments. The Loan Administration Department and the Financial Institutions Department monitor compliance with limits for off-balance sheet transactions with legal entities and banks, respectively. The Middle Office monitors compliance with limits on transactions in derivatives.

Credit Policies and Procedures for Legal Entities

Credit Approval Procedures

Assessing potential borrowers' credit quality and risk of default is difficult in Russia since many legal entities do not have credit histories and financial statements prepared in accordance with U.S. GAAP or IFRS and audited in accordance with United States Generally Accepted Auditing Standards or International Standards on Auditing. See "Risk Factors – Risks Relating to the Group's Business and Industry – VTB may be unable adequately to assess the credit risk of potential borrowers." VTB attempts to reduce the risk of default on loans by conducting a thorough investigation of each prospective borrower in order to determine its repayment ability.

Client managers at VTB's seven Corporate Clients Departments are responsible for loan origination from particular industry groups (including public authorities). A prospective borrower makes a loan application through a client manager in the relevant department. The loan application must include information on the prospective borrower's business, the purpose of the loan and the proposed collateral, guarantee or other assurance arrangements.

Once a loan application is received, the client manager conducts the initial investigation of the prospective borrower on the basis of the loan application and publicly available information, and VTB's Legal and Security Departments and the RAD conduct follow-up investigations. The Legal Department evaluates the legal aspects of the proposed transaction, the prospective borrower's legal status and authority to enter into the loan and to provide the collateral, guarantee or other assurance. The Security Department investigates the prospective borrower's ownership and management, reviews public sources for any evidence of criminal activities by the borrower, its owners or employees and checks whether any criminal or significant civil charges have been brought against them. In the case of companies, the RAD evaluates their financial (on the basis of current and historical financial statements), industry and market position, cash flow, sources of funds, purpose of the loan, level of existing indebtedness, credit and debt service history with VTB and other banks and proposed collateral, guarantee or other assurance arrangements. For public authorities the evaluation also includes the status of the budget, compliance with the federal budgetary norms, the level of dependence on the largest taxpayers and the quality of the proposed collateral, guarantee or other assurance arrangements. For its review, the RAD requests audited financial statements or, if not available, financial statements approved by the tax authorities. In addition, it requests that legal entities provide evidence that they have no pension or tax indebtedness and information on their contractual indebtedness, including, if the RAD deems appropriate, copies of relevant contracts. The RAD also analyses the likely effect of the loan on the prospective borrower's financial position and on VTB's loan portfolio concentration and credit risk levels. Once the evaluation of a prospective borrower is completed, the Legal and Security Departments and the RAD recommend whether the loan should be granted. See "Risk Factors – Risks Relating to the Group's Business and Industry – VTB may be unable adequately to assess the credit risk of potential borrowers."

Once the investigation is complete the loan is presented to the appropriate body for credit approval. The CC has the authority to approve loans within limits set by the Management Board, which apply to all borrowers that are legal entities. A three-quarters majority of the CC must approve a loan. The current limits for CC approval include loans of U.S.\$10 million or less with a term not exceeding eighteen months and all loans of U.S.\$3 million or less. The Management Board approves loans that exceed these limits. The CC has delegated authority to approve certain transactions for particular clients to VTB's Vice Presidents in the Corporate Clients and Loan Administration Departments. These decisions are not reviewed by the CC. The CC and the Management Board may, in the future, delegate loan approval to certain loan officers within established limits or with respect to particular lending programmes.

VTB's new Small Business Lending Department is in the process of improving simplified credit approval procedures for small businesses. Currently, small businesses are evaluated using financial analysis that takes into account such variables as the financial condition of the business and the purpose of the loan. At the Head Office level, a special Small Business Credit Committee approves loans to small businesses independently of the CC, within the limits set by the Management Board. The terms of loans currently granted to small businesses and approved by the Small Business Credit Committee may not exceed three years and U.S.\$1 million per client. The Management Board reviews loans to small businesses outside these limits.

Credit procedures at branches are tailored to the local client base. Branches have credit committees that make decisions on loans to legal entities within the limits set for the particular branch by the Head Office.

The CC and the Management Board approve credit operations with branch clients that surpass branch limits. VTB's branches make their own credit decisions on loans to small businesses within general branch exposure limits.

Interest Rate Determination

In order to determine the appropriate interest rate, VTB allocates company borrowers into five categories (prime with minimal credit risk, prime, medium business, small business and standard). Prime borrowers with minimal credit risk must meet eight of the following twelve criteria:

- Annual sales net of value-added tax exceed U.S.\$300 million;
- Credit rating by an international rating agency not more than three increments less than the Russian sovereign rating;
- Shareholders' equity exceeds non-current assets;
- Equity to debt ratio equal or greater than 1.0;
- Capital fully paid in;
- No overdue tax payments;
- Overdue accounts receivable or payable not more than 5% of total accounts receivable or payable, respectively;
- Net profit in the last two fiscal years (under RAR);
- Market share of not less than 10% in the relevant markets;
- Good credit history with VTB and other banks;
- Collateral consisting of liquid assets, the appraised value of which is sufficient to cover the borrower's liability on the loan; and
- VTB has not exceeded its exposure limit for the borrower and the industry in which it operates.

Prime borrowers must meet eight of the following twelve criteria:

- Annual sales net of value-added tax exceed U.S.\$50 million;
- Credit rating by an international rating agency not more than five increments less than the Russian sovereign rating;
- Shareholders' equity and long-term liabilities exceed non-current assets;
- Equity to debt ratio equal to or greater than 1.0;
- Capital fully paid in;
- No overdue tax payments;
- Overdue accounts receivable or payable not more than 10% of total accounts receivable or payable, respectively;
- Net profit in the last fiscal year (under RAR);
- Market share of not less than 5% in the relevant markets;
- Good credit history with VTB and other banks;
- Collateral consisting of liquid assets, the appraised value of which is sufficient to cover the borrower's liability on the loan; and
- VTB has not exceeded its exposure limit for the borrower and the industry in which it operates.

Medium business borrowers are other companies whose annual sales equal to or exceed U.S.\$3 million and small business borrowers are those whose annual sales are less than that amount and whose credit needs are no more than U.S.\$1 million. VTB's other clients are considered standard borrowers.

The ALCO establishes minimum interest rates for each borrower category, which depend on the term and the currency of the loan. Once the CC approves a loan, it makes the decision whether to use the minimum interest rate for the borrower's category or to charge a risk premium. Currently, the decision to assign a risk premium is made on the recommendation of the RAD as well as VTB's other departments involved in originating and structuring the loan.

Monitoring

VTB monitors the borrower's financial condition throughout the life of the loan. At the Head Office level the Loan Administration Department reviews borrowers' financial statements on a quarterly basis and, in cases of deterioration in financial condition, determines whether additional assurance, collateral or a guarantee should be requested or repayment demanded. Semi-annually, the RAD reviews the financial position of all of the legal entity borrowers at the Head Office level (except small businesses) that meet at least one of the following criteria: the size of the loan exceeds U.S.\$3 million, interest rates are set on a prime borrower level, the term of the loan exceeds one year or the loan was not approved unanimously by the CC or the Management Board, as applicable. As part of its monitoring function, the RAD reviews changes in the borrower's ownership structure, market position and financial condition. If appropriate, the RAD recommends measures to reduce exposure to a borrower, such as prohibiting further drawdowns on credit lines (where the terms of the relevant credit lines so permit), creating additional allowances or reducing exposure limits.

VTB's originating departments and branches monitor the financial conditions of small businesses and the borrowers with outstanding loans of under U.S.\$3 million, with the exception, for branches, of loans that were approved at the Head Office level.

Assurance, collateral and guarantees

VTB generally requires an assurance arrangement, collateral and/or third party guarantees for loans to legal entities. An assurance arrangement is a borrower's agreement that a certain volume of its cash receivables will flow through accounts at VTB over which VTB has an express right of set-off. If the borrower does not honour the assurance arrangement VTB has the right to raise the interest rate, demand additional collateral or guarantee or accelerate repayment of the loan. As of December 31, 2003 and March 31, 2004, approximately half of VTB's loans to legal entities were assured, in whole or in part, by such assurance arrangements.

In most cases, an assurance arrangement, collateral (discounted to reflect its liquidity) and/or third party guarantees, separately or together, cover at least the principal of the loan, accrued interest and commissions, although the CC may, on a case-by-case basis, authorise loans to strategic clients that are not fully collateralised, guaranteed or assured. VTB believes that the portions of its loan portfolio that did not have any collateral, guarantee or assurance arrangements as of December 31, 2003 and March 31, 2004, were immaterial.

Acceptable collateral includes real property, land leasing rights, production equipment, vehicles, aeroplanes, ships, securities, precious metals, raw materials and inventory. VTB's policy with respect to secured lending is, if possible, to obtain a mix of collateral to limit the effects of declines in value. See "Risk Factors – Risks Relating to the Group's Business and Industry – A decline in the value or illiquidity of the collateral securing VTB's loans may adversely affect the Group's loan portfolio." The value of the collateral is first determined through an independent appraisal conducted by a third party appraiser selected from a list prepared by the RAD and approved by the Management Board, and is then confirmed by the RAD, which may conduct its own evaluation of collateral based on the data collected by the client manager and the independent appraiser. The Loan Administration Department monitors the value of the collateral throughout the life of the relevant loan, regularly revalues collateral based on market research from the relevant industry segment and quarterly site inspections of real property collateral and monthly inspections of inventory collateral.

VTB also accepts third party guarantees as long as they fall within its exposure limits for the guarantor. A guarantor is evaluated in the same manner as the relevant borrower and its financial condition is monitored throughout the life of the relevant loan.

VTB's loan agreements with legal entities usually provide for a right to request additional assurance, collateral or guarantee where the value of the existing collateral or the borrower's financial situation deteriorates. VTB always requests additional assurance, collateral or guarantee when the term of a loan is extended or additional advances are made. Nevertheless, VTB may be unable to realise the full appraised value of collateral due to its decline in value and/or liquidity or enforcement problems and/or take advantage of assurance arrangements or guarantees due to deterioration of the financial condition of borrowers or guarantors or their refusal to honour assurance arrangements or guarantees. See "Risk Factors – Risks Relating to the Group's Business and Industry – A decline in the value or illiquidity of the collateral securing loans may adversely affect the Group's loan portfolio," "Risk Factors – Risks Relating to the Group's Business and Industry – It may be difficult for VTB to enforce security under Russian law" and "Risk Factors – Risks Relating to the Group's Business and Industry – VTB's inability to recover on guarantees and other assurance arrangements may lead to losses."

Credit Related Commitments

Letters of credit, guarantees and other commitments to extend credit are generally subject to the same credit review procedures as loans. Import letters of credit require VTB to make payments to foreign exporters of goods or services to Russia, on behalf of its Russian clients, upon presentation of certain documentation. If import letters of credit are fully collateralised by cash deposits, they do not undergo credit review. The CC determines appropriate cash deposits for import letters of credit that are only partially collateralised. Export letters of credit, whereupon VTB confirms obligations of foreign banks to pay on their letters of credit if they fail to make payment, either fall under VTB's exposure limit for a particular foreign bank or are secured by deposits placed with VTB. The majority of guarantees issued by VTB are not collateralised, but have guarantee or assurance arrangements and are made within the exposure limits set by the CC for the relevant clients. Some guarantees are fully or partially collateralised by cash deposits, securities, inventory or real property. VTB also enters into agreements with legal entities on whose behalf it issues guarantees that give VTB a right to a reimbursement for all payments made by VTB under the guarantee and related expenses.

Credit Policies and Procedures for Individuals

Credit Approval Procedure

VTB's loan officers review loan applications from individuals. As part of their loan applications individuals must provide information on their income, the purpose of the loan and the proposed collateral. Few individuals in Russia have credit histories and to minimise credit risk VTB conducts thorough investigations of prospective retail borrowers. Loan officers conduct extensive personal interviews and VTB's Security Department verifies the information provided in the loan application, reviews supporting documentation, including a letter from the prospective borrower's place of employment verifying employment and income, and reviews public information for evidence of criminal activities. VTB's Mortgage and Consumer Lending Department at the Head Office and branch credit committees evaluate the prospective borrower's income, education, employment, employment history, existing indebtedness, the ratio of income to obligations (including rent, utility and other payments) and payment history for various obligations, such as mobile telephone and cable television payments, on the basis of the information provided by such prospective borrower. See "Risk Factors – Risks Relating to the Group's Business and Industry – VTB may be unable adequately to assess the credit risk of potential borrowers."

Lending decisions are made, at the Head Office level, by the Retail Credit Committee, which is independent of the CC, and, at the branch level, by branch credit committees. Decisions on retail loans are usually made within two weeks. The Head Office sets retail loan limits for branches in accordance with its business plan for every branch, within which they can make their own credit decisions. See "– Credit Risk – Exposure Limits." VTB's Vice President in charge of retail services may approve retail loans in the amounts of up to U.S.\$25,000, which are not subject to subsequent Retail Credit Committee review. The ALCO sets minimum interest rates on different types of loans to individuals (mortgages, consumer loans and loans guaranteed by VTB's corporate clients) and interest rates may be raised based on the credit standing of the borrower and the purpose and the currency of the loan.

Collateral and Guarantees

VTB generally requires collateral and/or third party guarantees for all loans to individuals. However, as of December 31, 2003 and March 31, 2004, approximately 3% of VTB's retail loans were unsecured and the remainder were fully secured or guaranteed. Acceptable collateral includes real estate, personal property, securities, precious metals, automobiles and other liquid assets. Mortgages must be secured by the purchased apartment and are extended in amounts equal to no more than 80% of the apartment's purchase price. Mortgages used to purchase apartments under construction require additional collateral or guarantees, which are released once the construction is completed, and VTB's standard loan agreements provide for a right to request additional collateral if the completed apartment is not pledged to VTB. See "– Banking Services and Activities – Retail Banking – Lending." The value of the collateral is first determined through an independent appraisal conducted by a third party appraiser selected from a list prepared by the RAD and approved by the Management Board, and is then confirmed by the RAD, which may conduct its own evaluation of collateral based on data collected by VTB's collateral manager and the independent appraiser.

VTB accepts third party guarantees for retail loans from individuals and legal entities that are its clients. Guarantees are accepted within the credit limits set by VTB for the relevant guarantor. The Mortgage and Consumer Lending Department begins monitoring the financial condition of individual guarantors if the borrower on the relevant loan experiences payment difficulties or an event takes place which, in the view of the Mortgage and Consumer Lending Department, may have a negative effect on a guarantor's ability to fulfil their obligations under a guarantee. VTB's Corporate Clients Departments monitor the financial condition of corporate guarantors in the same manner as the financial condition of corporate borrowers. See "– Credit Policies and Procedures for Legal Entities – Monitoring."

VTB's Mortgage and Consumer Lending Department monitors the value of the collateral on an annual basis throughout the life of the relevant loan. Nevertheless, as with loans to legal entities, VTB may be unable to realise the full value of collateral due to declines in value, illiquidity or enforcement problems and/or take advantage of guarantees due to the deterioration of the financial condition of guarantors or their refusal to honour their guarantees. See "Risk Factors – Risks Relating to the Group's Business and Industry – A decline in the value or illiquidity of the collateral securing VTB's loans may adversely affect the Group's loan portfolio," "Risk Factors – Risks Relating to the Group's Business and Industry – It may be difficult for VTB to enforce security under Russian law" and "Risk Factors – Risks Relating to the Group's Business and Industry – VTB's inability to recover on guarantees and other assurance arrangements may lead to losses."

Loan Classification and Allowances

Loan impairment evaluations are conducted according to the following procedures.

1. Identification of loans that are individually significant, *i.e.* those loans which, if fully impaired, would have a material impact on an expected average level of operating profit of the Group.
2. Determination of whether an individually significant loan shows objective evidence of impairment. Particular emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. If the Group expects to collect all interest and principal due in full, but it is probable that those cash flows will be received later than the date agreed in the original contract, an impairment exercise is performed. Other impairment indicators include, but are not limited to: any significant financial difficulty of the borrower, an actual breach of the loan contract, a high probability of bankruptcy or other financial reorganisation of the borrower, recognition of an impairment loss on that asset in a prior financial reporting period or a historical pattern of collections of loans that indicates that the entire principal and interest amount of loan portfolio will not be collected.
3. Review for impairment of individually significant loans which show objective evidence of impairment. An impairment review requires an estimate of the expected timing and amounts of cash flows from interest and principal repayments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is impaired if its carrying amount exceeds the estimated recoverable amount as defined above. A separate impairment loss on an individually significant loan is recorded.

4. Identification of non-performing loans (other than individually significant loans), i.e. those loans which show signs of impairment and on which the Group is not accruing interest. The amount of allowance for loan losses is estimated for such loans in the same manner as for individually significant loans (section 3 above).

After the above estimation exercise is performed, all loans are classified according to the table below. Allowances are allocated to specific loans or groups of loans based on discounted cash flow calculations and collateral. There are no general allowances for particular categories.

<u>Classification</u>	<u>Description</u>
Very Good (“VG”)	Highest quality loans in VTB’s estimation. The risk of non-payment is very low because of the borrowers’ sound financial performance and debt service, the nature of their operations and their ability to easily borrow in the market at lower or similar rates and thus refinance their indebtedness.
Performing (“P”)	The risk of borrower non-payment is within an acceptable range. The borrowers’ financial position is less stable than that of borrowers with loans in the VG group or there are some debt service problems.
Non-Performing (“NP”)	Loans show indications of impairment due to declining financial situation of the borrowers, debt service problems or other factors.

Problem Loans Experience

VTB’s Loan Recovery Department was established in 2000 and initially concentrated on workout and recovery efforts with respect to loan defaults resulting from Russia’s 1998 financial crisis, a significant portion of which have been worked out or written off against allowances for loan losses as of December 31, 2003. Currently, the Loan Recovery Department is responsible for working out problem loans at the Head Office level and monitoring the workout process at the branch level.

Problem loans are transferred to the Loan Recovery Department in accordance with VTB’s internal criteria developed on the basis of the relevant CBR regulations and instructions. See “The Banking Sector and Banking Regulation in Russia – The CBR Regulation of the Russian Banking Sector – 2. Mandatory Economic Ratios.” In order for a loan to be transferred to the Loan Recovery Department, payments on a loan must be at least thirty days overdue.

Once a loan is transferred to the Loan Recovery Department, the Loan Recovery Department evaluates all the information on the borrower available at VTB and attempts to determine the reasons for the default. Then it contacts the borrower and attempts to restructure the loan so that the borrower can resume interest payments or repay the loan. The restructuring arrangements include rescheduling of interest payments, term prolongation, obtaining additional security and other ways to restore the borrower’s payment capacity. If a loan is restructured, the Loan Recovery Department monitors the borrower’s compliance with the terms of the restructured loan.

If a loan restructuring is not possible or not successful, the Loan Recovery Department and the Legal Department bring legal actions against the borrower and/or any guarantors, as foreclosure under Russian law generally requires a court order and a public sale of collateral. See “Risk Factors – Risks Relating to the Group’s Business and Industry – It may be difficult for VTB to enforce security under Russian law” and “Business – Litigation.” Such actions frequently result in the borrower’s bankruptcy. The Loan Recovery Department has generally been successful in obtaining the partial repayment of loans through bankruptcy proceedings.

The Loan Recovery Department also determines whether additional measures can be taken to recover some or all of the lent funds, such as selling or assigning VTB’s rights to third parties. Loans deemed non-recoverable are written off against allowances. Branches usually work out the problem loans at the branch level with the assistance of the Loan Recovery Department where necessary.

The following table sets forth, on a consolidated basis, the loan amounts that are current as to payments of principal and interest and the amounts overdue as of December 31, 2003, 2002 and 2001 and as of March 31, 2003 and 2004.

	As of December 31, 2003	As of December 31, 2002	As of December 31, 2001	As of March 31, 2004 ⁽¹⁾	As of March 31, 2003 ⁽¹⁾
<i>(millions of U.S. dollars, except percentages)</i>					
Loans made by Russian banks					
Current	4,099	2,315	1,782	4,484	2,662
Rescheduled	92	97	112	82	98
Overdue	195	173	129	217	164
Overdue as % of total	4.4	6.7	6.4	4.5	5.6
Total loans made by Russian banks	4,386	2,585	2,023	4,783	2,924
Loans made by foreign banks					
Current	826	782	562	802	868
Rescheduled	8	3	6	3	3
Overdue	7	8	2	14	6
Overdue as % of total	0.8	1.0	0.4	1.7	0.7
Total loans made by foreign banks	841	793	570	819	877
Total loans	5,227	3,378	2,593	5,601	3,801

(1) Unaudited

VTB's domestic and foreign subsidiaries work out problem loans in accordance with local legal and regulatory requirements. If VTB participates in a problem loan or has a relationship with the client, it may assist the subsidiary in handling the problem loan.

VTB places loans on non-accrual status if interest is overdue for more than 30 days or VTB believes that interest is not collectible. The total amount of the Group's problem loans on which interest was not accrued was U.S.\$259 million as of December 31, 2003 and U.S.\$265 million as of March 31, 2004. Unrecognised interest relating to such loans amounted to U.S.\$69 million throughout the life of the loans as of December 31, 2003 and to U.S.\$3 million for the three-month period ending on March 31, 2004.

New Credit Risk Management Tools

The RAD is currently testing a system designed to evaluate its overall credit risk and regularly reviews expected and unexpected credit risks using both internal ranking and the VAR methodology. This system was developed in-house at VTB with the assistance of outside consultants in accordance with current international risk management practice. It estimates a borrower's credit rating on the basis of cumulative risk analysis, taking into consideration the quantitative losses in the event of the borrower's default or a change in its rating category. Using this system, VTB will arrive at a risk estimate, which will allow for adequate allowances to account for the risk. This system also permits capital-at-risk calculations. A dedicated working group is assisting the RAD with refining and testing the system. Once the testing of the system is complete, VTB will develop a timetable for incorporating it into VTB's risk management practices.

With the assistance of outside consultants, VTB has developed an internal rating system, which will allow it to assign risk premiums to each credit transaction based on the credit score of the particular legal entity borrower. The credit score will be calculated on the basis of the prospective borrower's financial and market position, credit history, relationship with clients and suppliers and other factors, all as estimated according to an internal scoring scale which assigns a specific weight to each criteria. Based on their total score the borrower will be placed in one of five groups, each of which will be assigned a specific risk premium. VTB expects to begin monitoring the credit risk profile of borrowers placed in different groups in late 2004. VTB believes that at least a year will be required to compile the statistical information necessary to estimate probabilities of default for each group.

VTB is currently developing a multi-level retail loan approval system. Pursuant to this system the Retail Credit Committee will delegate retail loan approval authority, within established limits, to certain officers. Under this system, VTB's Chairman and Chief Executive Officer will have authority to approve any loan and the Deputy Chairmen of the Management Board, VTB's Vice Presidents, heads of departments and heads of branches and subsidiaries will have authority to approve loans within respective established limits. VTB anticipates implementing this system by the end of 2004.

Market Risks

The ALCO sets VTB's policies for market risks (currency, interest rate and securities portfolio risks). The Middle Office monitors compliance with market risk limits on a daily basis. VTB measures its currency and securities portfolio risk exposures using a VaR measurement of risk. It estimates the largest potential loss in pre-tax profit 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 recognising 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.

Currency Risk

VTB is exposed to currency risk through the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The RAD conducts VaR evaluations, analyses the structure of VTB's open currency positions and prepares reports for the ALCO. The ALCO approves the methodology of currency risk analysis and management and sets limits on arbitrage and conversion operations. The Treasury Department conducts conversion operations and transactions in derivatives within the limits set by the ALCO, and manages VTB's open currency position on a day-to-day basis. The ALCO sets total exposure limits and exposure limits by currencies for both spot and forward positions and stop-loss limits. Compliance with these limits and the relevant CBR limits is monitored on a daily basis by the Middle Office. See "The Banking Sector and Banking Regulation in Russia – The CBR Regulation of the Russian Banking Sector – 7. Regulation of Currency Exposure."

The tables below present the Group's exposure to currency risk as of December 31, 2003. Included in the table are the Group's assets and liabilities, categorised by currency. Credit related commitments include export, import and undrawn letters of credit, issued guarantees and commitments to extend credit, less allowance for losses. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values.

As of December 31, 2003, the Group had the following positions in currencies:

As of December 31, 2003					
	USD	RUR	Euro	Other currencies	Total
	<i>(millions of U.S. dollars)</i>				
Assets					
Cash and short-term funds	352	508	106	64	1,030
Mandatory cash balances with local central banks	— ⁽¹⁾	371	11	—	382
Trading securities	665	572	19	14	1,270
Due from other banks	1,307	315	231	42	1,895
Loans and advances to clients	2,925	1,697	143	30	4,795
Investment securities available for sale	891	45	238	—	1,174
Investment securities held to maturity	—	1	—	6	7
Accrued interest income and other assets . .	93	157	67	13	330
Premises and equipment	1	243	16	2	262
Deferred tax asset	—	34	49	—	83
Total assets	6,234	3,943	880	171	11,228
Liabilities					
Due to banks	1,101	249	370	92	1,812
Client accounts	2,104	1,701	439	15	4,259
Other borrowed funds	689	—	8	10	707
Debt securities in issue	1,150	582	6	—	1,738
Accrued interest expense and other liabilities	53	124	36	9	222
Deferred tax liability	—	—	12	—	12
Total liabilities	5,097	2,656	871	126	8,750
Net balance sheet position	1,137	1,287	9	45	2,478
Credit related commitments	2,443	373	183	42	3,041
Off-balance sheet net notional position	(578)	(39)	481	160	24

(1) Dashes indicate where the Group did not have an outstanding position in the corresponding currency.

Interest Rate Risk

VTB is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods which differ from those of term borrowings at fixed interest rates. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, interest rates are often set on a short-term basis and contractually fixed interest rates on both assets and liabilities (other than retail deposits) are often reset based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement setting forth the new interest rate.

As of December 31, 2003, 98% of the Group's assets and 90% of its liabilities had fixed interest rates. VTB manages its interest rate risk by maintaining an interest rate margin (a spread between the interest rates on its assets and liabilities) sufficient to cover operational expenses and risk premium. As of December 31, 2003, this margin was 4.29%, the average margin for 2003 was 3.77%, and the average margin for the first six months of 2004 was 3.30% (all as determined on a stand-alone basis, without taking into account the interest rate on assets and liabilities of VTB's subsidiaries). The average margin is a mean of margins calculated on the reporting date on a monthly basis throughout the year. The RAD regularly reviews and reports to the ALCO the average interest rates on VTB's assets and liabilities and the interest margin. If the ALCO finds the interest margin insufficient, VTB takes appropriate measures such as reviewing its basic interest rates or adjusting its asset and liability structure.

The table below summarises, on a consolidated basis, the effective interest rates by major currencies for major monetary financial instruments as of December 31, 2003, 2002 and 2001, based on period-end effective contractual rates.

	<u>As of December 31, 2003</u>				<u>As of December 31, 2002</u>				<u>As of December 31, 2001</u>			
	<u>USD</u>	<u>RUR</u>	<u>Euro</u>	<u>Other</u>	<u>USD</u>	<u>RUR</u>	<u>Euro</u>	<u>Other</u>	<u>USD</u>	<u>RUR</u>	<u>Euro</u>	<u>Other</u>
	(%)											
Assets												
Cash and cash equivalents.	1	0	1	1	1	0	1	1	1	0	1	0
Debt trading securities	4	10	8	4	10	13	7	5	3	15	4	— ⁽¹⁾
Due from other banks	5	8	3	1	4	9	4	2	4	14	4	3
Loans and advances to clients	9	14	7	2	9	21	10	—	10	21	7	7
Debt investment securities available for sale	8	2	6	—	9	—	—	—	8	—	—	—
Liabilities												
Due to other banks	5	6	2	1	1	9	3	2	4	20	4	1
Client accounts	4	6	4	4	6	6	2	2	4	7	6	1
Other borrowed funds	3	—	4	3	3	—	—	—	4	—	—	—
Debt securities in issue	8	12	3	—	7	9	7	—	6	6	—	—

(1) Dashes indicate where the Group does not have the respective assets or liabilities in the corresponding currency.

Securities Portfolio Risk

Securities portfolio risk is the risk of changes in the value of securities as a result of interest rate or market price movements. VTB's main source of securities portfolio risk is its Russian government debt securities portfolio which amounted to 48% of VTB's total securities portfolio (trading securities and investment securities available for sale) as of December 31, 2003 and 37% as of March 31, 2004. For its trading securities portfolio, VTB has in place portfolio limits on various types of securities and securities transactions, including limits on foreign currency and rouble-denominated Russian government securities, Russian regional and municipal securities, Russian corporate equity and debt securities, foreign investment-grade corporate debt securities, limits on derivative, repo and reverse repo transactions, as well as single issuer limits, which allow it to maintain its securities portfolio risk at a level that VTB deems acceptable given its current level of capital. The limits are established on the basis of VaR evaluations and market analyses performed monthly. The ALCO, on the basis of the RAD's recommendations, also assigns stop-loss limits and open position limits to individual traders. The Middle Office monitors compliance with these limits and informs the Internal Control Department and the RAD of violations. If limits are violated, VTB takes appropriate measures, including, but not limited to, selling securities, closing out positions and halting the transactions that led to such limit violations. No material limit violations have taken place in the past three years. The ALCO receives monthly reports on the securities portfolio risk structure from the Middle Office. The ALCO also manages VTB's investment securities available for sale portfolio, in which little trading takes place.

Liquidity Risk

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in VTB being unable to meet its obligations in a timely manner. VTB is subject to liquidity requirements set by the CBR. See "The Banking Sector and Banking Regulation in Russia – The CBR Regulation of the Russian Banking Sector – 2. Mandatory Economic Ratios."

VTB is exposed to daily calls on available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin or other calls on cash-settled derivatives. VTB does not maintain cash resources to meet all of these needs as experience shows that a certain minimum level of reinvestment of mature funds can be predicted with a high level of confidence. The ALCO sets VTB's minimum levels of liquid assets and maturity mismatch limits, approves liquidity

assessment and management procedures and determines liquidity requirements. The RAD conducts analyses of VTB's liquidity position and prepares liquidity forecasts on a monthly basis or more frequently in connection with substantial capital inflows or outflows. VTB's Treasury Department manages its short-term liquidity needs within limits approved by the ALCO, places excess funds and obtains interbank loans.

VTB manages its short-term liquidity needs through a RUR1 billion overdraft agreement that it has in place with the CBR, which is provided on an overnight basis and is secured by Russian government securities, interbank lending and a highly liquid trading securities portfolio that can be quickly sold in the market. Medium-term liquidity needs are managed through repo transactions and obtaining funds in the syndicated loan and the interbank markets. VTB also obtains liquidity by issuing debt securities in the Russian domestic market. These debt securities are primarily short-term.

The following table shows, on a consolidated basis, the Group's liquidity position as of December 31, 2003.

As of December 31, 2003						
	On demand and less than one month	From one to six months	From six to twelve months	More than one year	No stated maturity	Total
	<i>(millions of U.S. dollars)</i>					
Assets						
Cash and short-term funds	923	— ⁽¹⁾	—	—	107	1,030
Mandatory cash balances with local central banks	274	70	28	10	—	382
Trading securities ⁽²⁾	1,270	—	—	—	—	1,270
Due from other banks	1,159	354	77	305	—	1,895
Loans and advances to clients . .	515	1,393	1,200	1,613	74	4,795
Investment securities available for sale ⁽³⁾	1,174	—	—	—	—	1,174
Investment securities held to maturity	—	—	—	7	—	7
Accrued interest income and other assets	170	51	40	3	66	330
Premises and equipment	—	—	—	—	262	262
Deferred tax asset	—	—	—	83	—	83
Total assets	5,485	1,868	1,345	2,021	509	11,228
Liabilities						
Due to banks	1,142	440	92	137	1	1,812
Client accounts ⁽⁴⁾	2,830	878	361	190	—	4,259
Other borrowed funds	6	120	562	19	—	707
Securities issued	174	537	121	905	1	1,738
Accrued interest expense and other liabilities	62	16	34	7	103	222
Deferred tax liability	—	—	—	—	12	12
Total liabilities	4,214	1,991	1,170	1,258	117	8,750
Net liquidity gap	1,271	(123)	175	763	392	2,478
Cumulative liquidity gap at December 31, 2003	1,271	1,148	1,323	2,086	2,478	—

(1) Dashes indicate absence of a particular asset or liability.

(2) The Group believes that in spite of the fact that the majority of its trading securities portfolio matures after one year in accordance with their terms, the majority of these securities are freely traded in the market and thus represent a hedge against potential liquidity risk and thus are included in the "demand and less than one month" category.

(3) Investment securities available for sale are valued at market value and are available to meet the Group's short-term liquidity needs.

(4) The Group believes that although a substantial portion of client deposits are on demand and less than one month and retail deposits can be withdrawn at any time in accordance with Russian law, diversification of these deposits by number and type of depositors and the Group's past experience indicate that these deposits provide a long-term and stable source of funding for the Group.

Internal Controls

VTB's Internal Control Department consists of the Internal Control Division ("ICD") and the Internal Audit Division ("IAD"). The Internal Control Department has smaller divisions or representatives at all of VTB's branches that are independent of local management. The Head of the Internal Control Department reports directly to VTB's Chairman and Chief Executive Officer.

The ICD is responsible for establishing, reviewing and improving VTB's system of internal controls. It monitors the conformity of VTB's policy with current legislation and regulation and the conformity of VTB's procedures and operations with VTB's policies. The ICD is also responsible for internal controls relating to operations, accounting practices, taxation, regulatory and documentary compliance, risk management and IT systems. It reviews banking operations, including lending and transactions in securities and foreign currency on an ongoing basis to ensure that appropriate procedures and limits are complied with and that VTB's transaction pricing is competitive. The ICD also ensures that VTB's accounting practices comply with Russian accounting rules and monitors the payment by VTB of its tax obligations.

The IAD audits all banking operations after they are performed, and conducts audits of VTB's Russian branches annually and of VTB's departments within the Head Office every twelve to eighteen months.

VTB's Legal Department is responsible for legal compliance and legal policies. VTB uses standardised master agreements, developed by the Legal Department for transactions with its counterparties. Non-standardised agreements are reviewed and approved by the Legal Department. The Legal Department also reviews all relevant counterparty documentation. VTB retains international law firms to represent it in international transactions.

VTB's IT systems provide processing and display functions for internal control purposes, generate reporting forms and monitor payments to ensure compliance with anti-money laundering legislation. See "– Anti-Money Laundering Procedures."

Anti-Money Laundering Procedures

VTB's anti-money laundering measures are based on the relevant Russian legislation. See "The Banking Sector and Banking Regulation in Russia – Legislative Framework for the Russian Banking Sector." VTB has procedures and operative documents aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy and internal control procedures and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities endorsed by the CBR and the predecessor of the Federal Service for Financial Markets as well as procedures for reporting suspicious activities to the Federal Service for Financial Monitoring. These procedures and operative documents apply throughout VTB.

VTB's anti-money laundering procedures are designed to ensure that:

- the risk of it being used as a vehicle for money-laundering and terrorist financing is minimised;
- it is protected from financial and reputational risks of being associated with money-laundering and terrorist financing activities;
- banking services are provided only to bona fide clients;
- transactions covered by Russian anti-money laundering legislation, including those conducted by persons or organisations known to be involved in terrorist activities, are detected and reported to the Federal Service for Financial Monitoring on a timely basis;
- any transactions involving persons or entities known to be involved in terrorist activities are suspended; and
- accounts are not opened or transactions are not executed for clients that lack necessary or valid identification or documentation or are known or suspected to be involved in terrorist activities.

Anti-money laundering procedures include "know-your-customer" procedures which require clear identification of clients, verification of their identity and appraisal of risk of their engaging in prohibited transactions; detection of transactions that the Russian anti-money laundering legislation requires VTB

to monitor and report; reporting; record keeping; confidentiality; and education and training of personnel in anti-money laundering procedures. VTB's "know-your-customer" procedures are designed to be consistent with sound business principles; help recognition of suspicious activity in a timely manner; minimise the risk that VTB will be used as a channel for illegal activities of any kind; prevent establishment of banking relationships with clients until their true identity is known; and identify transactions inconsistent with the information that VTB has about the client or its regular business activities.

Russian anti-money laundering legislation describes transactions subject to anti-money laundering procedures and requires daily reporting of such transactions by banks to Federal Service for Financial Monitoring. See "The Banking Sector and Banking Regulation in Russia – The Russian Banking Sector – Legislative Framework for the Russian Banking Sector." Certain "suspicious" transactions must also be reported on a case-by-case basis. In 2003, VTB reported more than 20,000 transactions, approximately 800 of which were considered "suspicious." In the first six months of 2004, VTB reported 13,000 transactions, approximately 500 of which were considered "suspicious."

Risk Management Policies of Other Group Banks

VTB currently monitors risk management procedures of other Group banks through its representatives on their boards. See "Business – Other Group Banks – Foreign Banks – Services and Activities" and "Business – Other Group Banks – Domestic Banks and Participations." The RAD and the Foreign Banking Subsidiaries Department are also developing a system that would enable the RAD, to the extent permitted by applicable law, to monitor significant risk exposures of other Group banks. The new system will require all Group banks to report their credit exposures to the RAD, which will take this information into account in determining exposures to single borrowers, groups of borrowers and borrowers in particular industry sectors and countries on a consolidated basis. The RAD will also monitor other Group banks' lending policies and procedures, their exposures to market risk and liquidity position. The RAD will also evaluate the risk management systems of other Group banks on an annual basis in order to ensure a uniform approach to risk management throughout the Group. VTB expects that this system will be implemented in 2005.

Risk management procedures of all foreign banks comply with applicable laws and regulations. At Donau-Bank, the credit/risk committee, which consists of three management board members and heads of treasury and credit departments, is in charge of credit approval and risk management. The credit/risk committee approves credit applications and credit, counterparty, issuer and country exposure limits. Donau-Bank's operations and risk control department monitors limit compliance. All loans made by Donau-Bank are reviewed annually. Off-balance sheet transactions are also subject to credit approval. Donau-Bank's treasury manages compliance with regulatory liquidity requirements and produces liquidity reports for Donau-Bank's asset/liability management committee, which makes liquidity management decisions. Limits on foreign currency positions are set by the treasury and approved by the credit/risk committee. The operations and risk control department monitors compliance with interest rate risk limits approved by the credit/risk committee and the financial controls department performs a quarterly interest rate gap analysis and presents it to the asset/liability management committee.

At EWUB, the board of directors, which includes a representative of VTB, oversees risk management policies. The credit committee sets credit risk limits for companies and banks, which are reviewed at least annually. The credit department monitors compliance with these limits and the general quality of EWUB's loan portfolio. EWUB also complies with credit risk limits set by relevant Luxembourg regulations. Extensions of credit are subject to credit committee review and approval and collateral or guarantees are generally required. The credit committee also oversees transactions in securities. To manage liquidity risk, EWUB matches the maturity profile of its assets and liabilities and maintains a liquidity ratio in excess of regulatory recommendations. To manage foreign currency risk, limits are in place for intraday and overnight currency position. Interest rate risk is managed through matching liabilities and assets by interest rates.

At RCB-Cyprus, credit risk is managed by its credit committee which includes its senior managers. The credit committee approves credit exposures, set credit risk limits and monitor compliance with them. The assets and liabilities committee manages interest rate risk and liquidity risk. Interest rate risk is managed through monitoring and adjusting mismatches on interest rates of assets and liabilities. Liquidity risk is managed through matching maturity profiles and monitoring maturity mismatches of assets and liabilities and complying with prudential norms set by the Basle Committee on Banking Supervision.

Due to its relatively small size RKB-Zurich does not have a credit committee. Credit reviews are performed by credit officers and loans are approved by the executive management body within limits established by the board of directors, which includes two representatives of VTB. Credit transactions outside these limits must be approved by the board of directors. The board of directors also approves procedures for managing currency, liquidity and interest rate risks, which comply with relevant Swiss regulatory requirements.

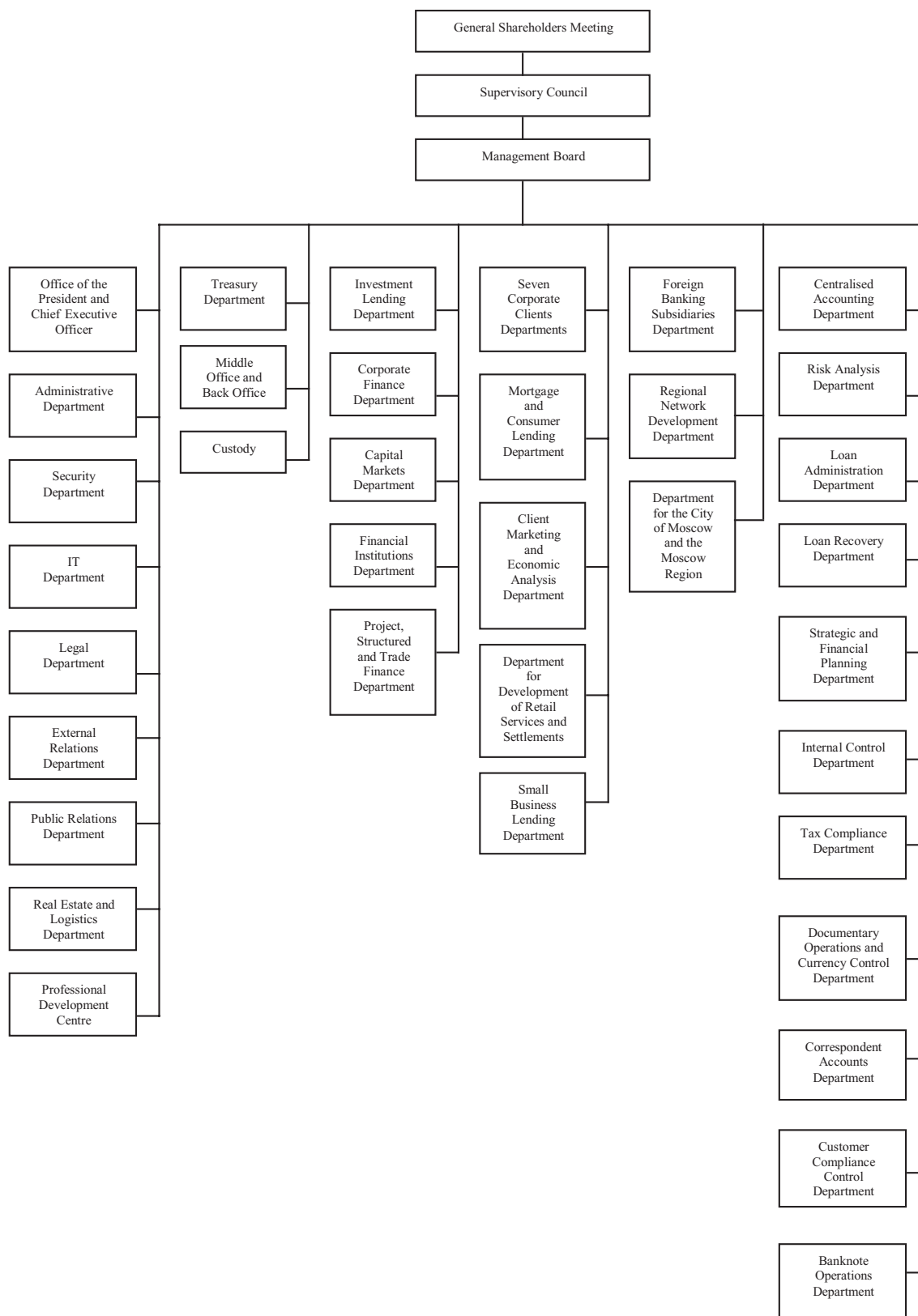
Armsavingsbank is currently developing its risk management procedures. These procedures will be based on the procedures currently used at VTB's branches and will comply with the relevant Armenian legislation.

VTB is currently evaluating Guta Bank's risk management procedures and plans to bring them into line with VTB's own risk management procedures.

MANAGEMENT

Management Structure

The following chart sets forth the management bodies and departments at VTB's Head Office.



VTB's Governance Bodies

In accordance with Russian legislation governing joint stock companies and VTB's charter, VTB's principal governance bodies are the shareholders' meeting, the Supervisory Council (the "Supervisory Council"), the management board (the "Management Board") and the Chairman (Chief Executive Officer).

Shareholders' Meeting

The shareholders' meeting is VTB's highest governance body. It meets when called by the Supervisory Council, but at least once a year. Special shareholders' meeting can be called by the Supervisory Council, or at the request of the Audit Commission, external auditor or shareholders holding not less than 10% of the voting shares of VTB. Each ordinary share of VTB carries the right to cast one vote at the shareholders' meeting.

The following matters can only be dealt with by the shareholders' meeting:

- alteration of VTB's charter and the size and composition of its authorised share capital;
- election and early termination of the members of VTB's Supervisory Council;
- VTB's reorganisation or liquidation;
- approval of certain major transactions;
- approval of VTB's auditor;
- approval of issuance of bonds and other securities where such approval is required by law or VTB's charter;
- approval of reimbursement or compensation of members of VTB's Audit Commission;
- approval of dividends;
- approval of main corporate documents of VTB; and
- certain other matters provided for by law and VTB's charter.

Supervisory Council

The Supervisory Council is responsible for general management matters, with the exception of those matters that are designated by law and VTB's charter as being the exclusive responsibility of the shareholders' meeting. Members of the Supervisory Council are elected until the next annual shareholder's meeting and may be re-elected an unlimited number of times.

The current members of the Supervisory Council were elected by the annual meeting of shareholders on June 30, 2004. The name, age, qualifications and certain other information for each member of the Supervisory Council of VTB are set out below:

Alexei L. Kudrin (42) has been the Chairman of the Supervisory Council since July 2, 2002. Mr. Kudrin is the Minister of Finance of the Russian Federation. From July 1998 through January 1999 and from June 1999 through May 2000, he served as First Deputy Minister of Finance of the Russian Federation. From January through June 1999, he was the First Deputy Chairman of the Management Board of Unified Energy Systems. Mr. Kudrin graduated from Leningrad State University and has a Ph.D. in Economics.

Alexander A. Braverman (49) has served as a Member of the Supervisory Council since November 29, 2002. Since April 2004 Mr. Braverman has been the President/Chairman of the Management Board of the Russian Marketing Association. From November 2000 until April 2004, Mr. Braverman was the First Deputy Minister of Property Relations of the Russian Federation. From July 1999 through November 2000, he was the President of the Russian Marketing Association. From 1997 through July 1999, he was the First Deputy Chairman of the State Property Committee of the Russian Federation. Mr. Braverman graduated from the Kharkov Engineering-Economical Institute and has a Ph.D in Economics.

Anton V. Danilov-Danilyan (37) has served as a Member of the Supervisory Council since May 17, 2002. Since April 1997, Mr. Danilov-Danilyan has headed the Economics Department in the Administration of

the President of the Russian Federation. Mr. Danilov-Danilyan graduated from the Economics Department of the Moscow State University in 1988. In May 2004, Mr. Danilov-Danilyan was appointed chairman of supervisory council of Gubernsky Bank.

Anton V. Drozdov (39) has served as a Member of the Supervisory Council since May 17, 2002. Since July 2003, Mr. Drozdov has been the Deputy Head of Administration of the Government of the Russian Federation. From July 1999 until July 2003, he headed the Financial Department in the Administration of the Government of the Russian Federation. Mr. Drozdov graduated from the Finance Academy of the Government of the Russian Federation in 1986 with a specialisation in Economics.

Arkady V. Dvorkovich (31) has served as a Member of the Supervisory Council since November 29, 2002. In April 2004, Mr. Dvorkovich became the Head of the Expert Office of the President of the Russian Federation. Until April 2004, he was the Deputy Minister of Economic Development and Trade of the Russian Federation. From July 1998 through early July 2000, he was the General Director of the Economic Expert Group at the Ministry of Finance. For a part of July 2000, he was the senior scientist at the Economic Expert Group. From late July 2000 through March 2001, he was an Adviser to the Minister at the Ministry of Economic Development and Trade of the Russian Federation. Mr. Dvorkovich graduated from the faculty of Economics of the Moscow State University in 1994 with a specialisation in economic cybernetics and received Master's degrees in Economics from the Russian School of Economics in 1994 and from Duke University in 1997.

Sergei I. Kolotukhin (45) has served as a Member of the Supervisory Council since May 17, 2002. From May until mid-September 2004, Mr. Kolotukhin was the Director of the Department of International Financial Relations, State Debt and State Financial Assets of Ministry of Finance of the Russian Federation. From February 2000 to May 2004, Mr. Kolotukhin was the Deputy Minister of Finance of the Russian Federation. From March 1997 through January 2000, he was the Deputy Chairman of the Executive Board of VTB. Mr. Kolotukhin graduated from the Financial Academy of the Government of the Russian Federation in 1983 with a specialisation in International Economic Relations.

Andrei L. Kostin (47) has served as a Member of the Supervisory Council since November 29, 2002. Mr. Kostin has been the Chairman and Chief Executive Officer of VTB since June 10, 2002. From October 1996 through June 2002, Mr. Kostin was the President of VEB. Mr. Kostin graduated with honours from the Economics Department of the Moscow State University in 1979 and has a Ph.D in Economics. In 1998 and 2001 Mr. Kostin was awarded the Honourable Charters of the Government of the Russian Federation. Mr. Kostin is also the chairman of the board of directors of RKB-Zurich and the supervisory board of OWH and a member of the supervisory boards of Industry & Construction Bank, OJSC Ilyishin Finance Co. and OJSC Sovkomflot.

Alexei V. Ulyukaev (47) has served as a Member of the Supervisory Council since November 29, 2002. In April 2004, Mr. Ulyukaev became First Deputy Chairman of the CBR and in May 2004, a member of its board of directors. From June 2003 until April 2004, Mr. Ulyukaev was the First Deputy Minister of Finance of the Russian Federation. From July 1998 through May 2000, he was the Deputy Director of the Institute for Economic Problems of the Transitional Period. Mr. Ulyukaev graduated from the Economics Department of the Moscow State University. He has two Doctorates in Economics.

Oleg V. Vyugin (51) has served as a Member of the Supervisory Council since November 29, 2002. In March 2004, Mr. Vyugin became the Head of the Federal Service for Financial Markets. From April 2002 until March 2004, Mr. Vyugin was the First Deputy Chairman of the CBR. From October 1992 through April 2002, he was a Vice President and Chief Economist at Troika Dialog investment company. From May through October 1992, he was the First Deputy Minister and from July 1998 through May 1999, he was the Deputy Minister of Finance of the Russian Federation. Mr. Vyugin graduated from the Mathematics Department of the Moscow State University in 1974 and has a Ph.D. in Physical and Mathematical Sciences from the Moscow State University.

Management Board

The Management Board is VTB's collective executive body and is elected by the Supervisory Council. Members of the Management Board may be re-elected an unlimited number of times. The Management Board meets as necessary, but not less than once a month, and makes its decisions by simple majority, provided that the quorum of half of the elected members of the Management Board is present. Members of the Management Board are responsible for VTB's day-to-day management and administration. The Chairman represents VTB and acts as its Chief Executive Officer.

The name, age, qualifications and certain other information for each member of the Management Board is set out below.

Andrei L. Kostin (47) See “– VTB's Governance Bodies – Supervisory Council.”

Vadim O. Levin (40) has been the First Deputy Chairman and member of the Management Board since August 2002. From July 1997 through July 2002, he was the Deputy Chairman of Vnesheconombank. Mr. Levin graduated from the Leningrad Financial Economic Institute in 1985 and received a Ph.D in Economics in 1988. Mr. Levin is a member of the supervisory board of OJSC AKB Evrofinance Mosnarbank.

Gennadiy V. Soldatenkov (51) has been a Deputy Chairman and member of the Management Board since January 2001. From April 1996 through January 2001, he was the Deputy Chairman of the Board of Sberbank and the Chairman of Moscow Regional Head Office of Sberbank. Mr. Soldatenkov graduated with honours from the Moscow Financial Institute in 1975 with a specialisation in Finance and Credit. Mr. Soldatenkov is a member of the presidium of the Moscow Chamber of Commerce and Industry and of the exchange council of the Moscow Stock Exchange.

Igor N. Zavyalov (43) has been the Deputy Chairman and member of the Management Board since July 2002. From April 1999 through July 2002, Mr. Zavyalov was the Deputy Chairman of VEB. From October 1998 through April 1999, he was the Deputy Chairman of the Executive Board of the National Reserve Bank. Mr. Zavyalov graduated from the Moscow Institute of Aviation in 1986 with specialisation in Economy and Organisation of Production. Mr. Zavyalov is a member of the supervisory council of OJSC KAMAZ.

Alexei I. Akinshin (44) has been a member of the Management Board since May 2003. Since July 2002, he has served as a Senior Vice President of VTB. From 1996 until his appointment as a Senior Vice President of VTB, he was the Head of the Resources Department, Head of Currency and Financial Operations Department, Director of the Directory for Currency-Financial Operations and a Member of the Supervisory Council of VEB. Mr. Akinshin graduated with honours from the Moscow Institute of Finance in 1982 with specialisation in International Economic Relations. Mr. Akinshin is the chairman of the supervisory council of CJSC Mezhnimuzmatica, a member of the exchange council of the Moscow Interbank Currency Exchange and a member of the council of Russia's National Securities Market Association.

Erkin R. Norov (49) has been a member of the Management Board since July 2002. Since July 2002 he has served as a Senior Vice President of VTB. From July 1999 through June 2002, he was the Director for Development and Strategic Planning of VEB. From March 1999 through July 1999, Mr. Norov was the Head of the Department for Calculation of Tax Basis and Tax Income Planning of the Ministry of the Russian Federation for Taxes and Levies and from 1992 through March 1999 he was the Vice-President and the Head of Moscow Representation Office of Avtovaz. Mr. Norov graduated from the Moscow State University in 1976 with a specialisation in Economic Cybernetics. Mr. Norov does not hold any managerial positions outside VTB.

Audit Commission

VTB's Audit Commission oversees VTB's financial and economic activity. The exact number and composition of the Audit Commission is determined by a decision of the annual shareholders' meeting. Members of the Audit Commission are elected for one-year terms. Members of the Audit Commission may not be members of the Supervisory Council or other senior management bodies of VTB. The Audit Commission is a statutory audit commission required under the Russian legislation governing joint stock companies and its functions and the scope of its authority are significantly more limited than those of an audit committee of the board directors required for certain companies in the United States under the Sarbanes-Oxley Act of 2002 and audit commissions used in some European countries.

The current members of the Audit Commission are:

Name	Position
Anton G. Siluanov	Deputy Minister of Finance of the Russian Federation
Irina I. Mironova	Deputy Head of Registration and Licensing Section of the Licensing and Financial Condition of Credit Organisations Department of the CBR
Olga V. Avdeeva	Chief Accountant of VTB

VTB's Board Practices

VTB does not enter into service contracts with the members of its Supervisory Council. The members of its Management Board enter into employment contracts with VTB, which set forth their compensation. However, these contracts do not obligate the members of the Management Board to remain at VTB for any specific length of time.

Management – Certain Transactions

As of December 31, 2003 and March 31, 2004, VTB had outstanding loans to members of the Supervisory Council in the amount of U.S.\$231,000 and no outstanding loans or guarantees to members of the Management Board. In 2003, the total remuneration of the members of VTB's Management Board and other senior management, including pension contributions and discretionary compensation amounts, amounted to U.S.\$11 million. In the first quarter of 2004, the total remuneration of the members of VTB's Management Board and other senior management, including pension contributions and discretionary compensation amounts, amounted to U.S.\$2.8 million.

VTB's Share Ownership

The aggregate beneficial interest of members of VTB's Supervisory Council, senior management and employees was 0.0002% of VTB's total share capital as of December 31, 2003 and 0.0002% as of March 31, 2004.

SHAREHOLDING

VTB's Share Capital and Shareholders

As of March 31, 2004, VTB's share capital was RUR42,137,236,000, comprised of 42,137,236 issued and outstanding ordinary shares with a par value of RUR1,000 each. In addition, VTB has 10,000,000 authorised ordinary shares with a par value of RUR1,000 each which are currently unissued.

VTB has held shareholders' meetings since 1992.

VTB's majority shareholder is the Federal Property Service, which holds 99.9% of VTB's issued and outstanding shares. VTB's other shareholders include, amongst others, Sberbank, Gazexport LLC, CJSC Energomashexport, OJSC Ingosstrakh and the Chamber of Commerce and Industry of the Russian Federation.

Rights of VTB's Shareholders

VTB's shareholders have the right to vote at all general meetings of shareholders. As required by the Federal Law on Joint Stock Companies and VTB's charter, all of its ordinary shares have the same nominal value and grant identical rights to their holders. Each fully paid ordinary share gives its holder the right to:

- freely transfer the shares without the consent of other shareholders;
- receive dividends;
- participate in shareholders' meetings and vote on all matters of shareholders' competence;
- transfer voting rights to its representative on the basis of a power of attorney;
- elect and dismiss members of the board of directors and the internal audit commission;
- if holding, alone or with other holders, 2% or more of the voting stock, within 30 days after the end of VTB's fiscal year, make proposals for the annual shareholders' meeting and propose candidates to the Supervisory Council and the internal audit commission;
- if holding, alone or with other holders, 10% or more of the voting stock, call an extraordinary shareholders' meeting or an unscheduled audit by the internal audit commission;
- receive a proportionate amount of VTB's property upon liquidation, after VTB fulfils its obligations to creditors;
- have free access to certain VTB documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have free access to accounting documents; and
- exercise other rights of a shareholder provided by VTB's charter, Russian legislation and decisions of VTB's shareholders' meetings.

Dividends and Dividend Policy of VTB

VTB does not have a formal policy for payment of dividends. The amount of dividends to be declared and paid is decided at VTB's annual shareholders' meeting on the basis of VTB's net profit for the previous fiscal year determined in accordance with RAR on a stand-alone basis. In 2003, VTB declared and paid U.S.\$53 million in dividends for 2002. In 2004, VTB declared and paid U.S.\$55 million (at the exchange rate of RUR29.04 per U.S.\$1.00) in dividends for 2003.

RELATED PARTY TRANSACTIONS

The Group enters into banking transactions in the normal course of business with shareholders, non-consolidated subsidiaries and affiliates. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. Transactions are priced predominantly at market rates.

The following table sets forth outstanding balances at the year end and income and expense items for 2003, 2002 and 2001 with related parties (excluding the major shareholder (the CBR or, after October 2002, the Ministry of Property Relations and its successor, the Federal Property Service)). Related parties are defined in accordance with IFRS.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<i>(millions of U.S. dollars)</i>		
Loans			
Loans and advances to customers and due from other banks	–	–	369
Provision for loan impairment.....	–	–	(161)
Interest income.....	–	–	2
Investment securities available for sale			
Investment securities.....	–	–	111
Deposits			
Customer accounts and due to other banks	–	–	2

The following table sets forth outstanding balances at the year end and interest income and expense as well as other transactions for 2002 and 2001 with the major shareholder (the CBR or, after October 2002, the Ministry of Property Relations and its successor, the Federal Property Service).

	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<i>(millions of U.S. dollars)</i>		
Mandatory cash balances with local central banks	–	–	148
Loans and advances to customers and due from other banks.....	–	–	123
Interest income	–	1	–
Customer accounts and due to other banks.....	–	–	2
Other borrowed funds	–	–	1,286
Interest expense	–	18	31
Gain less losses on operations with investment securities available for sale.....	–	36	–
Balances arising from derivative financial instruments	–	–	85
Guarantees received.....	–	–	9
Deliverable forward on investment securities	–	–	777
Investment securities pledged.....	–	–	13
Dividends paid	53	20	–
Dividends (U.S.\$ per share)	1.26	0.47	–

The Group did not have material balances outstanding with related parties as of March 31, 2004. In connection with VTB's acquisition of Gута Bank, the CBR provided financial assistance by placing a U.S.\$700 million deposit with VTB, at the one-year LIBOR, for the term of one year. The deposit will be available to maintain Gута Bank's liquidity and for use in its operations. VTB and the CBR may agree to prolong the term of the deposit. See "Business – Other Group Banks – Domestic Banks and Participations – Domestic Banks – Gута Bank."

THE BANKING SECTOR AND BANKING REGULATION IN RUSSIA

The Russian Banking Sector

The Russian banking sector consists of the CBR, credit organisations (banks and non-bank credit organisations) and representative offices of foreign banks. Non-bank credit organisations provide only limited banking services, such as maintaining accounts and making payments, whilst banks provide a wide range of banking services. The representative offices of foreign banks in practice do not carry out the same operations as Russian licensed credit institutions, and their activities are generally limited to facilitating banking operations of their respective parents through representing their interests. As of August 1, 2004, 1,322 banks and other non-bank credit organisations that have banking licences were registered in Russia. An additional 252 credit organisations had had their banking licences revoked by the CBR as of that date. A majority (681 as of August 1, 2004) of operating Russian credit organisations are located in Moscow and the Moscow region.

According to the CBR, as of July 1, 2004, the total assets of the Russian banking sector were valued at RUR6.2 trillion and the five largest banks accounted for 44.4% of all banking sector assets (under RAR) in the Russian Federation. *Expert* magazine identifies Sberbank, VTB, Gazprombank, Alfa-Bank and Bank of Moscow as the five largest banks (under RAR) by assets as of July 1, 2004, with Sberbank having the largest assets (RUR1.8 trillion compared with RUR6.2 trillion of total assets of the Russian banking sector as of July 1, 2004).

The main business areas of Russian banks are deposit taking and maintaining accounts, providing settlement services for legal entities, lending and investing in securities.

According to the CBR (based on RAR financial statements of credit organisations), as of July 1, 2004, funds in current accounts, budget accounts and deposits of legal entities, liabilities under corporate debt securities and other liabilities to clients (excluding retail deposits, other accounts of individuals, funds in correspondent accounts and interbank loans and deposits) comprised 59.7% (RUR3.7 trillion) of the total liabilities of Russian credit organisations, whilst retail deposits accounted for 28.6% (RUR1.77 trillion). Loans to customers and other investments (other than in securities) comprised 60.1% (RUR3.7 trillion) of all assets of credit organisations, including 44.6% (RUR2.8 trillion) in loans to companies and other legal entities in the non-financial sector and 6.6% (RUR406.5 billion) in loans to and deposits with banks.

According to the CBR, loans extended by Russian banks to non-financial sector companies rose from 14.7% of gross domestic product (“GDP”) as of January 1, 2003 to 17.1% as of January 1, 2004. The share of loans to non-financial sector companies in the overall assets of the Russian banking sector rose from 38.4% as of January 1, 2003 to 40.5% as of January 1, 2004.

Loans extended by Russian banks to legal entities are often overcollateralised. According to the CBR (based on RAR financial statements of credit organisations), as of July 1, 2004, overdue loans were valued at RUR47.7 billion, accounting for 0.8% of all banking assets in Russia.

As of July 1, 2004, investments in securities by credit organisations (based on RAR accounts of credit organisations) represented 18.1% (RUR1.1 trillion), including 7.5% (RUR460.7 billion) in debt securities of the Russian Federation, of all bank assets in the Russian Federation.

According to the CBR, as of July 1, 2004, 1,270 operating credit organisations were profitable, whilst 53 were not (data for 3 operating credit organisations was not available).

Legislative Framework for the Russian Banking Sector

The main law regulating the Russian banking sector is the Banking Law. Among other things, it defines credit organisations, sets out the list of banking operations and other transactions that may be performed by credit organisations and establishes the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

The Banking Law names the following services as “banking operations” that require receipt of an appropriate licence from the CBR: taking deposits from individuals and legal entities (both demand and fixed-term deposits); investing the deposited funds as a principal; opening and maintaining bank accounts for individuals and legal entities; performing settlements in accordance with the instructions of individuals

and legal entities, including correspondent banks, from/to their bank accounts; cash, cheques, promissory notes, payment documents handling services and over-the-counter services provided to individuals and legal entities; sale and purchase of foreign currency (including banknotes and coins); taking deposits in precious metals and investing them; issuing bank guarantees; and making payments in accordance with the instructions of individuals without opening bank accounts (excluding payments by post).

The Banking Law provides that a credit organisation may be authorised to take deposits from individuals only after it has been registered for two years. According to the CBR, as of August 1, 2004, 1,179 operating credit organisations registered by the CBR had been authorised to provide banking services to individuals.

The system of the insurance of private deposits was introduced late in 2003 and is being gradually implemented. According to the Deposit Insurance Law, banks holding a CBR licence for attracting deposits from individuals and opening and administering individual accounts are required to qualify for such activities. Subject to a bank's compliance with certain regulatory requirements (including all of the CBR's mandatory economic ratios), the bank enters the system for the insurance of individuals' deposits and thus qualifies for the attraction of retail deposits and opening accounts for individuals. Banks that hold a valid retail banking licence had to have applied to the CBR prior to June 27, 2004 in order to be eligible to become registered as a participant in the mandatory deposit insurance system. There are a number of requirements that such banks are expected to meet before they will be admitted to the system: (i) the CBR must be comfortable that the bank's financial statements and reporting are true; (ii) the bank is in full compliance with the CBR mandatory ratios (capital adequacy, liquidity, etc.); (iii) the CBR considers the applicant's solvency position sufficient; and (iv) the CBR is not conducting any enforcement actions with respect to the bank and no grounds for such enforcement actions have arisen during the CBR's review of the bank's application. The CBR should consider all applications within nine months of the filing date, but in any event prior to March 27, 2005. If a bank fails to comply with the applicable requirements or chooses not to participate in the insurance system, it will be precluded from taking retail deposits and opening accounts for individuals.

The Deposit Insurance Law provides for the establishment of a new regulator, the Agency for Deposits' Insurance (the "Agency"), which is expected, among other things, to assume responsibility for collecting insurance contributions, managing the funds in the mandatory insurance pool, determining insurance premiums and monitoring insurance payments. All banks that have a retail banking licence will be entered into the register of the Agency.

Under the Deposit Insurance Law, the protection for each client is limited to RUR100,000 (U.S.\$3,444 at the exchange rate of RUR29.04 per U.S.\$1.00) per bank and banks are required to make quarterly payments into a deposit insurance fund. The insurance payment from the deposit insurance fund will become payable to depositors if the bank's license has been revoked or if a moratorium on payments by the bank has been imposed by the CBR. The basis of the deposit insurance contribution is the quarterly average of daily balances of retail deposits (excluding bearer deposits). Standard contribution premiums cannot exceed 0.15% of the contribution basis. In certain circumstances, the premium can be increased up to 0.3% of the contribution basis, but not for more than two quarters per every 18 months. When the size of the insurance fund reaches 5% of combined retail deposits of all Russian banks, all succeeding contribution premiums cannot exceed 0.05% of the contribution basis, and when the size of the insurance fund exceeds 10% of all Russian banks' retail deposits, no contributions need to be made, but they have to resume once the insurance fund has fallen below 10%.

On July 29, 2004, the President of Russia signed federal laws to regulate certain issues arising in connection with the turmoil that the Russian banking sector experienced from April through July 2004 ("Turmoil Legislation"). See "Risk Factors – Risks Relating to the Russian Federation – Economic Risks – Economic instability in Russia could adversely affect the Group's business" and "– Brief History of the Russian Banking Sector". The Turmoil Legislation contemplates, among other things, that the CBR will make payments to the private depositors of insolvent Russian banks if such banks have not been admitted to the system of the insurance of private deposits (introduced in December 2003) prior to their bankruptcy. The Turmoil Legislation also authorises the CBR to impose, for the term of one year, a limit on the interest rates on deposits paid by banks to private depositors. In addition, under the Turmoil Legislation, banks will be required to disclose certain information related to the interest rates on deposits, banks' liabilities in respect of deposits and amounts of cash withdrawals by private depositors. It is anticipated that the CBR will issue regulations with respect to particular disclosure requirements.

In addition to banking operations, credit organisations are permitted to enter into the following transactions: to give sureties for obligations of third parties contemplating payment in cash; to take assignments of rights to demand payment; to engage in trust management (which differs from an English law trust concept) of monetary funds and other property for individuals and legal entities; to engage in operations with precious stones and metals (in accordance with the Federal Law “On Precious Stones and Precious Metals” No. 41-FZ of March 26, 1998 and subordinate legislation); to rent out special premises and safe deposit boxes to individuals and legal entities to store documents and valuables; to finance leasing operations; and to provide consultancy services. A credit organisation may enter into any other transactions in accordance with the relevant legislation of the Russian Federation.

Under the Banking Law a credit organisation cannot engage in production, commodities trading (excluding precious metals) or insurance activities.

Pursuant to the Old Currency Law banks holding general banking licences (which allow them to perform virtually all banking operations set out in the Banking Law in roubles and foreign currency) act as “currency control agents.” Currency control agents must supervise all operations of their clients in foreign currency and operations of non-Russian clients in Russian roubles and to report these operations to the CBR.

On December 10, 2003 the Russian President signed the New Currency Law that will replace the Old Currency Law. The majority of the provisions of the New Currency Law came into effect on June 18, 2004. Under the New Currency Law, Russian banks authorised to conduct transactions in foreign currencies will continue to act as “currency control agents.”

The New Currency Law is generally aimed at the gradual liberalisation of Russian currency control regulations, but at the same time it introduces some new forms of currency control (such as the placement of mandatory deposits with the CBR and the use of special accounts). The New Currency Law provides for the most of the current restrictions to be effective until January 1, 2007. See “Risk Factors – Risks Relating to the Russian Legal System and the Russian Legislation – Russian banking and financial regulation has been undergoing significant changes.”

Under the New Currency Law, no individual licences can be issued for foreign currency transactions. Instead the government and the CBR are authorised to adopt a general regime for the use of foreign currency applicable to all market participants and cannot issue individual licences. With respect to certain currency operations, residents and non-residents may be subject to mandatory deposit requirements in the amount of either up to 100% of the amount of the operation for a period of up to 60 days or up to 20% for a period of up to one year (excluding export/import operations for which special rules are established). In addition, the CBR will have the power to require residents and non-residents to carry out certain operations through special accounts in addition to the above mandatory deposit requirements. In particular, settlements between residents and non-residents in relation to loans in foreign currency and roubles, as well as securities, non-banking operations of banks and conversion operations may be covered by such special account and mandatory reserve requirements (however, conversion restrictions may not be imposed on authorised banks).

Under the New Currency Law, the CBR retains the right to introduce special rules on forms of currency controls set forth in the New Currency Law as applicable to banking operations of credit organisations.

Pursuant to the New Currency Law, the new restrictive measures should be applied by the CBR and/or the Government with reference to the current economic situation in order to prevent a substantial reduction in Russia’s gold and foreign exchange reserves, to neutralise the currency rate swings and to secure a stable balance of payments of the Russian Federation. This implies that these restrictions should not be applied unless the Russian economy is in decline. At the same time, the criteria for the introduction of these restrictive measures are vague enough to allow the CBR and the Russian Government to apply them at their discretion and on a long-term basis.

Acting as securities broker or dealer and providing custody services (other than when acting as a paying agent) are not covered by any banking licence and a credit organisation must obtain specific licences from the Federal Service for the Financial Markets, or its predecessor (the “FSFM”), pursuant to the Federal Law “On the Securities Market” No. 39-FZ of April 22, 1996 to perform these services. The operations of Russian banks in the securities markets are subject to Russian securities laws and regulations adopted by the FSFM or its predecessor that prescribe detailed rules for acting in Russia’s securities market as a

broker, dealer or securities custodian, govern the relations between professional market participants and investors. The FSFM also acts as the supervisory and control authority for all professional market participants, including banks, with respect to their compliance with Russia's securities laws and regulations.

In August 2001 the Federal Law "On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means" (the "Anti-Money Laundering Law") was adopted to comply with the requirements of the Financial Action Task Force on Money Laundering (FATF). The Anti-Money Laundering Law came into effect on February 1, 2002. Credit organisations are required to comply with the provisions of the Anti-Money Laundering Law relating to, amongst other things, development of appropriate internal standards and procedures, customer identification, control over customer operations and reporting of suspicious activities.

One of the main obligations of banks under the Anti-Money Laundering Law is the control function which involves identification of banks' clients, information gathering with respect to clients operations and reporting of specific operations to the Federal Service for Financial Monitoring that is the anti-money laundering authority in Russia. The Anti-Money Laundering Law requires that banks control any operations with money or other property if the sum of such operation is equal to or exceeds RUR 600,000 (or its equivalent in foreign currencies) when such operation involves any of the following: cash transactions, transactions when one of the counter-parties is resident or has a bank account in a country that does not participate in international efforts to combat money-laundering, making certain bank deposits that do not identify beneficiaries, other similar transactions involving precious stones, precious metals and other property. In addition, banks are required to control any operation involving any individual or organisation that is known to participate in terrorist activities, any legal entity they control or their agents. If bank officers suspect that an operation is conducted in order to legalise any funds received as a result of illegal activity or to finance terrorist activities, banks are required to report such operations whether or not they qualify as controlled operations. Banks are not allowed to inform customers that transactions are being reported to the Federal Service for Financial Monitoring.

Credit organisations are subject to specific insolvency procedures, which are set out in the Federal Law "On Insolvency of Credit Organisations" No. 40-FZ of February 25, 1999 (the "Bank Insolvency Law"). Among other things, the Bank Insolvency Law provides that in the event of winding-up of a credit organisation its retail depositors are paid first. Federal Law No. 121-FZ of August 20, 2004, which amends certain provisions of the Bank Insolvency Law, will come into force in late November 2004. The principal changes include: (i) clarification with respect to the period of the activity of the temporary administration; (ii) amendment to the definition of "transactions at under value" (increasing the number of transactions that may fall within the scope of that definition); (iii) certain changes in the creditors' priority ranking in liquidation; and (iv) introduction of a detailed procedure for liquidation of credit organisations. These new provisions will only apply to insolvency proceedings commenced after November 26, 2004. A private, self-regulatory body, the Association of Russian Banks, consisting of approximately 300 banks and non-bank credit organisations and established pursuant to the provisions of the Banking Law as a non-commercial and self-regulatory organisation, offers technical support to its members and lobbies for the interests of commercial banks in various branches of power (including the Federal Assembly (the Russian Parliament), the Government and the CBR).

The CBR and Its Role

The CBR's main aim is to protect the rouble and provide for its stability. The CBR is also responsible for the development and strength of the Russian banking system and regulates banking activity in Russia. The status of the CBR as the banking sector's regulator is determined by the Constitution of the Russian Federation and developed by the CBR Law. The CBR issues licences authorising banks to perform a full range of banking operations either in both roubles and foreign currencies or only in roubles and to take deposits from individuals.

The CBR was established on July 13, 1990 as a successor to the Russian Republican Bank of Gosbank of the USSR (State Bank of the USSR). With the collapse of the USSR in 1991, the CBR inherited the operational facilities and resources of Gosbank of the USSR, including its subsidiaries and branches. According to the CBR Law, the Government is not liable for the CBR's obligations, nor is the CBR liable for the obligations of the Government, unless the relevant liability has been undertaken or is required under other Russian laws. The charter capital and other assets of CBR are federal property. As of July 1,

2004, the CBR's assets amounted to approximately RUR 3.19 trillion (U.S.\$109.9 billion at the exchange rate of RUR29.04 per U.S.\$1.00) and its gold and hard currency reserves, as of August 13, 2004, amounted to U.S.\$89.6 billion.

The CBR is a separate legal entity and is financially independent from the Government. Under the CBR Law, the CBR is generally prohibited from extending loans to the Government and regional and municipal governments for the purpose of budget deficit financing and from purchasing state securities in the primary market.

The CBR consists of the Moscow Head Office, including the Board of Directors, the National Banking Council (a collegial management body of the CBR that conducts certain governing functions, such as making decisions on maximum capital expenditures of the CBR, distribution of its profits, appointment of its auditor and approval of its accounting rules and requirements) and central departments. The CBR also has a number of regional branches in the constitutive subjects of Russia (in some of the Russian republics the CBR's regional branches are called National Banks) and local branches. The Chairman of the CBR is nominated by the President of the Russian Federation and appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament).

The Chairman of the CBR can be replaced under the same procedure and has the right to participate in Government (Cabinet) meetings. Of the 12 members of the National Banking Council, two are appointed by the Federation Council (the upper chamber of the Russian Parliament) from among its members, three are appointed by the State Duma from among its deputies, three are appointed by the President and three are appointed by the Government of the Russian Federation. The Chairman of the CBR is an *ex officio* member of the National Banking Council.

Under current legislation, the CBR has the following major functions:

<u>Function</u>	<u>Summary</u>
Issuing money and regulating its circulation	The CBR is the sole issuer of Russian rouble banknotes and regulates their circulation. The CBR plans and arranges for the printing of banknotes and the engraving of coins, establishes the rules for their transportation and storage and regulates over-the-counter operations with cash.
Financing/Monetary policy	The CBR establishes interest rates for its financings, refinances credit organisations, performs currency interventions, establishes reserve requirements for the banks, sets capital adequacy and similar ratio requirements for banks, issues its own bonds (which can be offered to credit organisations only) and trades in the governmental securities market.
Transactions with banks	Rendering decisions on the state registration of banks; registering securities issued by banks; extending loans to banks; maintaining correspondent accounts of banks in roubles; purchase and sale of Russian state securities, CBR bonds, certificates of deposit, precious metals and natural gems and holding them in depositary accounts; purchase and sale of foreign currencies and payment documents in foreign currencies issued by Russian and foreign banks. Unless otherwise directly provided in federal laws, the CBR is not permitted to participate in charter capital of banks.

Function

Implementing the federal budget and debt service

Summary

Under the CBR Law, the CBR is prohibited from extending loans to the Government in order to finance the state's budget deficit or purchasing state securities in the primary market, unless a specific exception is created by the federal budget. However, the CBR acts as a placement agent with respect to domestic government securities issued by the Ministry of Finance of the Russian Federation, maintains budget accounts and acts as an agent for servicing of the Russian Federation domestic state debt.

Exchange control

The CBR regulates dealing and settlements in roubles, foreign currency operations in Russia and by Russian residents abroad, administers Russia's gold and currency reserves and establishes the regimes for rouble and foreign currency accounts of residents and non-residents in Russia. It formerly issued permits for performing capital flow operations but ceased to have this authority on June 18, 2004 upon the effectiveness of the New Currency Law.

Licensing

The CBR is responsible for issuing, suspending and revoking banking licences of credit organisations.

Banking control and supervision

The CBR is responsible for monitoring and controlling banks' compliance with ratios and reserve requirements that it sets. See " – The CBR Regulation of the Russian Banking Sector – 2. Mandatory Economic Ratios." The CBR imposes administrative sanctions for violations of banking legislation by credit organisations operating in Russia. The CBR sets out standards for financial, accounting and statistical reporting by credit organisations in Russia. The CBR appoints the temporary administration of banks that are facing insolvency. The CBR receives notifications regarding, and in certain cases controls, the acquisition and trust management of significant (more than 5%) stakes in credit organisations, assesses financial standing of banks' founders.

The CBR is authorised to enter into transactions with credit organisations, foreign banks and the Government in order to perform the functions outlined above.

The CBR has a number of supervisory roles (described below). However, other governmental authorities have indirect influence over credit organisations in Russia. For instance, the FSFM will issue, and its predecessor has issued in the past, licenses to banks acting as a broker/dealer or a custodian in the Russian securities market. Tax authorities supervise tax assessments of banks. The Federal Anti-Monopoly Service controls, and its predecessor in the past controlled, mergers of credit organisations and acquisitions of more than 20% of voting stock in a credit organisation.

The CBR Regulation of the Russian Banking Sector

Under the CBR Law, the Banking Law, the Old Currency Law and the New Currency Law, the CBR is authorised to adopt binding regulations concerning banking and currency operations. The CBR has actively used this power in recent years, creating a detailed and extensive body of regulations.

Set out below are some of the principal features of the supervisory regime governing banks in Russia:

1. Licensing

A CBR licence must be obtained for any "banking activity" as defined in the Banking Law. Applicants must be incorporated within the Russian Federation, submit an application for state registration with an attached feasibility report regarding the future business activity of the applicant and submit detailed information on the suitability of its management as well as other information.

Under the Banking Law, a bank can be created in the form of a joint stock company, a limited liability company or a company with additional liability, although in practice the latter form is not used. An

application for a banking licence may be turned down if the founding documents do not comply with the requirements set out in the Banking Law and the CBR's regulations, the financial or banking records of the founders are unsatisfactory or proposed candidates for executive and chief accountant positions do not meet qualification requirements.

2. Mandatory Economic Ratios

The CBR is authorised to introduce various capital adequacy and liquidity requirements applicable to banks. Such requirements currently exist in the form of the relevant mandatory economic ratios described in Instruction No. 110-I of the CBR "On the Banks' Mandatory Economic Ratios." Set out below is the system of the mandatory economic ratios which banks are required to observe on a daily basis and regularly report to the CBR. Unless stated otherwise, all ratios described below are calculated on the basis of RAR, as formulated by the applicable Russian laws and CBR regulations.

<u>Mandatory Economic Ratios</u>	<u>Description</u>	<u>CBR Mandatory Economic Ratio Requirements</u>
Capital adequacy ratio (N1)	<p>This is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base necessary to cover credit and market risks. It is formulated as a ratio of a bank's capital base to its risk-weighted assets.</p> <p>The risk-weighted assets are calculated under a formula that takes into account the bank's capital, select categories of assets, reserves created for possible losses of those assets, credit risk on contingent liabilities, credit risk on forward transactions, as well as risks relating to interest rates, securities markets and currencies, in each case separating the systemic and idiosyncratic factors.</p>	Minimum 11% (where a bank's capital base is below €5 million) and minimum 10% (where a bank's capital base is equal or more than €5 million). The capital adequacy ratio currently applicable to VTB is 10%.
Instant liquidity ratio (N2)	This ratio is intended to limit the bank's liquidity risk within one operational day. It is formulated as the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand.	Minimum 15%
Current liquidity ratio (N3)	This ratio is intended to limit the bank's liquidity risk within 30 calendar days preceding the date of the calculation of this ratio. It is formulated as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with terms of up to 30 calendar days.	Minimum 50%

<u>Mandatory Economic Ratios</u>	<u>Description</u>	<u>CBR Mandatory Economic Ratio Requirements</u>
Long-term liquidity ratio (N4)	This ratio is intended to limit the bank's liquidity risk from placement of funds into long-term assets. It is formulated as the maximum ratio of the bank's credit claims maturing in more than one year to the sum of its capital base and liabilities maturing in more than one year.	Maximum 120%
General liquidity ratio (N5)	<p>This ratio is intended to limit the general liquidity risk of the bank. It is formulated as the minimum ratio of the bank's liquid assets to its total assets.</p> <p>The CBR recommended its regional units to use this ratio to analyse the quality of banks' liquidity management but not to apply sanctions to banks for breach of this ratio, unless the results of such analysis show deficiencies in the banks' liquidity or liquidity management.</p>	Minimum 20%
Maximum exposure to a single borrower or a group of related borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers (defined as persons who belong to the same banking or financial industrial group, are close relatives, or persons who can directly or indirectly materially influence the decisions of legal entity borrowers). It is formulated as the maximum ratio of the aggregate amount of the bank's various credit claims to a borrower (or a group of related borrowers) to its capital base.	Maximum 25%
Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks (defined as the sum of loans to, and guarantees or sureties in respect of, one client that exceeds 5% of a bank's capital base). It is formulated as the maximum ratio of the aggregate amount of major credit risks to a bank's capital base.	Maximum 800%

<u>Mandatory Economic Ratios</u>	<u>Description</u>	<u>CBR Mandatory Economic Ratio Requirements</u>
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to the bank's owners. It is formulated as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its participants or shareholders, to its capital base.	Maximum 50%
Aggregate amount of exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing credit decisions). It is formulated as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.	Maximum 3%
Ratio for the use of the bank's capital base to acquire shares (participation interests) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments in shares (participation interests) of other legal entities. It is formulated as the maximum ratio of the bank's investments in shares (participation interests) of other legal entities to its capital base.	Maximum 25%

In addition, in May 2004 the CBR passed a new Regulation No.112-I that outlines the obligatory ratios for credit organisations that issue bonds secured by mortgages. The new regulation provides that the capital adequacy (N1) ratio for such banks should be at least 14% and establishes new methodologies for calculation of the general liquidity ratio (N5). In addition, the new regulation details the methods of calculation of new ratios that were introduced by the Federal Law "On Mortgage-Backed Securities," such as the minimum ratio of 15% for loans secured by mortgages to a bank's capital base (N17), the minimum ratio of 100% for claims relating to principal and interest of loans secured by mortgages to the principal plus interest of issued mortgage-backed bonds (N18) and the maximum ratio of 50% for a bank's aggregate obligations to the creditors who have priority right to satisfy their claims before holders of mortgage-backed bonds (such as a bank's depositors) to a bank's capital base (N19). Banks are required to comply with these special ratios from the time when the decision is taken to issue mortgage-backed bonds until the complete redemption of such bonds.

The capital base of a bank is calculated on the basis of RAR and defined in CBR regulations as the aggregate amount of its main capital (including, *inter alia*, its statutory charter capital, paid-in capital and certain reserve and other internal funds, as well as certain amounts of profit) and additional capital (including, *inter alia*, revaluation surpluses, subordinated loans and certain preferred shares) decreased by certain mandatory reserves and other amounts.

3. Capital Requirements

The CBR sets minimum equity (charter capital) requirements for banks. Under Directive of the CBR No. 1346-U of December 1, 2003, the minimum capital requirement is set at EUR 5 million for each newly-founded bank. Banks whose charter capital exceeds their capital base, are required to adjust their capital base (or, if impossible, their charter capital) accordingly. The procedure for reduction of banks' charter capital to adjust the amount of their capital base is established by Directive of the CBR No. 1260-U of March 24, 2003.

4. Reporting Requirements

Banks must regularly submit to the CBR their balance sheets, together with financial statements, all under RAR, showing their financial position.

Banking groups and consolidated groups (*i.e.*, alliances of legal entities in which one bank, directly or indirectly, controls decisions of the governing bodies of the other banks or legal entities and non-credit organisations within such alliances, respectively) must regularly submit consolidated financial statements to the CBR.

The CBR may, at any time, conduct full or selective checks of a bank's financial reports, and may inspect all of its accounting books and records. In addition, annual audits of banks must be carried out by a licensed auditing company under Russian auditing standards applicable to banks.

5. Mandatory Reserve Requirements

To cover possible loan losses and currency, interest and financial risks, banks are required to comply with the CBR requirements for the formation of various types of mandatory reserves. The Board of Directors of the CBR sets particular reserve requirements from time to time. Banks are currently required to post mandatory reserves to be held on non-interest bearing accounts with the CBR in the amount equal to 3.5% in respect of funds in roubles and foreign currency attracted from legal entities and individuals and 2% in respect of short-term funds in roubles and foreign currency attracted from non-resident banks.

Prior to July 2004, mandatory reserves of banks to be deposited with the CBR were required to be calculated under the CBR Order No. 02-77 of March 30, 1996 (the "Old Reserves Regulation"). Starting with July 2004, the mandatory reserves are calculated by banks in accordance with the CBR Regulation No. 255-P of March 29, 2004 (the "New Reserves Regulation"), which changes the methods of reserves calculation but not the amounts set by the Board of Directors of the CBR. Both regimes require prompt reporting by banks to the CBR and its regional units after the end of each calendar month with calculation of reserves and prompt posting of additional reserves, if necessary. The CBR and its regional units have a right to conduct unscheduled audits of credit organisation to check their compliance with the reserves rules. The New Reserves Regulation no longer requires creation of reserves for certain long-term borrowings, however, it requires posting of reserves for short-term obligations to non-resident banks. In addition, credit organisations with good reserves and credit history will be offered a new mechanism that would allow posting of reserves in accordance with certain calculated averages.

6. Provisioning and Loss Allowances

The CBR put in place certain rules concerning creation of allowances for loan losses for loans extended by banks. The CBR Instruction No. 62a of June 30, 1997 has required the banks to adopt procedures for calculation and posting of allowances for loan losses and continuously monitor the financial position of the banks' borrowers.

The CBR distinguishes three levels of security provided for the loan. Depending on such level of security and the credit history of the borrower, the banks are required to classify all loans given by them into four categories: (i) standard (low risk) loans; (ii) non-standard (moderate risk) loans; (iii) doubtful (high risk) loans; and (iv) hopeless loans. Thus, depending on the category of the loans, the banks are required to create reserves in the amount of (i) 1%; (ii) 20%; (iii) 50%; and (iv) 100% of the principal amount of the loans, respectively. If one borrower received several loans from the bank, all of such borrower's loans are required to be classified in the highest risk category applicable to any of such loans.

Allowances for loan losses are calculated at the end of each calendar month in roubles, and then adjusted each month. Such allowances are only used to cover losses relating to the principal amount of the loans made by banks and/or amounts of promissory notes that exclude the relevant interest and discount. The CBR and its regional units have the right to audit the banks' compliance with the requirements relating to allowances for loan losses and check the correct calculation of such allowances in order to balance the need to create allowances on the one hand and ensure the correct preparation of the banks' financial statements for tax purposes on the other.

Starting from August 1, 2004, Russian credit organisations are be required to calculate and establish their allowances for loan losses in accordance with Regulation No. 254-P, dated March 26, 2004. This new

regulation replaced the CBR Instruction No. 62a and has introduced a number of new rules. In particular, it requires credit organisations to rank their loans into five categories instead of four, as prescribed by the current regulation and the range of loans that must be provided for has been extended to include rights assigned under contracts, mortgages acquired in the secondary markets, claims relating to purchase of financial assets with deferred payment, rights under repo contracts (if such repo contracts are concluded in respect of unlisted securities) and some other operations. The new regulation established that loans classified as Category I loans (standard loans) need not be provided for. Additionally, credit organisations will be required to classify their loan security into two groups on the basis of its quality. The new regulation provides for a somewhat simplified procedure with respect to writing off bad debts, especially minor debts, as compared with the existing procedure.

The CBR also established rules concerning creation of allowances for possible losses, other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward and other transactions. The CBR Instruction No. 232-P of July 9, 2003 requires banks to rank such assets and operations into five risk groups reflecting the following situations (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide allowances for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively: (i) 0%; (ii) 1% to 20%; (iii) 21% to 50%; (iv) 51% to 100%; and (v) 100%. Banks must report to the CBR on the amounts of created non-loan allowances monthly within ten days following the reporting month. The CBR and its regional units are responsible for monitoring the compliance of banks with these rules.

Mandatory allowances are also created for operations with residents of off-shore areas in the amount of up to the higher of (a) 100% held on the bank's balance sheet accounts, and (b) average daily turnover with residents of off-shore zones during the last month.

7. Regulation of Currency Exposure

In its Instruction No. 41 of May 22, 1996, the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, "currency exposure"), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into roubles in accordance with the official exchange rates and CBR's prices for precious metals.

The CBR established that at the end of each operational day the total amount of all long or short currency positions shall not exceed 20% of the bank's capital base. At the same time, at the end of each operational day the long or short position with respect to one particular currency or precious metal shall not exceed 10% of the bank's capital base.

Banks with capital base not exceeding €6 million are required to report to the CBR about their currency exposure once a week with breakdowns for each day. Banks with capital base equal to or exceeding €6 million are required to report about their currency exposure daily on the day following the reporting day.

8. Accounting Practices

The CBR has established accounting policies for credit organisations and a standard format for the presentation of a bank's financial statements. A bank's financial statements and other accounting information must be prepared and submitted in accordance with the Directive of the CBR No. 1375-U "On the Rules for the Preparation and Submission of Reports to the CBR by Credit Organisations" dated January 16, 2004.

Starting with periods after January 1, 2004, all credit organisations are required to prepare their accounting reports in accordance with IFRS. Credit organisations will continue the preparation of their financials under RAR until January 1, 2006, when only IFRS financial statements will need to be prepared.

Brief History of the Russian Banking Sector

Prior to the reorganisation of 1987, the Soviet banking system consisted of Gosbank of the USSR, which allocated resources from the state budget according to the prevailing economic plan and in whose regional branches all production and trading entities held their current accounts, and Stroybank of the USSR and Vneshtorgbank of the USSR, which respectively primarily serviced payments relating to capital construction projects and the foreign trade of Soviet entities. Gosbank of the USSR operated a network of so-called “savings branches” (*sberegatelnyie kassy*), which offered limited banking services to retail clients (mainly taking deposits and processing utility payments) throughout the country.

In 1987, with the relaxation of controls over companies and the implementation of “self-financing” system in the economy, which minimised reliance on state subsidiaries, the Soviet banking system was reorganised. A few specialised banks developed to service specific industries were established, namely Agroprombank (Farming Production Bank), Promstroybank (Production and Construction Bank), Zhilsotsbank (Bank for Housing Maintenance and Utilities Sector and Social Development), Vnesheconombank of the USSR (Bank for Foreign Economic Activity) and Sberbank of the USSR (Bank for Labour Savings and Lending to the Population). Vnesheconombank of the USSR had become full successor of Vneshtorgbank of the USSR pursuant to the Resolution of the Council of Ministers of the USSR No. 745 of June 14, 1988.

With the launch of more substantial economic reforms in 1988 and 1989, regional commercial banks (primarily in the form of cooperatives or joint-stock companies) began to emerge. After the introduction of new banking legislation in December 1990 (in the USSR, the Law “On the State Bank of the USSR” and the Law “On Banks and Banking Activity” and in the Russian Soviet Federative Socialist Republic (RSFSR), the Law “On the Central Bank of RSFSR (Bank of Russia)” and the Law “On Banks and Banking Activity in RSFSR”), the development of commercial banking in Russia became more intense. Pursuant to the Law “On Banks and Banking Activity in RSFSR” VTB was formed as a subsidiary of the Central Bank of RSFSR.

Between 1991 and 1998 the Russian banking system experienced rapid growth. The number of commercial banks in Russia increased from approximately 358 in 1990 to 2,538 in 1996. A number of large privately held banking groups were formed, including UNEXIM Bank, Incombank, Menatep, Russian Credit and SBS-Agro. Although most private banks focused on providing banking services to newly privatised companies and working with the governmental and municipal funds, several started to compete with the state owned banks in various regions of Russia in offering banking products to retail customers.

Subsequent to the Government’s and CBR’s announcements on August 17, 1998, the Russian financial markets suffered a series of events that resulted in a severe financial crisis, resulting in significant concerns over the liquidity and solvency of the banking sector. Many banks were subsequently reorganised, went bankrupt or fell under the administration of the Agency for the Restructuring of Credit Organizations (the “ARCO”), a state corporation for ensuring the financial recovery of banks and protecting the interests of their creditors which was established in 1999. In 2002, 14 banks were administered by ARCO and by December 31, 2002, 11 of them had completed the process of financial restructuring. Since the 1998 financial crisis the number of credit organisations operating in Russia has been falling. Pursuant to Federal Law No. 87-FZ, dated July 28, 2004, the ARCO is to be liquidated. It is expected that the liquidation procedures would be completed in 2004.

The 1998 financial crisis revealed the lack of proper controls in the Russian banking sector at that time and reinforced concerns about the integrity of the banking system.

From 1999 through 2001, the Russian banking system went through a period of recovery from the 1998 financial crisis that was characterised by higher liquidity levels and a shift in emphasis from investments in government securities to loans to companies and other legal entities.

From April through July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of the recent circulation of various market rumours and, in some cases, certain regulatory and liquidity problems, several Russian privately-owned banks have collapsed or ceased or significantly limited their operations. A number of Russian privately-owned banks, including Guta Bank, were experiencing liquidity problems and were unable to attract funds on the interbank market or from their clients or shareholders. Simultaneously, they faced large withdrawals of deposits by both retail and corporate clients. According to the CBR, from June 15 until August 1, 2004

private depositors withdrew approximately RUR30 billion from Russian banks, except for Sberbank (information about withdrawals from Sberbank was not available).

Russian banks owned or controlled by the Government, or the CBR, such as VTB, as well as foreign-owned banks, generally remained unaffected by the turmoil.

The CBR took steps to combat the crisis. The rate of mandatory reserves that banks were required to deposit with the CBR was temporarily reduced from 7% to 3.5%. In addition, the recently introduced mandatory reserves rate of 2% applicable to funds attracted from non-resident banks were temporarily not applied. To implement these measures, the CBR permitted banks to immediately reduce their mandatory reserves. Accordingly, banks' borrowing costs have been reduced. In addition, the Turmoil Legislation was passed to combat the crisis and to minimise potential losses of private depositors. See “– The Russian Banking Sector Legislative Framework for the Russian banking sector” and “Risk Factors – Risks Relating to the Russian Federation – Economic Risks – Economic Instability in Russia could affect the Group's business.”

Banking and Other Relevant Reforms

Following the 1998 financial crisis, Russian banks undertook important steps towards developing more transparent business practices and more diversified portfolios of assets. In recent years, confidence in local banks has gradually improved, as evidenced by substantial growth in volume of private deposits in Russian banks between 2001 and 2003.

At the end of 2001, the Government of the Russian Federation and the CBR issued a joint declaration entitled “The Strategy of the Development of the Banking Sector of the Russian Federation,” setting out the strategy for banking reform in Russia and calling for certain legislative steps and structural changes to be taken during the next five years. Among other measures aimed at increasing the stability of the Russian banking sector, the strategy envisages (i) an increase in capital adequacy requirements, (ii) the development of a more efficient system of mandatory economic ratios, (iii) the introduction of amendments to the Civil Code preventing the early withdrawal of funds held on term deposit accounts, (iv) the acceptance of IFRS by all Russian banks starting from January 1, 2004 and (v) the gradual implementation of a mandatory system of securing private depositors' funds held by all Russian banks.

The targets of the Russian banking reform are also set out in the program for the social and economic development of Russia for the years 2003 to 2005 adopted by the Russian Government in August 2003. According to this program, the banking reform remains one of the priority tasks for the period until 2005. The program contemplates, among other things, simplification of procedures for banks' reorganisation and introduction of regulation of syndicated lending, financing of affiliates, credit bureaus, and pledge of money held in a bank account. A new strategy for the development of the Russian banking sector for the period from 2004 to 2008 has been prepared and is currently being considered by the Russian Government.

The Russian market and legal framework for mortgages and mortgage-backed securities remains underdeveloped. Efforts are underway to create the legislative base for this market. In addition to the Federal Law “On Mortgage-Backed Securities” of November 2003, a number of new legislative proposals are under discussion now. On August 20, 2004 President Putin signed into law amendments to the Tax Code establishing a 9% tax for income received from mortgage-backed securities. These amendments come into effect on January 1, 2005 and will cover securities issued before January 1, 2007. In addition, in July 2004, the State Duma approved in the second reading a number of laws, which, among others, include amendments to the Civil Code, the Civil Procedure Code, Federal Laws “On Mortgage” and “On Mortgage-Backed Securities,” and a new law “On Credit History.” It is expected that the State Duma will adopt these drafts in the third (final) reading later in 2004. In order to become effective, the proposed legislation has to be approved by the Federation Council (the upper chamber of the Russian Parliament) and signed into law by the President. VTB's understanding is that Russian legislators intend to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. In addition, certain proposals are aimed at strengthening creditors' rights by simplifying the procedures to foreclose on pledged housing in case of default. Another purpose of the new legislation is to provide improved regulation of mortgage-backed securities in order to make them more attractive for investors.

THE ISSUER

VTB Capital S.A. was incorporated as a société anonyme on November 12, 2003 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation were published in the *Mémorial Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations* on December 11, 2003. It is registered with the Register of Commerce and Companies, Luxembourg under number B-97,053. Its registered office is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

VTB Capital S.A.'s subscribed share capital amounts to euro 31,000 divided into 310 registered shares with a par value of euro 100 each. All of the shares are fully paid up. Three hundred and nine shares are owned by Stichting VTB Capital and one share by Stichting Participatie DITC Amsterdam.

VTB Capital S.A. has a Board of Directors, currently consisting of three directors. The directors at present are:

1. Rolf Caspers, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg;
2. Tom Verheyden, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg; and
3. Vincent de Rycke, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

Deutsche Bank Luxembourg S.A. is the domiciliation agent of VTB Capital S.A. Its duties include the provision of certain administrative and related services. Its appointment may be terminated and it may retire upon two months prior notice subject to the appointment of an alternative domiciliation agent.

The corporate object of VTB Capital S.A., as described in Article 3 of its Articles of Incorporation, is:

- the issue of notes and other debt securities under a programme for the issuance of loan participation notes for the purpose of financing loans to JSC Vneshtorgbank;
- the making of fiduciary deposits with a fiduciary institution for the purpose of such fiduciary institution making loans to JSC Vneshtorgbank;
- the granting of loans to JSC Vneshtorgbank;
- the granting of security interests over its assets to a trustee in relation to the issuance of the loan participation notes; and
- the making of deposits at banks or with other depositaries.

VTB Capital S.A. may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general VTB Capital S.A. may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Ernst & Young S.A., having its registered office at 7, Parc d'Activité Syrdall, L-2180 Munsbach, Grand Duchy of Luxembourg, has been appointed to act as statutory auditors to VTB Capital S.A.

Capitalisation

The following table sets forth the unaudited capitalisation of VTB Capital S.A. as of August 18, 2004 (at the exchange rate of U.S.\$1.2351 per €1.00):

	€
Shareholders' Funds:	
Share capital (issued 310 Ordinary Shares of €100 each)	31,000
Outstanding Notes:	
Series 1 U.S.\$550,000,000 ⁽¹⁾	458,286,441
Series 2 U.S.\$325,000,000	263,123,806
Series 3 U.S.\$300,000,000	<u>242,883,513</u>
Total Capitalisation	<u>964,293,760</u>

(1) Includes U.S.\$300,000,000 Series 1 Notes issued on December 11, 2003 and a fungible issue of U.S.\$250,000,000 million of Series 1 Notes issued on March 12, 2004.

There have been no material changes in the capitalisation of VTB Capital S.A. since August 18, 2004.

Other than as detailed above, VTB Capital S.A. does not have any loan capital, borrowings or contingent liabilities.

Financial Statements

Since its incorporation on November 12, 2003, audited financial statements of VTB Capital S.A. as of and for the period ended June 30, 2004 (the "First Annual Financial Statements") have been prepared. Shareholders of VTB Capital S.A. approved the First Annual Financial Statements on September 21, 2004. VTB Capital S.A. will publish the First Annual Financial Statements. The First Annual Financial Statements and any future published financial statements prepared by VTB Capital S.A. (which will be in respect of the period ending on June 30 in each year) will be available from the Paying Agent in Luxembourg.

FACILITY AGREEMENT

The following is the text of the Amended and Restated Facility Agreement entered into between VTB and the Fiduciary. In the context of each Loan, the Facility Agreement should be read in conjunction with, and is qualified in its entirety by, the relevant Loan Supplement for such Loan.

This Amended and Restated Facility Agreement is made on 2 July 2004 between:

- (1) JSC VNESHTORGBANK**, a company established under the laws of the Russian Federation whose registered office is at 16 Kuznetsky Most Street, Moscow 103031, Russian Federation (“**VTB**”); and
- (2) DEUTSCHE BANK LUXEMBOURG S.A.**, a bank established under the laws of Luxembourg whose registered office is at 2 Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under number B-9164 (the “**Lender**”).

Whereas, the Lender has at the request of VTB agreed, pursuant to a Facility Agreement dated 8 December 2003 (the “**Original Facility Agreement**”) in relation to the Programme (as defined herein); to make available to VTB a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of this Agreement, as amended and supplemented in relation to each Loan by a Loan Supplement dated the Closing Date substantially in the form set out in the Schedule hereto (each, a “**Loan Supplement**”);

Whereas, it is intended that, concurrently with the extension of any Loan under this loan facility, the Lender will (i) accept a fiduciary deposit from VTB Capital S.A. (the “**Issuer**”) in the same nominal amount and bearing the same rate of interest as such Loan and (ii) the Issuer will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such fiduciary deposit;

Whereas, it has been agreed in the Principal Trust Deed (as defined below) that if following any future assignment by the Lender of its rights and obligations under any Loan Agreement, the Trustee or any person receiving payments under the direction of the Trustee in accordance with Clause 2.8 of the Principal Trust Deed is no longer a resident of a state with which the Russian Federation has a double taxation treaty providing for a zero withholding tax rate on income in the form of interest, then the Issuer shall use its best endeavours (using its powers under the Principal Trust Deed) to select a new trustee or co-trustee (in both cases subject to the approval of the Noteholders under the terms of the Trust Deed), appoint an agent or nominee, delegate any of its functions or take such other measures that it deems advisable or necessary so that payments obtain the benefit of a zero withholding tax rate on payments in the form of interest; and

Whereas, the parties hereto wish to amend and restate the Original Facility Agreement as set out below.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

“**Account**” means an account in the name of the Lender as specified in the relevant Loan Supplement.

“**Affiliates**” of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control by such specified Person. For the purposes of this definition, “control” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“**Agency Agreement**” means the amended and restated paying agency agreement relating to the Programme dated 2 July 2004, as may be further amended or supplemented from time to time between the Issuer, the Lender, VTB, the Trustee and the agents named therein.

“**Arrangers**” means Citigroup Global Markets Limited, Deutsche Bank AG London, Dresdner Bank Aktiengesellschaft and UBS Limited or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

“Business Day” means (save in relation to Clause 4) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating and (d) in relation to a Loan corresponding to a Series of Notes to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City.

“Calculation Agent” means, in relation to a Loan, Deutsche Bank Luxembourg S.A. or any person named as such in the relevant Loan Supplement or any successor thereto.

“Change of Control” means the Russia Federation Ministry of Property Relations and/or any other federal state agencies appropriately authorised to hold the shares of VTB (i) ceasing to own or control (directly or indirectly) 50% plus one share of the issued and outstanding voting share capital of VTB; or (ii) no longer has the right to appoint or remove a majority of VTB’s supervisory council.

“Change of Control Payment Date” means the Business Day falling 90 days after VTB gives notice to the Lender of a Change in Control pursuant to sub-Clause 5.4.

“Closing Date” means the date specified as such in the relevant Loan Supplement.

“Day Count Fraction” has the meaning specified in the relevant Loan Supplement.

“Dealer Agreement” means the amended and restated dealer agreement relating to the Programme dated 2 July 2004 between the Issuer, the Lender, VTB, the Arrangers and the other dealers named therein or appointed pursuant to it, as may be further amended or supplemented from time to time.

“Deposit” means the fiduciary deposit made pursuant to the Fiduciary Deposit Agreement corresponding to the relevant Loan.

“Deposit Agreement” means the amended and restated fiduciary deposit agreement between the Issuer and the Lender dated 2 July 2004, as may be further amended or supplemented from time to time.

“Dollars,” “\$” and “U.S.\$” means the lawful currency of the United States of America.

“Encumbrance” means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 90 days of arising) or other security interest securing any obligation of any Person or any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

“euro” or “€” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

“Event of Default” has the meaning assigned to such term in sub-Clause 11.1 hereof.

“Fiduciary Deposit Agreement” means, with respect to the relevant Deposit, the Deposit Agreement as amended and supplemented by the relevant Fiduciary Deposit Supplement.

“Fiduciary Deposit Supplement” means the fiduciary deposit supplement corresponding to the relevant Deposit.

“Financial Indebtedness” means any obligation for the payment of money in any currency, whether sole, joint or several, and whether actual or contingent, in respect of:

- (a) moneys borrowed or raised (including the capitalised value of obligations under financial leases and hire purchase agreements which would, in accordance with IAS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital) and interest and other charges thereon or in respect thereof;

- (b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;
- (c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;
- (d) any liability under any interest rate or currency hedging agreement (and the amount for such Financial Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction (if it shows a sum owed to the counterparty of VTB or any Subsidiary), at the relevant time);
- (e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and
- (f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group).

“Fixed Rate Loan” means a Loan specified as such in the relevant Loan Supplement.

“Floating Rate Loan” means a Loan specified as such in the relevant Loan Supplement.

“Group” means VTB and its Subsidiaries taken as a whole.

“IAS” means the International Accounting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time).

“IFRS” means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time).

“Independent Appraiser” means any third party appraiser of international standing selected by VTB, provided however that such Appraiser is not an Affiliate of the Group.

“Interest Payment Date” means the dates specified as such in the relevant Loan Supplement, or, in the event of a prepayment in whole or in part in accordance with sub-Clauses 5.3 and 5.4, the date set for such redemption in respect of the part of the Loan to be redeemed.

“Interest Period” means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period, the Interest Commencement Date, and ending on (but excluding) the next Interest Payment Date.

“Issuer” means VTB Capital S.A.

“Lead Manager(s)” means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement.

“Lender Agreements” means the Dealer Agreement, this Agreement, the Deposit Agreement and together with, in relation to each Loan, the relevant Subscription Agreement, Loan Supplement and Fiduciary Deposit Supplement.

“Loan” means each loan to be made pursuant to, and on the terms specified in this Agreement and the relevant Loan Supplement and includes each Fixed Rate Loan and Floating Rate Loan.

“Loan Agreement” means this Agreement and (unless the context requires otherwise), in relation to a Loan means this Agreement as amended and supplemented by the relevant Loan Supplement.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition or operations of VTB or of VTB and any of its Principal Subsidiaries taken as a whole or (b) VTB’s ability to perform its obligations under a Loan Agreement or (c) the validity, legality or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement.

“Noteholder” means, in relation to a Note, the person in whose name such Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

“Notes” means the loan participation notes that may be issued from time to time by the Issuer under the Programme in Series, each Series corresponding (i) to a Deposit and relating to a Deposit as defined in the relevant Fiduciary Deposit Supplement and (ii) to a Loan and relating to a Loan as defined in the relevant Loan Supplement.

“Officer’s Certificate” means a certificate signed by an officer of VTB who shall be the principal executive officer, principal accounting officer or principal financial officer of VTB.

“Opinion of Counsel” means a written opinion from international legal counsel as reasonably selected by VTB with the written consent of the Lender, such consent not to be unreasonably withheld or delayed.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

“Potential Event of Default” means any event which, after notice or passage of time or both, would be an Event of Default.

“Principal Subsidiary” means at any relevant time a Subsidiary of VTB:

- (i) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 5 per cent. of the total consolidated assets or the gross consolidated revenues of VTB and its Subsidiaries, all as calculated by reference to the then latest audited accounts (or consolidated accounts as the case may be) (in each case, produced on the basis of IFRS, consistently applied) of such Subsidiary and the then latest audited consolidated accounts of VTB (produced on the basis of IFRS, consistently applied) and its consolidated Subsidiaries; or
- (ii) to which is transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

“Principal Trust Deed” means the amended and restated principal trust deed dated 2 July 2004 between the Issuer and the Trustee, as may be amended or supplemented from time to time.

“Programme” means the programme for the issuance of loan participation notes.

“Programme Limit” means U.S.\$2,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement.

“Put Option” means the put option granted to Noteholders pursuant to the Conditions of a Series of Notes.

“Rate of Interest” has the meaning assigned to such term in the relevant Loan Supplement.

“Relevant Indebtedness” means any Financial Indebtedness which (a) is in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument which is listed or quoted on any stock exchange; (b) is denominated, payable or optionally payable in a currency other than Roubles; and (c) was initially offered and distributed (as to more than fifty per cent. of the original principal amount of such debt) outside the Russian Federation.

“Relevant Time” means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

“Repayment Date” means the date specified as such in the relevant Loan Supplement.

“Roubles” means the lawful currency of the Russian Federation.

“Same-Day Funds” means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal

financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

“Series” means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

“Specified Currency” means the currency specified as such in the relevant Loan Supplement.

“Subscription Agreement” means the agreement specified as such in the relevant Loan Supplement.

“Subsidiary” means, with respect to any Person, (i) any corporation, association or other business entity of which at least 50 per cent. of the total voting power entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or any combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

“Supplemental Trust Deed” means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 9 of the Principal Trust Deed).

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof.

“Taxes” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Luxembourg or any taxing authority thereof or therein provided, however, that for the purposes of this definition the references to Luxembourg shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term **“Taxation”** shall be construed accordingly.

“Trust Deed” means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed and specified as such in the relevant Loan Supplement.

“Trustee” means Citicorp Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

“VTB Account” means an account in the name of VTB as specified in the relevant Loan Supplement for receipt of Loan funds.

“VTB Agreements” means this Agreement, the Agency Agreement, the Dealer Agreement and together with, in relation to each Loan, the relevant Subscription Agreement and Loan Supplement.

“Warranty Date” means the date hereof, the date of each Loan Supplement, each Closing Date, each date on which the Offering Circular or any of the Lender Agreements is amended, supplemented or replaced and each date on which the Programme Limit is increased.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Principal Trust Deed, the Notes, the Agency Agreement, the Dealer Agreement or the relevant Loan Supplement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

- 1.3.1 All references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Agreement.
- 1.3.2 The terms “hereof,” “herein” and “hereunder” and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.
- 1.3.3 Words importing the singular number include the plural and vice versa.
- 1.3.4 All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- 1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.4 Amendment and Restatement

The parties hereto agree that this Agreement amends and restates the Original Facility Agreement. Any Loans made after the date hereof shall have the benefit of this Agreement. The amendments set out herein do not affect any Loans made on or prior to the date of this Agreement which shall be subject to the Original Facility Agreement.

2 Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to VTB Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes (unless otherwise specified in the relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Facility Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions “**Account**,” “**Closing Date**,” “**Day Count Fraction**,” “**Deposit**,” “**Fiduciary Deposit Agreement**,” “**Fiduciary Deposit Supplement**,” “**Interest Payment Date**,” “**Loan Agreement**,” “**Notes**,” “**Rate of Interest**,” “**Repayment Date**,” “**Specified Currency**,” “**Subscription Agreement**” and “**Trust Deed**,” together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Facility Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to VTB and VTB shall make a single drawing in the full amount of such Loan.

3.2 Loan Arrangement Fee

In consideration of the Lender's undertaking to make a Loan available to VTB, VTB hereby agrees that it shall, two Business Days before each Closing Date, pay to the Lender, in Same-Day Funds, an Arrangement Fee in connection with the financing of such Loan. The Arrangement Fee shall be increased by the front-end commissions, fees and expenses incurred by the Lender in connection with financing such Loan. The total amount of the Arrangement Fee as increased by the front-end commissions, fees and expenses is to be as specified in the relevant Loan Supplement.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the amount of the relevant Loan to the VTB Account specified in the relevant Loan Supplement.

3.4 Ongoing Fees and Expenses

In consideration of the Lender (i) accepting Deposits and agreeing to make Loans to VTB in the same nominal amount and bearing the same interest rate as the Deposits, (ii) making available the facility hereunder, (iii) holding the Fiduciary Accounts and (iv) fulfilling its obligations under the Fiduciary Deposit Agreements, VTB shall pay on demand to the Lender each year all ongoing commissions and costs as set forth to VTB in an invoice from the Lender.

4 Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Loan Supplement.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid by VTB to the Lender in arrear not later than 10.00 a.m. two Business Days prior to each Interest Payment Date.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, such interest shall be paid by VTB to the Lender in arrear not later than 10.00 a.m. two Business Days prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention:* If any *date* referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would

otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans:* The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

i. ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), “ISDA Rate” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified in the relevant Loan Supplement;
- (b) the Designated Maturity is a period specified in the relevant Loan Supplement; and
- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), “**Floating Rate**,” “**Calculation Agent**,” “**Floating Rate Option**,” “**Designated Maturity**,” “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

ii. Screen Rate Determination for Floating Rate Loans

Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (a) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:
 - (I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or
 - (II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,
 in each case appearing on such Page at the Relevant Time on the Interest Determination Date;
- (b) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (a)(I) applies and no Relevant Rate appears on the Page at the

Relevant Time on the Interest Determination Date or if sub-paragraph (a)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

- (c) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe as selected by the Calculation Agent (the **“Principal Financial Centre”**) are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the applicable Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest, Rate Multipliers and Rounding

- 4.5.1 If any Margin or Rate Multiplier is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with sub-Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- 4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- 4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 Determination and Notification of Rates of Interest and Interest Amounts

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of such Floating Rate Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to VTB, the Trustee, the Issuer, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to sub-Clause 4.3.2, the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of VTB and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Issuer, the Lender and VTB agree that such determination or calculation may be made by or at the direction of the Trustee. The Trustee shall incur no liability in respect of such determination or calculation.

Definitions

In this Clause 4, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“Benchmark” has the meaning specified in the relevant Loan Supplement;

“Business Day” means:

- i. in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- ii. in the case of euro, a day on which the TARGET system is operating (a **“TARGET Business Day”**); and/or
- iii. in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the **“Calculation Period”**):

- i. if “**Actual/365**” or “**Actual/Actual - ISDA**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- ii. if “**Actual/365 (Fixed)**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- iii. if “**Actual/360**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- iv. if “**30/360**,” “**360/360**” or “**Bond Basis**” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- v. if “**30E/360**” or “**Eurobond Basis**” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Repayment Date, the Repayment Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and
- vi. if “**Actual/Actual-ISMA**” is specified in the relevant Loan Supplement:
 - (a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (I) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (II) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“**Determination Date**” means the date specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date.

“**Effective Date**” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the relevant Loan Supplement or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means the amount of interest payable, and in the case of Fixed Rate Loans, means the Fixed Amount or Broken Amount, as the case may be.

“Interest Commencement Date” means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

“Page” means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 (“Reuters”) and Moneyline Telerate (“Moneyline Telerate”)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

“Reference Banks” means the institutions specified as such in the relevant Loan Supplement or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that are most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe).

“Relevant Financial Centre” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the relevant Loan Supplement or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

“Relevant Rate” means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

“Relevant Time” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Loan Supplement or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose “local time” means, with respect to Europe as a Relevant Financial Centre, 11.00 hours, Brussels time.

“Representative Amount” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the relevant Loan Supplement or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

“Specified Duration” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the relevant Loan Supplement or, if none is specified, a period of time equal to the relevant Interest Accrual Period, ignoring any adjustment pursuant to sub-Clause 4.3.2.

4.10 Calculation Agent and Reference Banks

The Issuer and the Lender shall procure that there shall at all times be specified no less than four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and appointed one or more Calculation Agents if provision is made for them hereon and for so long as any amount remains outstanding under a Loan Agreement. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Lender shall (with the prior approval of VTB) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of VTB) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both VTB and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to each particular Series.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, VTB shall repay each Loan not later than 10.00 a.m. two Business Days prior to the Repayment Date therefor.

5.2 Special Prepayment for Tax Reasons or Change in Circumstances

If, as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application), in the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in any Trust Deed, VTB would thereby be required to make or increase any payment due pursuant to any Loan Agreement as provided in sub-Clauses 6.2 or 6.3 (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clauses 3 and 13), or if (for whatever reason) VTB would have to or has been required to pay additional amounts pursuant to Clause 8, and such additional amounts cannot be avoided by VTB taking reasonable measures available to it, then VTB may (without premium or penalty), upon not less than 10 days' notice to the Lender (which notice shall be irrevocable), prepay the relevant Loan in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

5.3 Illegality

If, at any time after the date of the relevant Loan Supplement, by reason of the introduction of, or any change in, any applicable law or regulation or regulatory requirement or directive of any agency of any state the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by VTB) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Issuer or the Lender, as the case may be, to allow all or part of the relevant Loan, the Deposit or the corresponding Series of Notes to remain outstanding or for the Issuer or the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan Agreement, Fiduciary Deposit Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Loan or Deposit, as the case may be, then upon notice by the Lender to VTB in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), VTB and the Lender shall consult in good faith as to a basis which eliminates the

application of such circumstances; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified VTB. If such a basis has not been determined within the 30 days, then upon notice by the Lender to VTB in writing, VTB shall prepay such Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on such date as the Lender shall certify to be necessary to comply with such requirements, subject to the right of the Lender to require prepayment earlier than set out in this sub-Clause to the extent that any applicable grace periods permitted by law would otherwise be exceeded.

5.4 Prepayment in the Event of Change of Control

- 5.4.1** If, following a Change of Control, any Noteholder has exercised its Put Option, VTB shall on the Change of Control Payment Date, prepay the principal amount of the relevant Loan in an amount which corresponds to the aggregate principal amount of the corresponding Series of Notes in relation to which the Put Option has been duly exercised in accordance with the Conditions of such Series of Notes.
- 5.4.2** Promptly, and in any event within 10 calendar days after the date of any Change of Control, VTB shall deliver to the Lender a written notice in the form of an Officer's Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.
- 5.4.3** The Lender shall notify VTB not more than three Business Days after receipt of notice thereof from the Paying Agent, the amount of each relevant Loan to be prepaid as a consequence of the exercise of the Put Option by any Noteholders.
- 5.4.4** For the avoidance of doubt, this sub-Clause 5.4 may be disappplied under the terms of the relevant Loan Supplement.

5.5 Reduction of a Loan Upon Redemption and Cancellation of Notes

VTB or any Subsidiary of VTB may from time to time, in accordance with the Conditions of the Notes, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that the Issuer notifies the Lender that an amount of Notes has been surrendered to it for cancellation by VTB or any of VTB's Subsidiaries and cancelled, the relevant Loan shall be deemed to have been prepaid by VTB in an amount corresponding to the aggregate principal amount of the Notes surrendered to the Issuer for cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by VTB in respect of such amounts.

5.6. Payment of Other Amounts

If a Loan is to be prepaid by VTB pursuant to any of the provisions of sub-Clauses 5.2, 5.3, 5.4 or pursuant to the terms of the relevant Loan Agreement, VTB shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual receipt of payment by the Lender and all other sums payable by VTB pursuant to the relevant Loan Agreement.

5.7. Provisions Exclusive

VTB may not voluntarily prepay any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid may not be reborrowed under such Loan Agreement.

6 Payments

6.1 Making of Payments

All payments of principal and interest to be made by VTB under each Loan Agreement shall be made to the Lender not later than 10.00 a.m. two Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the relevant Account. The

Lender agrees with VTB that it will not deposit any other monies into such Account and will not withdraw any amounts from such Account other than as provided for and in accordance with the relevant Fiduciary Deposit Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by VTB under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If VTB shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any Taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, VTB shall reimburse the Lender in the Specified Currency for such payment on demand. For the avoidance of doubt, this sub-Clause 6.2 is without prejudice to the obligations of the Lender pursuant to sub-Clauses 10.6.1 and 10.6.3. The provisions of this sub-Clause 6.2 shall not apply to any tax imposed on and calculated by reference to the overall net income of the Lender

6.3 Withholding on Deposits and Notes

If the Lender notifies VTB (setting out in reasonable detail the nature and extent of the obligation with such evidence as VTB may reasonably require) that it or the Issuer has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it or the Issuer is obliged to make under or in respect of a Deposit or a Series of Notes in circumstances where the Issuer, subject to receipt thereof, is required to pay additional amounts pursuant to Condition 8 of such Series of Notes or otherwise or the Lender, subject to receipt thereof, is required to pay additional amounts pursuant to Clause 8 of the Fiduciary Deposit Agreement, VTB agrees to pay to the Lender, not later than 10:00am two Business Days prior to the date on which payment is due to the Noteholders of such Series or such other party (as the case may be) in Same-Day Funds to the relevant Account, such additional amounts as are equal to the said additional amounts which the Issuer or the Lender, as the case may be, must pay pursuant to the terms of Condition 8 of such Series of Notes or Clause 8 of the Fiduciary Deposit Agreement or otherwise provided, however, that the Lender shall procure that immediately upon receipt by the Issuer from any Paying Agent of any sums paid pursuant to this provision and subsequently paid to the Lender, to the extent that the Noteholders of such Series or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, the Lender shall repay such additional amounts to VTB (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series or such other party is entitled to such additional amount).

6.4 Reimbursement

To the extent that the Issuer or the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which VTB has made a payment pursuant to this Clause 6 or the Lender or obtains any reimbursement from the Issuer pursuant to the terms of any Fiduciary Deposit Agreement (including any sums representing any reimbursement made by the Trustee to the Issuer pursuant to the terms of the Trust Deed), the Lender shall pay to VTB so much of the benefit received as will leave the Issuer or the Lender, as the case may be, in exactly the same position as it would have been had no additional amount been required to be paid by VTB pursuant to this Clause 6 or had no reimbursement been paid to the Lender pursuant to such Fiduciary Deposit Agreement; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to VTB, the amount of any such payment and the timing of any such payment, shall be determined solely by the Issuer or the Lender, as the case may be. The Lender shall use its best endeavours to, and shall use its best endeavours (upon instruction by VTB) to procure that the Issuer under the

terms of any Fiduciary Deposit Agreement shall, obtain any credits or refunds available to the Lender or the Issuer (as the case may be) but shall not be obliged to disclose to VTB any information regarding its tax affairs or computations or obtained from the Issuer pursuant to the terms of any Fiduciary Deposit Agreement. The Lender shall notify VTB of any tax credit or allowance or other reimbursement it receives from the Issuer pursuant to such Fiduciary Deposit Agreement.

If as a result of a failure to obtain relief from deduction or withholding of any tax imposed by Russia or Luxembourg (i) such tax is deducted or withheld by VTB and pursuant to this Clause 6 or the relevant Fiduciary Deposit Agreement an increased amount is paid by VTB to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of tax as referred to above the Lender (upon instructions by VTB) or the Issuer, as the case may be, applies to the relevant Russian or Luxembourg tax authorities for a tax refund and such tax refund is credited by the Russian or Luxembourg tax authorities to a bank account of the Lender or the Issuer, the Lender shall as soon as reasonably possible notify VTB of the receipt of such tax refund and (upon instructions by VTB) promptly transfer the entire amount of the tax refund to a bank account of VTB specified for that purpose by VTB.

Any amount attributed to the Issuer under this sub-Clause 6.4 shall only be payable by the Lender to the extent the Issuer has funded the Lender.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of VTB to make any deduction, withholding or payment as described in sub-Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or VTB's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances. VTB agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause.

7 Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the persons mentioned in sub-Clauses 14.10.6 and 14.10.7 hereof have agreed to receive process in the manner specified therein.

7.2 Further Conditions

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the Lender shall have received the full amount of the relevant Deposit representing the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement and (b) the Lender shall have received in full the amount referred to in sub-Clauses 3.2 and 3.4, if due and payable, above, as specified in the relevant Loan Supplement.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof, which:

- 8.1.1** subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in sub-Clauses 6.2 or 6.3); or
- 8.1.2** increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in sub-Clauses 6.2 or 6.3); or
- 8.1.3** imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan,

and if as a result of any of the foregoing:

- (i) the cost to the Lender of making, funding or maintaining such Loan is increased; or
- (ii) the amount of principal, interest or other amount payable to or received by the Lender under such Loan Agreement is reduced; or
- (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from VTB hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan, then subject to the following, and in each such case:
 - (a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to VTB, together with a certificate signed by two directors of the Lender or by any person empowered by the authorised signatories of the Lender on behalf of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and describing the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and providing all relevant reasonable supporting documents describing such matters; in attributing such increased costs to VTB, the Lender shall apply methods which are consistent with the Lender's treatment of customers similar to VTB having generally similar provisions in their agreements with the Lender, providing that nothing herein shall require the Lender to disclose any confidential information; and
 - (b) VTB, in the case of clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided that this sub-Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under sub-Clauses 6.2 or 6.3.

8.2 Mitigation

In the event that the Lender becomes aware it is (having exercised due care) to make a claim pursuant to sub-Clause 8.1:

- 8.2.1** the Lender shall consult in good faith with VTB and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, VTB's obligations to pay any additional amount pursuant to such sub-Clause; and

8.2.2 VTB may only require the substitution of the Lender as lender under the relevant Loan Agreement(s) in the circumstances permitting the substitution of the Lender under the relevant Fiduciary Deposit Agreement,

except that nothing in this sub-Clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless VTB agrees to reimburse the Lender such costs or expenses.

9 Representations and Warranties

9.1 VTB's Representations and Warranties

VTB does, and on each Warranty Date (unless expressly stated otherwise) shall be deemed to, represent and warrant to the Lender as follows, to the intent that such shall form the basis of each Loan Agreement:

9.1.1 VTB is duly organised and incorporated and validly existing under the laws of the Russian Federation and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under each Loan Agreement and to borrow Loans; VTB has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Loan Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its terms.

9.1.2 The Loan Agreement, including each Loan Supplement in relation thereto, has been duly executed and delivered by VTB and constitutes a legal, valid and binding obligation of VTB enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that certain gross-up provisions may not be enforceable under Russian law.

9.1.3 The execution, delivery and performance of each Loan Agreement, including each Loan Supplement in relation thereto, by VTB will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of VTB or (iii) any agreement or other undertaking or instrument to which VTB is a party or which is binding upon VTB or any of its assets, nor result in the creation or imposition of any Encumbrance on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument.

9.1.4 All consents, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian Federation required by VTB in connection with the execution, delivery, performance, legality, validity, enforceability, and, subject to Russian legal requirements, admissibility in evidence of each Loan Agreement have been obtained or effected and are in full force and effect.

9.1.5 No event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Financial Indebtedness of VTB, and no such event will occur upon the making of the relevant Loan.

9.1.6 Except as disclosed in the offering circular dated 2 July 2004 relating to the Programme (as amended, supplemented or superseded, the "**Offering Circular**") there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of VTB, threatened, against VTB or any of its Principal Subsidiaries, the adverse determination of which could have a Material Adverse Effect.

- 9.1.7** Except for Encumbrances of the types referred to in sub-Clause 10.1, VTB and each of its Principal Subsidiaries has the right of ownership (as that expression is defined under the laws of the Russian Federation or the laws of the jurisdiction of such Principal Subsidiary) to its property free and clear of all Encumbrances which if existing would have a Material Adverse Effect and VTB's obligations under the Loans will rank at least *pari passu* with all its other unsecured and unsubordinated Financial Indebtedness (apart from any obligations mandatorily preferred by law).
- 9.1.8** The most recent audited consolidated financial statements of VTB:
- (i) were prepared in accordance with IFRS, as consistently applied; and
 - (ii) save as disclosed therein, present fairly in all material respects the assets and liabilities as at that date and the results of operations of the Group during the relevant financial year.
- 9.1.9** Except as disclosed in the Offering Circular, there has been no material adverse change since the date of the last audited consolidated financial statements of VTB in the financial condition, results of business operations or prospects of VTB or the Group taken as a whole.
- 9.1.10** The execution, delivery and enforceability of each Loan Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim filed with a Russian court).
- 9.1.11** Neither VTB nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement.
- 9.1.12** VTB is in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.
- 9.1.13** Neither VTB, nor any of its Principal Subsidiaries, has taken any corporate action nor, to the best of the knowledge and belief of VTB, have any other steps been taken or legal proceedings started or threatened in writing against VTB or any of its Principal Subsidiaries for its or their bankruptcy, winding-up, dissolution, external administration or re-organisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its or their assets or revenues.
- 9.1.14** There are no strikes or other employment disputes against VTB which are pending or, to VTB's knowledge, threatened in writing which could have a Material Adverse Effect.
- 9.1.15** In any proceedings taken in the Russian Federation in relation to each Loan Agreement, the choice of English law as the governing law of each Loan Agreement and any arbitration award obtained in England pursuant to sub-Clause 14.10.4 in relation to each Loan Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in Russia.
- 9.1.16** As of the date of each Loan Supplement and Closing Date (though not on any of the other dates included in the definition of Warranty Date) and subject to sub-Clause 10.6.1, under the laws of the Russian Federation, it will not be required to make any deduction or withholding from any payment it may make hereunder.
- 9.1.17** Its execution of each Loan Agreement will constitute, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes.
- 9.1.18** It has no overdue tax liabilities which could have a Material Adverse Effect other than those which it has disclosed to the Lender prior to the date of the relevant Loan or which it is contesting in good faith.

- 9.1.19** All licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable VTB and any of its Principal Subsidiaries to own its assets and carry on its business are in full force and effect and, if not, the absence of which could not have a Material Adverse Effect.

9.2. Lender's Representations and Warranties

The Lender represents and warrants to VTB as follows:

- 9.2.1** The Lender is duly incorporated under the laws of Luxembourg and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.
- 9.2.2** The execution of the Lender Agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or the constitutive documents, rules and regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.
- 9.2.3** The Lender (i) is a bank which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg, and (ii) does not have a permanent establishment in Russia.
- 9.2.4** The Lender Agreements constitute legal, valid and binding obligations of the Lender.
- 9.2.5** All authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

10 Covenants

So long as any amount remains outstanding under a Loan Agreement:

10.1 Negative Pledge

So long as any amount remains outstanding hereunder, neither VTB nor any Principal Subsidiary will create or permit to subsist any Encumbrance (other than any Encumbrance upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation, asset-backed financing or like arrangement and whereby all payment obligations secured by such Encumbrance, or having the benefit of such Encumbrance, are to be discharged solely from such assets or revenues, provided that such Encumbrances shall not be incurred if that would result in the principal amount of such encumbered Relevant Indebtedness exceeding 10% of VTB's total assets (as reported in its most recent financial statements prepared under IAS)) upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Relevant Indebtedness unless, at the same time or prior thereto, VTB's obligations hereunder are to the satisfaction of the Trustee secured equally and rateably therewith or benefit from such other security or other arrangements, as the case may be, to the satisfaction of the Trustee.

10.2 Maintenance of Authorisations

VTB shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of such Loan Agreement or for the validity or enforceability thereof.

10.3 Disposals

VTB shall not and VTB shall ensure that no member of the Group shall, without the prior written consent of the Lender, sell, lease, transfer or otherwise dispose of, by one or more transactions or

series of transactions (whether related or not), the whole or any material part of its revenues or its assets (which for the avoidance of doubt excludes payments of cash, or other consideration, for the acquisition of any asset on normal commercial terms) unless the terms of such transaction are substantially no less favourable to VTB, or the relevant member of the Group, as the case may be, than those that would be obtained in a comparable arms-length transaction. This sub-Clause 10.3 does not apply to any transaction between VTB and any of its Subsidiaries, or between any Subsidiaries of VTB. With respect to a sale of capital assets (other than a sale carried out in the course of ordinary banking business) involving aggregate payments or value in excess of US\$500,000,000, VTB shall deliver to the Lender a written opinion from an Independent Appraiser to the effect that such sale is fair, from a financial point of view, to VTB or the relevant Subsidiary, as the case may be and such written opinion shall be conclusive and binding on the parties.

10.4 Maintenance of Capital Adequacy

- (a) VTB shall not permit its consolidated total capital ratio as calculated in accordance with the recommendations of the Basle Committee on Banking Regulations and Supervisory Practices (as of the date hereof) to fall below 8%, such recommendations to be as provided in such Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended in November 1991, and such calculation to be made by reference to the latest annual consolidated audited accounts of VTB prepared in accordance with IFRS.
- (b) VTB shall ensure that neither it nor any Principal Subsidiary which carries on a banking business shall permit its total capital ratio to fall below the minimum total capital ratio required by in the case of VTB, the Central Bank of Russia and, in the case of any other such Principal Subsidiary, the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in the jurisdiction in which such other Principal Subsidiary carries on its banking business, such calculation to be made by reference to, in the case of VTB, the latest annual non-consolidated audited accounts of VTB prepared in accordance with Russian legislation or, if the Central Bank of Russia so requires, IFRS and, in the case of each such Principal Subsidiary, the latest annual non-consolidated audited accounts of such Principal Subsidiary or if such Principal Subsidiary does not prepare audited accounts, the latest annual non-consolidated unaudited accounts of such Principal Subsidiary (in either case as prepared under the accounting regulations used to calculate its capital adequacy in the relevant jurisdictions) provided that, should VTB or any other Principal Subsidiary carry on a banking business in more than one jurisdiction, it shall not permit its total capital ratio to fall below the minimum ratio required by the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in each such jurisdiction.

10.5 Limitations on Distributions from Principal Subsidiaries

VTB will not, nor will it permit any Principal Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Principal Subsidiary to pay dividends or make any other distributions on its share capital other than any agreement in effect prior to the Closing Date and advised in writing to the Lender and Trustee.

10.6 Withholding Tax Exemption

- 10.6.1** The Lender shall use its best endeavours to provide VTB no later than 10 Business Days before the first Interest Payment Date with respect to the first Loan made pursuant to this Agreement (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year) with a certificate, issued and certified by the competent Luxembourg authorities, confirming that the Lender is tax resident in Luxembourg, provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Luxembourg authorities, but shall notify VTB without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. Such certificate shall be appropriately apostilled and a certified translation supplied.

- 10.6.2** VTB and the Lender (using its best endeavours and in accordance with law) agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding change then the procedure referred to in sub-Clause 10.6.1 will be deemed changed accordingly.
- 10.6.3** The Lender shall within 30 days of the request of VTB (to the extent it is able to do so under applicable law including Russian laws) deliver to VTB such other information or forms to be duly completed and delivered as may be needed to obtain a tax refund if a relief from deduction or withholding of Russian Taxes has not been obtained. If required, the other forms referred to in this sub-Clause 10.6.3 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Luxembourg and any requisite power of attorney issued by the Lender to VTB shall be duly signed and apostilled or otherwise legalised. The Lender shall provide VTB with all assistance it may reasonably require to ensure that VTB can deliver to the tax authorities the information or forms specified in this sub-Clause 10.6.3. VTB shall indemnify the Lender for all out-of-pocket costs and expenses incurred by the Lender as a result of steps undertaken pursuant to this sub-Clause 10.6.3. The Lender shall not be obligated to take any step under this sub-Clause 10.6.3 if, in the reasonable opinion of the Lender, to so take would be prejudicial to it (other than the incurrence of costs and expenses of an administrative nature).

10.7 Reports

- 10.7.1** VTB will furnish to the Lender commencing with the year ending 31 December 2003, within 9 months of the relevant year-end audited annual financial statements prepared in accordance with IFRS as consistently applied and in English, including a report thereon by VTB's certified independent accountants.
- 10.7.2** Within 30 days of the close of each calendar quarter, VTB shall deliver to the Lender a written notice in the form of an Officer's Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, what action VTB is taking or proposes to take with respect thereto.
- 10.7.3** VTB will on request of the Lender provide the Lender with such further information, other than information which VTB determines in good faith to be confidential, about the business and financial condition of VTB and its Subsidiaries as the Lender may reasonably request (including information referred to in sub-Clauses 14.5 and 14.12 of the Principal Trust Deed).
- 10.7.4** VTB consents that any information provided to the Lender pursuant to this sub-Clause 10.7 and sub-Clause 5.4 may also be provided to the Issuer and the Trustee without violating any duty of confidentiality or secrecy that the Lender may owe to VTB under the laws of Luxembourg.
- 10.7.5** VTB will at the same time as delivering its audited annual financial statements pursuant to sub-Clause 10.7.1 and within 30 days of a request from the Lender, deliver to the Lender an Officer's Certificate specifying those Subsidiaries which were at a date no more than 10 days before the date of such Officer's Certificate, Principal Subsidiaries.

10.8 Compliance with Terms of the Fiduciary Deposit Agreement

The Lender agrees that it will observe and comply with its obligations set out in the relevant Fiduciary Deposit Agreement and will not agree to any amendment to the terms of such Fiduciary Deposit Agreement.

11 Events of Default

11.1 Events of Default

If one or more of the following events of default (each, an "Event of Default") shall occur and be continuing, the Lender shall be entitled to the remedies set forth in sub-Clause 11.3:

- 11.1.1** VTB fails to pay within five Business Days any amount payable under a Loan Agreement as and when such amount becomes payable in the currency and in the manner specified therein.

- 11.1.2** VTB fails to perform or observe any of its other obligations under a Loan Agreement and (except where in any such case that failure is not capable of remedy when no such notices as is hereinafter mentioned will be required) that failure continues for the period of 30 days (or such longer period as the Lender may permit) next following the submission by the Lender to VTB of notice in writing requesting the same to be remedied.
- 11.1.3** Any representation or warranty of VTB or any certificate or notice delivered to the Lender in connection with such Loan Agreement proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated if not remedied (if capable of remedy) within 30 days.
- 11.1.4** VTB or any Principal Subsidiary (i) fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes payable, taking into account any applicable grace period or (ii) any Financial Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of VTB or such Principal Subsidiary or (provided that no event of default, howsoever described, has occurred) any person or entity entitled to such Financial Indebtedness; provided, that the total amount of such Financial Indebtedness unpaid or capable of being accelerated exceeds U.S.\$20,000,000 (or its equivalent in another currency).
- 11.1.5** VTB or any Principal Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; provided that in the case of a Principal Subsidiary the same could have a Material Adverse Effect.
- 11.1.6** The occurrence of any of the following events: (i) VTB or any Principal Subsidiary fails or is unable to pay its debts generally as they become due; (ii) revocation of the general banking licence of VTB or any Principal Subsidiary; (iii) VTB or any Principal Subsidiary seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation committee (*likvidatsionnaya komissiya*) or a similar officer of VTB or such Principal Subsidiary or any analogous procedure or event in any other relevant jurisdiction; (iv) the institution of the supervision (*nablyudeniye*) or bankruptcy management (*konkursnoye proizvodstvo*) of VTB or any Principal Subsidiary, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” of 26 October 2002 (as amended or replaced from time to time) or any analogous procedure or event in any other relevant jurisdiction; (v) the institution of the financial rehabilitation (*finansovoye otdorovleniye*), pursuant to the request of the Central Bank of Russia, temporary administration (*vremennaya administratsiya*) or reorganisation (*reorganizatsiya*) with respect to VTB or any Principal Subsidiary as such terms are defined in the Federal Law of the Russian Federation No. 40-FZ “On Insolvency (Bankruptcy) of Credit Organisations” dated 25 February 1999 (as amended or replaced from time to time) or any analogous procedure or event in any other relevant jurisdiction; (vi) any judicial liquidation, dissolution, administration or winding-up in respect of VTB or any Principal Subsidiary; or (vii) the shareholders of VTB or any Principal Subsidiary approving any plan of dissolution, administration or winding-up of VTB or such Principal Subsidiary.
- 11.1.7** Any governmental authorisation necessary for the performance of any obligation of VTB under a Loan Agreement fails to be in full force and effect.
- 11.1.8** Any governmental authority or court takes any action that has a material adverse effect on VTB’s ability to perform its obligations under a Loan Agreement or the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement.
- 11.1.9** Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of VTB having a fair market value of more than U.S.\$20,000,000 or the equivalent thereof in any other currency or any event occurs which under the laws of any jurisdiction has a similar or analogous effect unless such execution, distress, enforcement of an Encumbrance or similar or analogous event is being contested in good faith by VTB and is not removed, paid out, stayed or discharged within 45 days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.

- 11.1.10** The aggregate amount of unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against VTB and its Principal Subsidiaries in the aggregate exceeds U.S.\$20,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 45 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for ten days after the notice specified in sub-Clause 11.2.
- 11.1.11** Any seizure, compulsory acquisition, expropriation, nationalisation without appropriate compensation or renationalisation after the date of a Loan Agreement by or under the authority of a government authority of all or part (the book value of which is fifteen per cent. (15 per cent.) or more of the book value of the whole) of the assets of VTB or any Principal Subsidiary.
- 11.1.12** VTB or any of its Principal Subsidiaries ceases to carry on the principal business it carries on at the date of a Loan Agreement.
- 11.1.13** At any time it is or becomes unlawful for VTB to perform or comply with any or all of its obligations under a Loan Agreement or any of such obligations (subject as provided in sub-Clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable.
- 11.1.14** Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

11.2 Notice of Default

VTB shall deliver to the Lender and the Trustee, within 30 days after becoming aware thereof, written notice of any event which is a Potential Event of Default or an Event of Default, its status and what action VTB is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to VTB, (a) declare the obligations of the Lender under the relevant Loan Agreement to be immediately terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by VTB that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by VTB; provided, however, that if any event of any kind referred to in sub-clause 11.1.6 occurs, the obligations of the Lender under such Loan Agreement shall immediately terminate, and all amounts payable under such Loan Agreement by VTB that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all especially waived by VTB.

11.4 Rights Not Exclusive

The rights provided for in each Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12 Indemnity

12.1 Indemnification

VTB undertakes to indemnify the Lender and each director, officer, employer or agent (other than the Principal Paying Agent or any of the Paying Agents) of the Lender (each an **“Indemnified Party”**) against Liabilities (as defined below) (including, without limitation, amounts payable by the Lender under any Fiduciary Deposit Agreement, where such amount is subject to receipt by the Lender of the relevant amount from VTB), which an Indemnified Party may sustain or incur in relation to the preparation and execution, or purported execution, of the exercise of its powers, authorities and discretions and the performance of its duties under, and in any other manner in

relation to, this Agreement or any Loan Agreement, unless, in any such case, such Liability was caused by such Indemnified Parties' negligence or wilful misconduct or resulted from its breach of this Agreement or any Fiduciary Deposit Agreement. **"Liability"** means any loss, damage, claim, demand, judgement, action, proceeding (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and reasonably incurred out-of-pocket costs and expenses (including legal fees) on a full indemnity basis (but excluding any Liability that is the subject of the undertakings contained in Clause 13 and sub-Clauses 14.2 and 14.6 of this Agreement).

12.2 Independent Obligation

Sub-Clause 12.1 constitutes a separate and independent obligation of VTB from its other obligations under or in connection with each Loan Agreement or any other obligations of VTB and shall not affect, or be construed to affect, any other provision of a Loan Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Lender, supported by relevant documentation, setting forth the amount of Liability described in sub-Clause 12.1 and specifying in reasonable detail the basis therefor shall be prima facie evidence of the amount of such Liability.

12.4 Survival

The obligations of VTB pursuant to sub-Clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by VTB.

13 Expenses

13.1 Front-end Expenses for the Extension of the Loan by the Lender

VTB shall, pursuant to sub-Clause 3.2 hereof and the relevant Loan Supplement, pay the Lender front-end commissions, fees and expenses in the Specified Currency incurred and properly documented by the Lender in connection with the negotiation, preparation and execution of each Loan Agreement and all related documents and other expenses connected with the extension of each Loan.

13.2 Payment of Ongoing Expenses

In addition, VTB hereby agrees to pay to the Lender on demand in the Specified Currency all ongoing commissions, costs, fees and expenses (including, without limitation, enforcement costs), payable by the Lender under or in respect of the Lender Agreements. VTB shall also pay the Lender on behalf of the Issuer for any indemnification or other payment obligations of the Issuer under or in respect of the Agency Agreement and/or Trust Deed (other than the obligation of the Issuer to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes). Payments to the Lender referred to in this sub-Clause 13.2 shall be made by VTB at least two Business Days before the relevant payment is to be made or expense incurred; provided that before such payment is made by VTB, the Lender shall submit an invoice providing, in reasonable detail, the nature and calculation of the relevant payment or expense. Subsequently, VTB and the Lender shall enter and sign a delivery and acceptance act (Act of Acceptance) as provided in sub-Clause 13.3.

13.3 Acts of Acceptance

In connection with all payments to be made under Clause 12 and Clause 13 and sub-Clause 14.2, VTB and the Lender shall within 60 days of such payment becoming due or such indemnity claim being made, enter into and sign a delivery and acceptance act (which VTB shall prepare) with respect to the amounts to be paid by VTB. Invoices and delivery and acceptance acts shall separately specify: (i) the net amount due, (ii) any applicable Russian income tax withholding, (iii) any applicable Russian VAT and (iv) the resulting total tax-inclusive amount.

14 General

14.1 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of VTB's obligations recorded therein.

14.2 Stamp Duties

14.2.1 VTB shall pay all stamp, registration and documentary taxes, duties or similar charges (if any) imposed on VTB by any person in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs, expenses or penalties which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by VTB to pay such taxes or similar charges.

14.2.1 VTB agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes, duties or similar charges (if any) imposed by any person in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as Notes of corresponding Series and any documents related thereto, VTB shall repay the Lender on demand an amount equal to such stamp or other documentary taxes, charges or duties and shall indemnify the Lender against any and all costs and expenses properly documented and connected with the payment of such amounts.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or VTB, any right, power to privilege under any Loan Agreement and no course of dealing between VTB and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in each Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 Notices

All notices, requests, demands or other communications to or upon the respective parties to each Loan Agreement shall be given or made in the English language by telex, Swift or courier, or fax (in the case of the Lender only) to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Loan Agreement addressed as follows:

14.4.1 if to VTB :

JSC Vneshtorgbank
43 Vorontsovskaya Street
Moscow 109044
Russian Federation

Telex: 412362 BFTR RU

Swift: VTBR RU MM

Attention: Financial Institutions Department, quoting reference "3003" (for official correspondence and general requests); or

Back-office, quoting reference "2501" (for payment and settlement documents).

14.4.2 if to the Lender:

Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

Fax: +352 473 136

Attention: Coupon Paying Department

or to such other address, telex, Swift or fax number as any party may hereafter specify in writing to the other.

Any notice, request, demand or other communication given by courier shall be conclusively deemed to have been given on the day of actual delivery thereof and, if given by telex, fax or Swift, on the day of transmittal thereof, in each case if given during the normal business hours of the recipient, and on the business day during which such normal business hours next occur if not given during such hours on any day.

14.5 Assignment

14.5.1 Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in sub-Clause 14.5.3 below, shall be references to the exercise of such rights or discretions by the Issuer or Trustee (as Trustee). Notwithstanding the foregoing, neither the Issuer nor the Trustee shall be entitled to participate in any discussions between the Lender and VTB or any agreements of the Lender or VTB pursuant to sub-Clauses 6.4 or 6.5 or Clause 8.

14.5.2 VTB shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.

14.5.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement except:

- (i) following an Event of Default or a Fiduciary Relevant Event (as defined in the Deposit Agreement), the Lender may, upon giving written notice to VTB, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to the Issuer, or any assignee or transferee of the Issuer. Any reference in this Agreement to any such assignee or transferee shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations of the Issuer, assignee or transferee; and
- (ii) the Lender may, by giving not less than 90 days notice to VTB, transfer all (but not part) of its rights and obligations under this Agreement to a Successor Lender. Such resignation shall take effect on the date specified in such notice which shall be the same date as the date upon which such Successor Lender is substituted for the Fiduciary in relation to the relevant Deposit.

For the purposes of this Clause 14, "**Successor Lender**" means a bank incorporated or established under the laws of Luxembourg which:

- (a) is qualified and authorised to act as a fiduciary under Luxembourg law; and
- (b) has itself or is part of a group which has, a long-term debt rating by Standard & Poor's Rating Services of at least "A-" and/or Moody's Investors Service Limited of at least "A3";
- (c) is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to

taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; and

(d) does not have a permanent establishment in Russia.

In the event a Successor Lender is appointed to act as lender, the Lender shall deliver to the Successor Lender information in connection with each Loan Agreement as is in its possession and is sufficient to allow the Successor Lender to perform its obligations under this Agreement and the relevant Loan Supplements and the Successor Lender shall accede to this Agreement and the relevant Loan Supplements and at such time give the same representations, warranties and undertakings as set out herein.

14.6 Currency Indemnity

To the fullest extent permitted by law, the obligation of VTB in respect of any amount due in the Specified Currency (or such other currency as contemplated by such obligation) under a Loan Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the Specified Currency (or such other currency as contemplated by such obligation) that the Lender may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the Specified Currency (or such other currency as contemplated by such obligation) that may be so purchased for any reason falls short of the amount originally due (the “**Due Amount**”), VTB hereby agrees to indemnify and hold harmless the Lender against any deficiency in the Specified Currency. Any obligation of VTB not discharged by payment in the Specified Currency (or such other currency as contemplated by such obligation) shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided the relevant Loan Agreement, shall continue in full force and effect. If the amount in the Specified Currency (or such other currency as contemplated by such obligation) that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to VTB.

14.7 Prescription

Subject to the Lender having received the principal amount thereof or interest thereon from VTB, the Lender shall forthwith repay to VTB, subject to receipt thereof from or at the direction of the Issuer, the principal amount or the interest amount thereon, respectively, of any Series of Notes upon such Series of Notes becoming void pursuant to Condition 11 of such Notes (as confirmed to the Lender by the Issuer).

14.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to a Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Loan Agreement.

14.9 Choice of Law

Each Loan Agreement shall be governed by, and construed in accordance with, the laws of England.

14.10 Jurisdiction

14.10.1 For the exclusive benefit of the other party, each of VTB and the Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with any Loan Agreement and that accordingly any suit, action or proceeding (collectively, “**Proceedings**”) arising out of or in connection with such Loan Agreement may be brought in such courts.

14.10.2 Each of the parties irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any Proceedings in any such court referred to in this Clause 14 and any claim that any such Proceedings have been brought in an inconvenient forum

and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and may be enforced in the courts of any other jurisdiction.

- 14.10.3** Nothing contained in any Loan Agreement shall limit the right of any party to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with such Loan Agreement in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with such Loan Agreement to the extent permitted by any applicable law.
- 14.10.4** Each of the parties hereby agrees that, at the option of the other party, any dispute, controversy, claim or cause of action brought by any party against another party or arising out of or relating to any Loan Agreement may be settled by arbitration in accordance with the Rules of the London Court of International Arbitration, which rules are deemed to be incorporated by reference into this Clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate an additional arbitrator who shall be the Chairman of the Tribunal. If a dispute, claim controversy or cause of action shall involve more than two parties, the parties thereto shall attempt to align themselves in two sides (i.e. claimant and respondent) each of which shall appoint an arbitrator as if there were only two sides to such dispute, claim controversy or cause of action. If such alignment and appointment shall not have occurred within twenty (20) calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the Arbitration Court of the London Court of International Arbitration shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.
- 14.10.5** Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.
- 14.10.6 Lender's Process Agent:** The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Deutsche Trustee Company Limited, Winchester House, 1 Great Winchester Street, London EC2N 2DB or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of VTB, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, VTB shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause shall affect the right of VTB to serve process in any other manner permitted by law.
- 14.10.7 VTB's Process Agent:** VTB agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Clifford Chance Secretaries Limited, 10 Upper Bank Street, London E14 5JJ or its other principal place of business in England for the time being or at any other address for the time being at which process may be

served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on VTB's behalf, VTB shall, on the written demand of the Lender, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to VTB. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

14.11 Counterparts

Each Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

14.12 Language

The language which governs the interpretation of each Loan Agreement is the English language.

14.13 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties.

14.14 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of each Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Facility Agreement to be executed on the date first written above.

**Schedule
Form of Loan Supplement**

This Loan Supplement is made on [SIGNING DATE] **between:**

- (1) **DEUTSCHE BANK LUXEMBOURG S.A.**, a société anonyme, incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg (the “**Lender**”); and
- (2) **JSC VNESHTORGBANK**, a company established under the laws of the Russian Federation whose registered office is at 16 Kuznetsky Most Street, Moscow 103031, Russian Federation (“**VTB**”).

Whereas:

- A. VTB has entered into an amended and restated facility agreement dated 2 July 2004 (such amended and restated facility agreement, as may be further amended or supplemented from time to time, the “**Facility Agreement**”) with the Lender in respect of VTB’s U.S.\$ 2,000,000,000 Programme for the Issuance of Loan Participation Notes (the “**Programme**”).
- B. VTB proposes to borrow [●] (the “**Loan**”) and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

“**Account**” means the account in the name of the Lender (account number [●], [●]);

[“**Calculation Agent**” means [Deutsche Bank Luxembourg S.A.];]

“**Closing Date**” means [●];

“**Fiduciary Deposit Supplement**” means a supplement dated [●] to the amended and restated deposit agreement dated 2 July 2004 between the Issuer and the Lender relating to the Deposit;

“**Loan Agreement**” means the Facility Agreement as amended and supplemented by this Loan Supplement;

“**Notes**” means [●] [[●] per cent.][Floating Rate] Loan Participation Notes due [●] issued by the Issuer as Series [●] under the Programme;

“**Repayment Date**” means [●] [*amend as required for Floating Rate Notes*];

“**Specified Currency**” means [●];

“**Subscription Agreement**” means an agreement between the Lender, the Fiduciary, VTB and [MANAGERS] dated [●] relating to the Notes;

“**Trust Deed**” means the amended and restated Principal Trust Deed between the Issuer and the Trustee dated 2 July 2004 (as may be further amended or supplemented from time to time) as amended and supplemented by a Supplemental Trust Deed dated [●] constituting and securing the Notes; and

“**VTB Account**” means the account in the name of VTB (account number [●]).

3 Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4 The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to VTB and VTB shall make a single drawing in the full amount of the Loan.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1 Fixed Rate Loan Provisions

[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Interest Commencement Date [●]
- (ii) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually] in arrear]
- (iii) Interest Payment Date(s): [●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted]
- (iv) Fixed Amount[(s)]: [●] per [●] in principal amount
- (v) Broken Amount: [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount [(s)] and the Interest Payment Date(s) to which they relate]
- (vi) Day Count Fraction (Clause 4.9): [●]
(Day count fraction should be Actual/Actual-ISMA for all fixed rate loans other than those denominated in U.S. dollars, unless specified)
- (vii) Determination Date(s) (Clause 4.9): [●] in each year. [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last interest period]¹
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Loans: [Not Applicable/give details]

4.2.2 Floating Rate Loan Provisions

[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Interest Commencement Date [●]
- (ii) Interest Period(s): [●]
- (iii) Specified Interest Payment Dates: [●]
- (iv) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]

¹ Only to be completed for a Loan where Day Count Fraction is Actual/Actual-ISMA.

- (v) Business Centre(s) (Clause 4.9): ☐
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: ☐ Screen Rate Determination/ISDA Determination/other (*give details*)
- (vii) Interest Period Date(s): ☐ [Not Applicable/*specify dates*]
- (viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): ☐
- (ix) Screen Rate Determination (Clause 4.3.3):
- Relevant Time: ☐
 - Interest Determination Date: ☐ *[TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]*
 - Primary Source for Floating Rate: ☐ *[Specify relevant screen page or "Reference Banks"]*
 - Reference Banks (if Primary Source is "Reference Banks"): ☐ *[Specify four]*
 - Relevant Financial Centre: ☐ *[The financial centre most closely connected to the Benchmark - specify if not London]*
 - Benchmark: ☐ *[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]*
 - Representative Amount: ☐ *[Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount]*
 - Effective Date: ☐ *[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]*
 - Specified Duration: ☐ *[Specify period for quotation if not duration of Interest Accrual Period]*
- (x) ISDA Determination (Clause 4.3):
- Floating Rate Option: ☐
 - Designated Maturity: ☐
 - Reset Date: ☐
 - ISDA Definitions: (if different from those set out in the Conditions) ☐
- (xi) Margin(s): ☐ *[+/-]* ☐ per cent. per annum
- (xii) Minimum Rate of Interest: ☐ per cent. per annum
- (xiii) Maximum Rate of Interest: ☐ per cent. per annum
- (xiv) Day Count Fraction (Clause 4.9): ☐
- (xv) Rate Multiplier: ☐

- (xvi) Fall back provisions, rounding provisions, [●]
denominator and any other terms relating
to the method of calculating interest on
Floating Rate Loans, if different from
those set out in the Facility Agreement:

5. Fees and Expenses

Pursuant to sub-Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to VTB, VTB hereby agrees that it shall, two Business Days before the Closing Date, pay to the Lender, in Same-Day Funds, the arrangement fee as increased by the front-end fees, commissions and expenses incurred by the Lender in connection with financing the Loan, pursuant to an invoice submitted by the Lender to VTB in the total amount of [●].

Governing Law

This Loan Supplement shall be governed by and construed in accordance with English law.

This Loan Supplement has been entered into on the date stated at the beginning.

DEPOSIT AGREEMENT

The following is the text of the Amended and Restated Deposit Agreement entered into between the Issuer and the Fiduciary. In the context of each Series of Notes and the corresponding Deposit, the Deposit Agreement should be read in conjunction with, and is qualified in its entirety by, the relevant Fiduciary Deposit Supplement for such Series and Deposit.

This Amended and Restated Deposit Agreement is made on 2 July 2004 between:

- (1) VTB Capital S.A., a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B-97,053 acting as *fiduciant* in accordance with the Trust and Fiduciary Contracts Act 2003 (as defined below) (hereafter called the “**Client**”); and
- (2) Deutsche Bank Luxembourg S.A., a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115, Luxembourg acting as fiduciary in accordance with the Trust and Fiduciary Contracts Act 2003 (hereafter called the “**Fiduciary**”).

Whereas, the parties hereto entered into a Deposit Agreement dated 8 December 2003 (the “**Original Deposit Agreement**”);

Whereas, the Fiduciary has agreed to make available to Open Joint Stock Company Vneshtorgbank (“**VTB**”) a loan facility in the maximum amount of the Programme Limit (as defined in the Facility Agreement) on the terms and subject to the conditions of an amended and restated facility agreement dated 2 July 2004 made between the Fiduciary and VTB (such amended and restated facility agreement, as may be further amended or supplemented from time to time, the “**Facility Agreement**”), as amended and supplemented in relation to each loan (a “**Loan**”) under the Facility Agreement by a loan supplement to be dated the relevant Closing Date (each a “**Loan Supplement**” and, together with the Facility Agreement, the “**Loan Agreement**” corresponding to such Loan);

Whereas, it is intended that, concurrently with the extension of any Loan under the Facility Agreement, (i) the Fiduciary will accept a fiduciary deposit (a “**Deposit**”) from the Client in the same nominal amount and bearing the same rate of interest as such Loan, on the terms and subject to the conditions of this amended and restated Agreement, as amended and supplemented in relation to each Deposit by a fiduciary deposit supplement to be dated the relevant Closing Date substantially in the form set out in the Schedule hereto (each a “**Fiduciary Deposit Supplement**” and, together with this Agreement, the “**Fiduciary Deposit Agreement**” corresponding to such Deposit) and (ii) the Client will issue certain loan participation notes in the same nominal amount bearing the same rate of interest as such Deposit; and

Whereas, the parties hereto wish to amend and restate the Original Deposit Agreement as set out below.

It is hereby agreed as follows:

- 1 (a) The parties hereto agree that this Agreement amends and restates the Original Deposit Agreement. Any Deposits made on or after the date hereof shall have the benefit of this Agreement. The amendments set out below do not affect any Deposits made prior to the date of this Agreement which shall be subject to the Original Deposit Agreement.
- (b) It is agreed that with respect to each Deposit, all the provisions of this Fiduciary Deposit Agreement and the corresponding Fiduciary Deposit Supplement shall apply *mutatis mutandis* separately and independently to each such Deposit and the expressions “**Closing Date**,” “**Day Count Fraction**,” “**Fee Side Letter**,” “**Fiduciary Account**,” “**Fiduciary Assets**,” “**Fiduciary Deposit Agreement**,” “**Fiduciary Fees**,” “**Fiduciary Relevant Event**,” “**Fiduciary Reserved Rights**,” “**Initial Fiduciary Assets**,” “**Notes**” and “**Specified Currency**” together with all other terms that relate to such a Deposit shall be construed as referring to those of the particular Deposit in question and not of all Deposits unless expressly so provided, so that each such Deposit shall be made pursuant to this Agreement and the relevant Fiduciary Deposit Supplement, together comprising the Fiduciary Deposit Agreement in respect of such Deposit and that, unless expressly provided, events affecting one Deposit shall not affect any other Deposit. Unless the context otherwise requires, terms used in this Agreement which are not defined herein but which are defined in the Trust Deed or the Fiduciary Deposit Supplement shall have the meanings assigned to such terms therein.

- 2 The Client hereby agrees to deposit on the Closing Date (as defined in the relevant Fiduciary Deposit Supplement) into a separate fiduciary account for the purposes of each Fiduciary Deposit Supplement (the “**Fiduciary Account**”) opened with the Fiduciary the amount of the Deposit set out in the relevant Fiduciary Deposit Supplement, such Deposit coming under the legal ownership of the Fiduciary (the “**Initial Fiduciary Assets**” and, together with any rights against, and monies owed by, VTB under the relevant Loan Agreement, the “**Fiduciary Assets**”), subject to the receipt of such an amount by or on behalf of the Client in connection with the issue by the Client of the corresponding Notes. The principal amount outstanding of the Fiduciary Assets will be subject to reduction from time to time in accordance with the provisions of Clause 19 of this Agreement.
- 3 Simultaneously, as soon as the Initial Fiduciary Assets are credited unconditionally and irrevocably to the Fiduciary, the Client hereby irrevocably instructs the Fiduciary to grant a Loan in an amount equal to the sum of the Initial Fiduciary Assets in the Specified Currency to, and place such amount at the disposal of, VTB. The Loan is to be in the name of the Fiduciary on a fiduciary basis, but for the account and at the sole risk of the Client, according to the terms and conditions of the relevant Loan Agreement to be concluded on or about the relevant Closing Date between the Fiduciary and VTB.

The Client acknowledges knowing the content of each Loan Agreement entered into on the relevant Closing Date and agrees to the terms and conditions thereof.

- 4 The Fiduciary Assets will, by virtue of the Luxembourg law of 27 July 2003 on trust and on fiduciary agreements (the “**Trust and Fiduciary Contracts Act 2003**”), come under the legal ownership of the Fiduciary. The Fiduciary Assets in respect of each Fiduciary Deposit Supplement will be kept in the books of the Fiduciary separate from any and all of its other assets and separate from all other Fiduciary Assets under any other Fiduciary Deposit Supplement.
- 5 The Fiduciary will credit to the Fiduciary Account only and all those amounts which the Fiduciary receives from VTB under the relevant Loan Agreement specified in the Fiduciary Deposit Supplement in payment of (i) interest, principal and additional amounts (if any) under the relevant Loan Agreement and (ii) commissions, fees and expenses received pursuant to Clauses 3 and 13 of the Facility Agreement in respect of the relevant Loan Agreement (the “**Fees**”). Without prejudice to Clause 8(i) of this Agreement, the Client hereby irrevocably instructs the Fiduciary, on the day and subject and to the extent any amount is credited by the Fiduciary under this Agreement to the Fiduciary Account, to transfer (i) such amount in respect of interest, principal amounts and additional amounts (if any) under the relevant Loan Agreement credited to the Fiduciary Account to the Account (as defined in the relevant Fiduciary Deposit Supplement) and (ii) such amount in respect of Fees (as specified in the relevant Fiduciary Deposit Supplement) (less the Fiduciary Fees which the Fiduciary shall be entitled to retain in satisfaction of the obligation of the Client under the Fee Side Letter to pay the Fiduciary Fees to the Fiduciary) credited to the Fiduciary Account to or to the order of the Client, upon which transfer such amount will immediately cease to be the legal property of the Fiduciary and no longer form part of the Fiduciary Assets.

With respect to any Fees contemplated by this Clause 5, upon the presentation of any invoice of a party in connection with the Fiduciary Deposits or the funding thereof by the Client to the Fiduciary, the Fiduciary shall promptly submit a corresponding invoice to VTB for payment in accordance with Clauses 3 and 13 of the Facility Agreement. The Fiduciary shall not otherwise be responsible to any person in respect of the payment of any invoices submitted by the Client to the Fiduciary as contemplated by this Clause 5 and shall be entitled to deduct from any such payment any applicable tax, duty or similar levy. The Fiduciary shall not be responsible for any failure of VTB to make any payments, nor shall it be required to take any action to recover any amounts from VTB.

- 6 Subject to the provisions of this Agreement and the relevant Fiduciary Deposit Supplement, each Deposit is made with the Fiduciary for the period of the relevant Loan Agreement and will bear interest at the same rate as the rate of interest applicable to the corresponding Loan as calculated under the relevant Loan Agreement.
- 7 In the event of a prepayment at any time of all or part of a Loan in accordance with the terms of the relevant Loan Agreement, upon but subject to the receipt by the Fiduciary of any amounts in respect of principal, interest and additional amounts (if any) pursuant to such prepayment, the Fiduciary will credit such amounts to the Fiduciary Account and, upon such action, its obligations

in respect of the payment of interest and principal in respect of the Fiduciary Assets under the relevant Fiduciary Deposit Agreement shall be correspondingly reduced and correspondingly discharged.

- 8 All payments to be made by the Fiduciary under the relevant Fiduciary Deposit Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Fiduciary under the relevant Fiduciary Deposit Agreement or the Client under the terms of the relevant Notes shall be required by applicable law to make any deduction or withholding from any payment under the relevant Fiduciary Deposit Agreement or the Notes, as the case may be, for or on account of any Taxes, the Client shall notify the Fiduciary in the case of deductions or withholding in respect of the relevant Notes and, in either case, the Fiduciary shall notify VTB in accordance with Clause 6.3 of the relevant Loan Agreement and, subject to receipt of an additional amount from VTB under the terms of the relevant Loan Agreement, either (i) in respect of deductions or withholding in respect of the relevant Fiduciary Deposit Agreement, increase any payment due hereunder to such amount as may be necessary to ensure that the Client receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes and account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law or (ii) in respect of deductions or withholding in respect of the relevant Notes, transfer any such additional amount received from VTB in this respect to the Fiduciary Account. In connection with payments due to the Fiduciary hereunder, the Client waives all right of set off or counterclaim which it might have against the Fiduciary.

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Fiduciary to make any deduction, withholding or payment as described in this Clause 8, then, without in any way limiting, reducing or otherwise qualifying the Client's rights, or the Fiduciary's obligations, under this Clause, such party shall promptly upon becoming aware of such circumstances notify the other party and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances.

For the purposes of this Agreement:

"Notes" means the series of loan participation notes specified in the Fiduciary Deposit Supplement to be issued by the Client pursuant to an amended and restated trust deed to be executed between it and Citicorp Trustee Company Limited (the **"Trustee"**) dated 2 July 2004 (as may be further amended or supplemented from time to time, the **"Trust Deed"**) (as supplemented by a supplemental trust deed to be dated on or about the relevant Closing Date) to fund the relevant Deposit; and

"Taxes" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Grand Duchy of Luxembourg or any tax authority thereof or therein.

- 9 The Client shall use its best endeavours to obtain any tax credits or refunds available to it, and the Client shall disclose to the Fiduciary any information regarding its tax affairs or computations requested by the Fiduciary. To the extent that the Client subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which it has received a payment pursuant to Clause 8 of this Agreement, the Client shall promptly notify the Fiduciary of such tax credits, allowances or reimbursement obtained and used and promptly pay to the Fiduciary for onward credit to VTB so much of the benefit it received as will leave the Client in substantially the same position as it would have been had no such tax credit or allowance or other reimbursement referred to in this Clause 9 been received; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Fiduciary under this Clause 9, the amount of any such payment and the timing of any such payment, shall be determined solely by the Client.

- 10** Disbursed expenses, as well as all other costs, taxes or fees of the Fiduciary in connection with the execution of the relevant Fiduciary Deposit Supplement (the “**Fiduciary Fees**”) will be agreed pursuant to the terms of a fees side letter dated on or about the date of the relevant Fiduciary Deposit Supplement between, *inter alia*, the Fiduciary, the Client and the Dealers in respect of a Series of Notes of the Client (the “**Fee Side Letter**”) and the Fiduciary shall deduct the Fiduciary Fees in accordance with Clause 5.
- 11** The Fiduciary shall have no other liability in its capacity as fiduciary in accordance with the Trust and Fiduciary Contracts Act 2003 than to make available to VTB loans in accordance with the Facility Agreement and any Loan Supplement and to comply with terms of this Agreement, the Facility Agreement, any Loan Supplement and any Fiduciary Deposit Supplement. The Fiduciary in particular shall be under no obligation to make any investigation into, or shall not be responsible or liable for (i) the creditworthiness of the Client or VTB; (ii) the validity, legality, effectiveness or enforceability of the obligations of any such person as referred to in (i) above; (iii) whether any Loan Agreement is valid, binding or enforceable and has been executed by duly authorised officers of any parties thereto other than the Fiduciary or (iv) whether all consents, licences, approvals, registrations, authorisations or declarations (including without limitation foreign exchange approvals) required under any Loan Agreement or the execution and delivery thereof and performance of any transactions thereunder have been obtained and are in full force and effect (other than those applicable to the Fiduciary). Furthermore, the Fiduciary shall be under no obligation (a) to require any form of security or guarantee to be granted by VTB or a third party, (b) subject to Clause 13, to take any measures to enforce payment of interest on, or forepayment of, any Loan by VTB, (c) to contest any imposition of taxes, fees or costs, (d) to oppose seizure, arrest or other restrictions imposed on any Loan or the Fiduciary Assets by any courts or public authorities or (e) to assess or keep under review the creditworthiness of VTB.
- 12** So long as any principal, interest or additional amounts (if any) under any Loan Agreement remains outstanding, the Fiduciary will not, without the prior written consent of the Client, make any determination (save in respect of sub-Clause 5.3 of the Facility Agreement) under or agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms and conditions of such Loan Agreement and will act at all times in accordance with any instructions of the Client from time to time with respect to such Loan Agreement save as otherwise required by applicable law. In performing its responsibilities and fiduciary duties, exercising its discretions under this Agreement and holding the Fiduciary Assets, the Fiduciary shall exercise the standard of care of a prudent fiduciary in connection with the administration of assets and liabilities similar to the Fiduciary Assets.
- 13** The Fiduciary is not automatically, without written instructions and an adequate advance for costs (as determined by the Fiduciary) from the Client, obliged to take any judicial or extra-judicial steps against VTB, if VTB does not perform in time any of its obligations under any Loan Agreement.

Upon the occurrence of an Event of Default (as defined in the relevant Loan Agreement) under the Facility Agreement or a Fiduciary Relevant Event, the Client instructs the Fiduciary to, and the Fiduciary will, give notice to the Client and promptly take all necessary actions to assign to the Client, or any assignee or transferee of the Client, and the Client will accept such assignment, of any and all of the Fiduciary’s rights (save in respect of any Fiduciary Reserved Rights) against VTB under the relevant Loan Agreement and the Fiduciary will, after such assignment and payment to the Client, or assignee or transferee of the Client, as the case may be, of all sums standing to the credit of the Fiduciary Account, have no further obligations under the relevant Fiduciary Deposit Agreement.

“**Fiduciary Relevant Event**” means the earlier of the failure by the Fiduciary to make any payment of principal or interest under the Fiduciary Deposit Agreement when due, the filing of an application for the institution of bankruptcy, liquidation, controlled management (“*gestion contrôlée*”), suspension of payments, insolvency, moratorium, general settlement with creditors (“*concordat préventif de faillite*”) or composition proceedings over the assets of the Fiduciary in Luxembourg, or the taking of any action for the liquidation, stay of payments or controlled management procedure in relation to the Fiduciary, or the taking of any action in furtherance of the dissolution of the Fiduciary.

“**Fiduciary Reserved Rights**” are the rights to be excluded from the assignment of the Fiduciary’s rights under the relevant Loan Agreement, being all and any rights, interests and benefits in respect

of the rights of the Fiduciary under the following Clauses of the Facility Agreement: 3.2, 6.2 (to the extent that VTB is to reimburse the Fiduciary on demand for any amount paid by the Fiduciary in respect of Russian Federation taxes, penalties or interest), 8, 12 and 14.2 (to the extent that VTB shall reimburse the Fiduciary on demand for any amount paid by the Fiduciary in respect of any stamp, registration and documentary taxes or similar charges of the relevant Loan Agreement).

- 14** Without prejudice to the provisions of Clause 13 of this Agreement, the Fiduciary may by giving not less than 90 days' written notice to the Client, resign as the Fiduciary and transfer all of its rights and obligations under each Fiduciary Deposit Agreement to a Qualified Financial Institution; provided that such resignation shall take effect only on the date specified in such notice which shall be the same date as the date upon which such Qualified Financial Institution is substituted for the Fiduciary as the lender under the each Loan Agreement.

For the purposes of this Clause 14, "**Qualified Financial Institution**" means a bank incorporated or established under the laws of Luxembourg which:

- (a) is qualified and authorised to act as a fiduciary under Luxembourg law;
- (b) has itself or is part of a group which has a long-term debt rating by Standard & Poor's Rating Services of at least "A"- and/or Moody's Investors Service Limited of at least "A3";
- (c) is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; and
- (d) does not have a permanent establishment in Russia.

In the event a successor Qualified Financial Institution is appointed to act as fiduciary, the Fiduciary shall deliver to the successor fiduciary all Fiduciary Assets in its power in respect of each Fiduciary Deposit Agreement, and provide information in connection with each Fiduciary Deposit Agreement or Loan Agreement as is in its possession and is sufficient to allow the successor fiduciary to perform its obligations under each Fiduciary Deposit Agreement and each Loan Agreement after all amounts due to the Fiduciary have been paid and the successor fiduciary shall accede to each Fiduciary Deposit Agreement and at such time give the same representations, warranties and undertakings as set out herein.

- 15** The Client may only assign or transfer, in whole or part, any of its rights and benefits or obligations under any Fiduciary Deposit Agreement, without the consent of the Fiduciary, to the Trustee.
- 16** The Fiduciary represents and warrants that it is a bank validly incorporated in the Grand Duchy of Luxembourg, that it has obtained all necessary corporate and regulatory approvals to enter into the relevant Fiduciary Deposit Agreement and the relevant Loan Agreement and that each of the relevant Fiduciary Deposit Agreement and the relevant Loan Agreement constitutes its valid, legal and binding obligations.
- 17** The Fiduciary agrees to pass promptly to the Client copies of all certificates and information received by it under the relevant Loan Agreement.
- 18** The relevant Fiduciary Deposit Agreement shall remain in force up to whichever is the earlier of (i) the receipt by the Fiduciary of all amounts payable under the relevant Loan Agreement, the crediting of such amounts to the Fiduciary Account and the onward payment of such amounts in accordance with Clause 5 of this Agreement or (ii) the perfection of any of the assignments or the substitution provided for in this Agreement.
- 19** The relevant Loan Agreement provides that VTB or any of its Subsidiaries (as defined therein) may at any time and from time to time purchase Notes in the open market or by tender or by private agreement at any price. In the event that the Client notifies the Fiduciary that an amount of Notes has been surrendered to it for cancellation by VTB or any of VTB's subsidiaries and have been cancelled, each of the Fiduciary Assets and the relevant Facility Agreement shall be deemed to have been prepaid by the Fiduciary and VTB respectively in an amount corresponding to the aggregate principal amount of the Notes surrendered to the Client for cancellation, together with accrued

interest (if any) thereon and no further payment shall be made or required to be made by the Fiduciary in respect of such amounts. The Fiduciary shall keep proper records of the amount of each of the Fiduciary Assets and the relevant Loan outstanding and, in each case, interest payable in respect thereof.

20 The Fiduciary shall be authorised to rely on any instructions issued by the Client as being properly issued and shall not incur any liability hereunder by acting in accordance with any such instructions. This Agreement and each Fiduciary Deposit Agreement are governed by, and will be construed in accordance with, the laws of the Grand Duchy of Luxembourg and in particular the Trust and Fiduciary Contracts Act 2003. Court of venue is Luxembourg City. However, each party is entitled to bring legal proceedings in any other competent courts. The parties hereby agree that the courts of England shall constitute competent courts for this purpose and in this respect each of the parties to this Agreement submits to the jurisdiction of the courts of England in respect of any disputes arising hereunder.

21 Amendments to and supplemental provisions of this Agreement and any Fiduciary Deposit Agreement must be agreed in writing.

Should provisions laid down in this Agreement or the relevant Fiduciary Deposit Supplement be or become in whole or in part legally invalid or impracticable, the remaining provisions of this Agreement or the relevant Fiduciary Deposit Supplement shall remain in effect.

Executed in two originals in Luxembourg on 2 July 2004

Special acceptance clause

We expressly and specifically accept clauses 11, 12 and 13 pursuant to Article 1135-1 of the Luxembourg Civil Code.

Schedule
Form of Fiduciary Deposit Supplement

This Fiduciary Deposit Supplement is made on [SIGNING DATE] **between:**

- (1) VTB Capital S.A., a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B-97,053 acting as fiduciant in accordance with the Trust and Fiduciary Contracts Act 2003 (hereafter called the “**Client**”); and
- (2) Deutsche Bank Luxembourg S.A., a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg acting as fiduciary in accordance with the Trust and Fiduciary Contracts Act 2003 (hereafter called the “**Fiduciary**”).

Whereas:

- A. the Client has entered into an amended and restated fiduciary deposit agreement dated 2 July 2004 (such amended and restated fiduciary deposit agreement, as may be further amended or supplemented from time to time, the “**Deposit Agreement**”) with the Fiduciary; and
- B. the Client proposes to make a deposit of [●] (the “**Deposit**”) and the Fiduciary wishes to accept such Deposit on the terms set out in the Deposit Agreement and this Fiduciary Deposit Supplement.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Fiduciary Deposit Supplement shall have the meaning given to them in the Deposit Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Fiduciary Deposit Supplement, the following expressions used in the Deposit Agreement shall have the following meanings:

“**Account**” means the account in the name of the Client with the Principal Paying Agent (account number [●], [●]);

“**Closing Date**” means [●];

“**Fiduciary Deposit Agreement**” means the Deposit Agreement as amended and supplemented by this Fiduciary Deposit Supplement;

“**Loan Agreement**” means the Facility Agreement and the Loan Supplement dated [●].

“**Notes**” means [●] [[●] per cent.][Floating Rate] Loan Participation Notes due [●] issued by the Client as Series [●] under the Programme; and

“**Specified Currency**” means [●].

3 Incorporation by Reference

Except as otherwise provided, the terms of the Deposit Agreement shall apply to this Fiduciary Deposit Supplement as if they were set out herein and the Deposit Agreement shall be read and construed, only in relation to the Deposit constituted hereby, as one document with this Fiduciary Deposit Supplement.

4 The Deposit

Subject to the terms and conditions of the Deposit Agreement, the Client agrees to make the Deposit on the Closing Date with the Fiduciary and the Fiduciary shall accept such amount as the full amount of the Deposit.

5 Fees and Expenses

Pursuant to Clause 5 of the Deposit Agreement and in consideration of the Client making the Deposit with the Fiduciary, the Fiduciary hereby agrees that it shall, subject to and to the extent that an equivalent amount is received from VTB pursuant to the relevant Loan Agreement, two Business Days before the Closing Date, pay to the Client, in Same-Day Funds, the amount of [●] (which represents, *inter alia*, the full amount of the Fees, referred to in Clause 5 of the Deposit Agreement, that are payable on the Closing Date, though not in respect of any subsequent date), less the amount in respect of the Fiduciary Fees pursuant to Clause 5 of the Deposit Agreement.

6 Governing Law

This Fiduciary Deposit Supplement shall be governed by and construed in accordance with the laws of the Grand Duchy of Luxembourg and in particular the Trust and Fiduciary Contracts Act 2003.

This Fiduciary Deposit Supplement has been entered into on the date stated at the beginning.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion and amendment in accordance with the provisions of the relevant Pricing Supplement) will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Notes representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the “Supplemental Trust Deed”) supplemental to an amended and restated trust deed dated 2 July 2004 and as may be further amended or supplemented from time to time, the “Principal Trust Deed”), each made between VTB Capital S.A. (the “Issuer”) and Citicorp Trustee Company Limited (the “Trustee,” which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee and successors thereof for the holders of the Notes (the “Noteholders”). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the “Trust Deed.”

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of making a fiduciary deposit, as specified hereon (the “Deposit”) with Deutsche Bank Luxembourg S.A. (the “Fiduciary”) under an amended and restated deposit agreement dated 2 July 2004 (such amended and restated deposit agreement, as may be further amended or supplemented from time to time, the “Deposit Agreement”) as supplemented on the Issue Date by a fiduciary deposit supplement (the “Fiduciary Deposit Supplement”) each between the Issuer and the Fiduciary (together, the “Fiduciary Deposit Agreement”). Under the terms of the Fiduciary Deposit Agreement, the Fiduciary will apply the Deposit for the sole purpose of financing a loan (the “Loan”) as specified hereon to JSC Vneshtorgbank (“VTB”). The Fiduciary and VTB have recorded the terms of the Loan in an amended and restated facility agreement dated 2 July 2004 (such amended and restated facility agreement, as may be further amended or supplemented from time to time, the “Facility Agreement”) as supplemented on the Issue Date specified hereon by a loan supplement (the “Loan Supplement”), each between the Fiduciary and VTB (together, the “Loan Agreement”).

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Fiduciary Deposit Agreement. The obligation of the Fiduciary to make any payment under the Fiduciary Deposit Agreement of any amount equivalent to amounts of principal, interest and additional amounts (if any) are subject to receipt by the Fiduciary of such amounts under the terms of the Loan Agreement.

The Issuer (i) has charged by way of first fixed charge in favour of the Trustee certain of its rights and interests as depositor under the Fiduciary Deposit Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the “Charge”), (ii) has assigned absolutely to the Trustee certain other rights under the Fiduciary Deposit Agreement (other than any rights and benefits constituting Issuer Reserved Rights (as defined in the Trust Deed)) which includes rights in respect of any future assignment by the Fiduciary of its rights in respect of the Loan Agreement to the Issuer (the “Loan Assignment”) and (iii) has assigned absolutely to the Trustee all of its rights and interests under the Loan Agreement if assigned to it pursuant to a Loan Assignment (such assignment to the Trustee of any rights under the Loan Agreement together with the rights assigned under the Fiduciary Deposit Agreement and the Charge, the “Security Interests”). In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Fiduciary or, in the event of a Loan Assignment, VTB) pursuant to, a paying agency agreement dated 8 December 2003 (as amended and restated on 2 July 2004 and as may be further amended or supplemented from time to time, the “Agency Agreement”) and made between the Issuer, the Fiduciary, Citibank, N.A. London as principal paying agent, registrar and transfer agent (the “Principal Paying Agent” and the “Registrar”), each of Deutsche Bank Luxembourg S.A. and Citibank, N.A. New York as a paying agent and a transfer agent (each a “Paying Agent” and “Transfer Agent”), VTB and the Trustee. References herein to principal paying agent, registrar, paying agent or transfer agent, shall include any additional or successor principal paying agent, registrar, paying agent or transfer agent.

Copies of the Trust Deed, the Loan Agreement, the Fiduciary Deposit Agreement, the Agency Agreement and the Pricing Supplement are available for inspection at the principal office of the Trustee, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent in Luxembourg.

The statements contained in these Terms and Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Deposit Agreement (the form of which is scheduled to and incorporated in the Trust Deed), the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed), the Pricing Supplement, the Fiduciary Deposit Supplement, the Loan Supplement and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to make the Deposit. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for making the Deposit and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Fiduciary Deposit Agreement.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement will be made pro rata among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions among the Issuer, the Fiduciary and/or VTB.

Noteholders have notice of, and have accepted, these Terms and Conditions, the Pricing Supplement and the contents of the Trust Deed, the Fiduciary Deposit Agreement and the Loan Agreement, and have hereby accepted that:

- 1.1** neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by the Fiduciary and VTB of their respective obligations under the Fiduciary Deposit Agreement and the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Fiduciary under the Fiduciary Deposit Agreement or VTB under the Loan Agreement;
- 1.2** neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Fiduciary or VTB;
- 1.3** neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Fiduciary under or in respect of the Fiduciary Deposit Agreement or of VTB under or in respect of the Loan Agreement;

- 1.4** neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any Paying Agent, the Registrar or Transfer Agent of their respective obligations under the Agency Agreement;
- 1.5** the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Fiduciary of its obligations under the Fiduciary Deposit Agreement and by VTB of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Fiduciary has represented and warranted to the Issuer that the Fiduciary Deposit Agreement constitutes a legal, valid and binding obligation of the Fiduciary, and VTB has represented and warranted to the Issuer that the Loan Agreement constitutes a legal, valid and binding obligation of VTB; and
- 1.6** the Issuer and the Trustee shall be entitled to rely on (i) calendar quarterly Officer's Certificates (as defined in the Loan Agreement) as to whether or not an Event of Default or Potential Event of Default (each as defined in the Loan Agreement) has occurred and (ii) Officer's Certificates specifying the Principal Subsidiaries (as defined in the Loan Agreement) of VTB and shall not otherwise be responsible for investigating any aspect of VTB's performance in relation thereto or the Fiduciary's performance of its obligations under the Fiduciary Deposit Agreement and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by VTB or payments under the Fiduciary Deposit Agreement are made by the Fiduciary to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Fiduciary Deposit Agreement or the Deposit or, in the event of a Loan Assignment, the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Fiduciary Deposit Agreement or the Loan Agreement or direct recourse to the Fiduciary or VTB except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Fiduciary Deposit Agreement or the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

2. Form, Denomination and Title

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon or integral multiples thereof, without interest coupons, provided that interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$100,000.

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3. Register, Title and Transfers

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the "holder" of a Note means the person

in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “Noteholder” shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding.

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

A Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of a Transfer Agent, together with such evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

Subject to the last paragraph of this Condition, within five business days of the surrender of a Note in accordance with the immediately preceding paragraph above, the Registrar will register the transfer in question and deliver a new Note to each relevant holder at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “business day” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

4. Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not (and will not consent to any request of the Fiduciary to), without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Fiduciary Deposit Agreement or the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement, except as otherwise expressly provided in the Fiduciary Deposit Agreement and the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys (other than issuing any Series of Notes), engage in any other business (other than acquiring and holding the Security Interests in respect of each Series issuing Notes, making deposits with the Fiduciary pursuant to the Deposit Agreement and performing any act incidental to or necessary in connection with the foregoing), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these conditions and the Trust Deed), issue any shares, give any guarantee or assume any other liability, or subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

5. Interest

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified hereon which shall be

equal to the rate per annum at which interest under each of the Fiduciary Deposit and the Loan accrues. Accordingly, on each Interest Payment Date or as soon thereafter as the same shall be received by the Issuer, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer under the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan received by or for the account of the Issuer pursuant to the Loan Agreement, as the case may be.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon.

(b) **Interest on Floating Rate Notes:**

- (i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under each of the Fiduciary Deposit, the Loan accrues, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date or as soon thereafter as the same shall be received by the Issuer, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Fiduciary Deposit or, in the event of a Loan Assignment, the Loan received by or for the account of the Issuer pursuant to the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be.
 - (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
 - (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and as set out in the Fiduciary Deposit Agreement, or in the event of a Loan Assignment, the Loan Agreement.
- (c) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (d) **Calculations:** The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction as specified hereon and in the Fiduciary Deposit Agreement, or in the event of a Loan Assignment, the Loan Agreement, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in

which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

- (e) **Publication of Rates of Interest and Interest Amounts:** As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Fiduciary Deposit Agreement and the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, the Fiduciary, VTB, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable as a consequence of amounts under the Fiduciary Deposit Agreement and the Loan Agreement becoming due and payable prior to the Repayment Date (as defined in the Loan Agreement), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.
- (f) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Fiduciary Deposit Agreement and the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The Trustee shall incur no liability in respect of such determination or calculation.

6. Redemption and Purchase

- (a) **Final Redemption:** Unless the Loan is previously prepaid or repaid pursuant to Clauses 5.2, 5.3 or 5.4 of the Facility Agreement, the Fiduciary will be required to repay the Deposit and VTB will be required to repay the Loan on the Repayment Date and, subject to such repayment, as set forth in the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement, all the Notes then remaining outstanding will on that date be redeemed or repaid by the Issuer in the relevant Specified Currency on the Redemption Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 per cent. of the principal amount thereof).
- (b) **Early Redemption:** If the Deposit or, in the event of a Loan Assignment, the Loan should become repayable in full (and be repaid in full) pursuant to the terms and conditions of the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be, prior to its Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Issuer Reserved Rights) following acceleration of the Deposit and the Loan, the Issuer shall pay an amount equal to and in the same currency as such amounts on the business day following receipt of such amounts, subject as provided in Condition 7.

- (c) **Redemption at the Option of Noteholders:** If a Put Option (as defined below) shall occur whilst a Note is outstanding, the holder of each such Note will have the option (unless, prior to the delivery of the Put Option Notice referred to below, the Issuer gives notice under Condition 6(b)) to require the Issuer to redeem that Note) on the Put Settlement Date (as defined below) at its principal amount together with accrued interest and additional amounts (as defined in Condition 8) (if any) to the Put Settlement Date.

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a “**Put Event Notice**”) to the Noteholders in accordance with Condition 14, specifying the details relating to the occurrence of the Put Event and the procedure for exercising the option contained in this Condition 6(c).

In order to exercise the option contained in the Condition 6(c), the holder of a Note must deliver no later than 30 days after the Put Event Notice is given (the “**Put Period**”), to the specified office of the Principal Paying Agent or any Paying Agent evidence satisfactory to the Paying Agent of such holder’s entitlement to such Note and a duly completed put option notice (a “**Put Option Notice**”) specifying the principal amount of the Notes in respect of which such option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or the Paying Agent will provide such Noteholder with a receipt. Provided that the Notes that are the subject of any such Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from the Fiduciary or, in the event of a Loan Assignment, VTB and (ii) as provided in Condition 7) redeem all such Notes on the date falling five Business Days after the expiration of the Put Period (the “**Put Settlement Date**”). No Put Option Notice, once delivered in accordance with this Condition 6(c), may be withdrawn.

For the purposes of these Conditions, a “**Change of Control**” shall occur at any time that the Russian Federation Ministry of Property Relations and/or any other federal state agencies appropriately authorised to hold the shares of VTB (i) ceases to own or control (directly or indirectly) 50% plus one share of the issued and outstanding voting share capital of VTB; or (ii) no longer has the right to appoint or remove a majority of VTB’s supervisory council.

“**Put Option**” means a Change of Control has occurred.

- (d) **Purchase:** The Facility Agreement provides that VTB or any of its Subsidiaries (as defined therein) may at any time and from time to time purchase Notes in the open market or by tender or by private agreement at any price. Such Notes may be held, sold in the open market or, at the option of VTB or such Subsidiary, surrendered by VTB or such Subsidiary, as the case may be, to the Issuer for cancellation, whereupon the Issuer shall instruct the Principal Paying Agent to cancel such Notes and notify the Fiduciary of such cancellation. Upon such cancellation by or on behalf of the Principal Paying Agent, each of the relevant Deposit and Loan shall be deemed to have been prepaid by the Fiduciary and VTB, respectively, in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest (if any) thereon and no further payments shall be made or required to be made by the Issuer in respect of such Notes.
- (e) **Compulsory Sale:** The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

7. Normal

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent or of the Registrar and in the manner provided in the paragraph below.

Interest shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the TARGET System (a “**Bank**”) and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

If the due date for payments of interest or principal is not a business day, a Noteholder shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a business day on which the TARGET system is operating.

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will be a Paying Agent and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26–27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days’ and not less than 30 days’ notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement.

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 7 of the Agency Agreement require the Fiduciary or VTB, as the case may be, to make all payments of principal and interest to be made pursuant to the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the “**Account**”). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

8. Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Russian Federation or Luxembourg or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

- 8.1** In such event, the Issuer shall pay such additional payments (“**additional amounts**”) as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from the Fiduciary under the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, from VTB under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from the Fiduciary or VTB, as the case may be, the Issuer will account to each Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be, on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer provided that no such additional amount will be payable in respect of any Note:
- 8.2** in respect of a Note presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
- 8.3** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- 8.4** in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein, “**Relevant Date**” (i) means the date on which any payment under the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement first becomes due but (ii) if the full amount payable by the Fiduciary or VTB, as the case may be, has not been received by, or for the account of, the Issuer pursuant to the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be, on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

At any time after the occurrence of an Event of Default (as defined in the Facility Agreement) or of either an Issuer Relevant Event (as defined in the Trust Deed) or a Fiduciary Relevant Event (as defined in the Fiduciary Deposit Agreement), the Trustee may, at its discretion and without notice and shall, if requested to do so by Noteholders owning 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, declare all amounts payable under

the Fiduciary Deposit Agreement or, following a Loan Assignment, the Loan Agreement by the Fiduciary or VTB, as the case may be, to be due and payable (in the case of an Event of Default), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of an Issuer Relevant Event or a Fiduciary Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10. Meetings of Noteholders; Modification of Notes, Trust Deed, Fiduciary Deposit Agreement and Loan Agreement; Waiver; Substitution of the Issuer; Appointment/Removal of Trustees

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Fiduciary Deposit Agreement, the Loan Agreement or the Trust Deed. Noteholders will vote according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Fiduciary Deposit Agreement or the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed, the Fiduciary Deposit Agreement and the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders.

The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Terms and Conditions of the Notes or the Trust Deed, by the Fiduciary of the terms of the Fiduciary Deposit Agreement or by VTB of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class). Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of VTB shall, having obtained the consent of VTB (if such substitution is not to be made at the request of VTB) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed and as party to the Fiduciary Deposit Agreement, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Fiduciary Deposit Agreement being charged and assigned or, following a Loan Assignment, the substitute's rights under the Loan Agreement being assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. The Trustee shall also agree to any change of the Fiduciary in accordance with the terms of the Fiduciary Deposit Agreement.

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

The Trust Deed contains provision for the appointment or removal of a Trustee by a meeting of Noteholders passing an extraordinary resolution, provided that, in the case of the removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such retirement shall not become effective unless there remains a trustee in office after such retirement.

11. Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12. Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction. The Trustee is entitled to enter into contracts or transactions with the Issuer, the Fiduciary and/or VTB and any entity related to the Issuer, the Fiduciary and/or VTB without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Fiduciary Deposit Agreement, the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed, for the performance by the Fiduciary of its obligations under or in respect of the Fiduciary Deposit Agreement or for the performance by VTB of its obligations under or in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

13. Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of the Registrar or at the specified office of the Paying Agent in Luxembourg or the United States on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14. Notices

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such holders at their respective addresses as shown on the Register and (ii) so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, published in a daily newspaper of general circulation in Luxembourg approved by the Trustee, currently expected to be the *Luxemburger Wort*. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single series with the Notes, (i) the Issuer will enter into a fiduciary deposit agreement supplemental to the Fiduciary Deposit Agreement with the Fiduciary on substantially the same terms as the Fiduciary Deposit Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Deposit), (ii) the Fiduciary will enter into a loan agreement supplemental to

the Loan Agreement with VTB on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Loan) and (iii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or the Issuer will provide a further fixed charge in favour of the Trustee in respect of certain rights and interests under any further Fiduciary Deposit Agreement as so amended and will assign absolutely certain of its rights and interests under any further Fiduciary Deposit Agreement and any loan assignment as amended to secure amounts due on the Notes and such further Notes.

16. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. Governing Law

The Notes, the Agency Agreement and the Trust Deed are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England. The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “– Book-Entry Procedures for the Global Notes.” By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all relevant Dealers have so certified (the “distribution compliance period”), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “Transfer Restrictions.” Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See “– Book-Entry Procedures for the Global Notes.” By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See “Transfer Restrictions.”

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under “Transfer Restrictions.”

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “Definitive Notes”). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- *Payments.* Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

- *Notices.* So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).
- *Meetings.* The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.
- *Trustee's Powers.* In considering the interests of Noteholders whilst the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.
- *Redemption at the Option of Noteholders.* If a Put Option (as defined in the “Terms and Conditions of the Notes”) occurs, the Issuer must, upon becoming aware of the occurrence of a Change of Control, promptly give notice to the Noteholders in accordance with the “Terms and Conditions of the Notes” and the standard procedures of DTC, Euroclear and Clearstream, Luxembourg of such Change of Control. For so long as all of the Notes are represented by the Global Notes and such Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg and DTC, as applicable, such option of the Noteholders to require redemption of the Notes may be exercised by an accountholder (shown in the records of Euroclear and/or Clearstream, Luxembourg and DTC, as applicable, as the holder of Notes) giving notice to a Paying Agent in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC of the principal amount of the Notes in respect of which such option is to be exercised, not later than 30 days after the Issuer has given the notice of the Change of Control referred to above. Following presentation of the relevant Global Notes to the Principal Paying Agent for notation, the Issuer shall (subject to certain limitations on the obligation of payment of the Issuer in Condition 7) redeem the relevant proportion of each Global Note five business days after the expiration of the 30 day period detailed above and the Paying Agent will mark down the Global Notes in accordance with the terms of the Agency Agreement.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a “clearing agency” registered under the U.S. Securities Exchange Act of 1934 (the “Exchange Act”) or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for definitive Notes and the Issuer will, at the cost of VTB (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “Transfer Restrictions.”

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under “Transfer Restrictions,” or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “– Book Entry Ownership – Settlement and Transfer of Notes.”

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream,

Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“Direct Participants”) or indirectly (“Indirect Participants”) and together with Direct Participants, “Participants”) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “Exchange for Definitive Notes,” DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note representing Rule 144A Notes of any Series will have a CUSIP number and will be deposited with a custodian for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The

Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement ("SDFS") system in same-day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream,

Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisers.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated July 2, 2004 (the “Dealer Agreement”) between the Issuer, VTB, the Fiduciary, the Permanent Dealers and the Arrangers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer, the Fiduciary and VTB has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes and the corresponding Deposits and Loans have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or and (ii) otherwise until 40 days after completion of the distribution compliance period within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes offered and sold outside the United States may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealer(s) may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs and QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A, (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) they are not a participant-directed employee plan, such as 401(k) plan, (d) they are acting for their own account, or the account of one or more QIBs each of which is a QP, (e) they are not formed for the purpose of investing in the Issuer or the Notes, (f) each account for which they are purchasing will hold and transfer at least U.S.\$100,000 in principal amount of Notes at any time, and (g) they will provide notice of the transfer restrictions set forth in this offering circular to any subsequent transferees.

This Offering Circular has been prepared by the Issuer and VTB for use in connection with the offer and sale of the Notes outside the United States and the resale of the Notes in the United States and for the

listing of Notes on the Luxembourg Stock Exchange. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person other than any QIB who is also a QP and to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular by any non-U.S. person outside the United States or by any QIB/QP within the United States to any U.S. person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP, is prohibited.

United Kingdom

Each Dealer has represented, warranted and agreed that:

(i) in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date of the Notes will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

(ii) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;

(iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(iv) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the such Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each Dealer has represented, warranted and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except in compliance with Russian law. The Notes may not be sold or offered to or for the benefit of any person (including legal entities) that are resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except in compliance with Russian law.

Since no Russian issue prospectus has been registered or is intended to be registered with respect to the Notes, no person should at any time carry out any activities in breach of the restrictions set out above.

Luxembourg

Each Dealer has represented, warranted and agreed that no public offerings or sales of the Notes or any distribution of any offering material relating to any Series of Notes will or may be made to the public in or from Luxembourg, except for the Series of Notes in respect of which the requirements of Luxembourg law concerning public offerings of securities in or from Luxembourg have been fulfilled. A listing of any Series of Notes on the Luxembourg Stock Exchange does not necessarily imply that a public offering in or from Luxembourg has been authorised.

General

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which they offer, sell or deliver Notes or distribute this Offering Circular (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or VTB.

No action has or will be taken in any jurisdiction by the Issuer, VTB or any of the Dealers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Dealer has undertaken to the Issuer and VTB that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

These selling restrictions may be modified by the agreement of the Issuer, VTB and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

The Arrangers, the Dealers and their respective affiliates have engaged in transactions with VTB and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business and the Arrangers and the Dealers performed various investment banking, financial advisory, and other services for VTB, for which they received customary fees, and the Arrangers, the Dealers and their respective affiliates may provide such services in the future. In addition, Citibank, N.A. London and Deutsche Bank AG London Branch (“Deutsche Bank”) acted as mandated arrangers and lenders, some of the Dealers acted as lenders and Deutsche Bank acts as agent on a syndicated loan in the amount of U.S.\$240 million made to VTB in December 2002, which was extended and increased on December 5, 2003 for a total outstanding amount of U.S.\$382 million, some of the Arrangers and the Dealers acted as mandated arrangers and lenders and Deutsche Bank acts as agent on a syndicated loan in the amount of U.S.\$175 million made to VTB in September 2003, Citibank, N.A. London and HSBC acted as mandated lead arrangers, some of the Dealers acted as lenders and HSBC acts as agent on a syndicated loan in the amount of U.S.\$275 million made to VTB in June 2004.

TAXATION

The following is a general description of certain tax laws relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of every Series of Notes. Prospective purchasers of any Series of Notes are advised to consult their own tax advisors as to the consequences of the purchase, ownership and disposition of any Series of Notes in light of their particular circumstances, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of any Series of Notes.

Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of any Series of Notes as well as taxation of interest payments on any corresponding Loan. The summary is based on the laws of Russia in effect on the date of this Offering Circular. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia, nor does the summary seek to address the availability of double tax treaty relief in respect of any Series of Notes, or practical difficulties involved in claiming such double tax treaty relief.

Prospective investors should consult their own tax advisors regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and tax systems. For the purposes of this summary, a “non-resident Noteholder” means:

- an individual Noteholder present in Russia for an aggregate period of less than 183 days (excluding days of arrival into Russia but including days of departure from Russia) in a given calendar year; or
- a legal entity or organisation in each case not organised under Russian law which holds and disposes of the Notes otherwise than through a permanent establishment in Russia.

A resident Noteholder means any person (including any individual and any legal entity) not qualifying as a non-resident Noteholder.

The Russian tax treatment of interest payments made by VTB to the Fiduciary or to the Issuer or to the Trustee under each Facility or Fiduciary Deposit Agreement may affect the holders of the Notes. See “Taxation of Interest on the Loan” below.

Taxation of the Notes

Non-Resident Noteholders

A non-resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and principal on the Notes received from the Issuer.

A non-resident Noteholder also generally should not be subject to any Russian taxes in respect of any gain or other income realised on redemption, sale or other disposition of the Notes outside Russia, provided that the proceeds of such disposition are not received from a source within Russia.

In the event that proceeds from a disposition of Notes are received from a source within Russia, a non-resident Noteholder that is a legal entity or organisation should not be subject to Russian tax on any gain on sale or other disposition of the Notes, although there is some residual uncertainty regarding the treatment of the portion of the proceeds, if any, from disposition of the Notes that is attributable to accrued interest on the Notes. Subject to reduction or elimination under provisions of an applicable double tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 20%, even if the disposal results in a capital loss.

Subject to any available tax treaty relief, the receipt of proceeds by a non-resident individual from a source within Russia in respect of the gain from a disposition of the Notes is likely to be treated as

Russian-source income for personal income tax purposes and, as such, will be subject to Russian personal income tax at a rate of 30% on the gross proceeds received less any available cost deduction (including the original purchase price). In certain circumstances if the disposal proceeds are paid by a Russian legal entity or organisation, or by an individual entrepreneur located in Russia, the personal income tax at the rate of 30% may be withheld at source. If this tax is not withheld at source, then the non-resident individual may be liable to pay the tax. There is some uncertainty regarding the treatment of the portion of the proceeds, if any, from a disposition of the Notes that is attributable to accrued interest on the Notes. Subject to reduction or elimination under provisions of an applicable tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30%, even if the disposal results in a capital loss.

There is also a risk that any gain may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of disposition and roubles.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republic. These tax treaties may contain provisions that reduce or eliminate Russian tax due with respect to income received from a source within Russia by a non-resident Noteholder on a disposition of Notes. To obtain the benefit of such tax treaty provisions, the Noteholder must comply with the certification, information, and reporting requirements in force in Russia. Currently a Noteholder would need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country. In addition, an individual must provide appropriate documentary proof of income received and the tax payment made outside Russia on income with respect to which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, individuals in practice may not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, whilst obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

Non-resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received on a disposition of Notes.

Resident Noteholders

A resident Noteholder will be subject to all applicable Russian taxes in respect of gains from disposition of the Notes and interest received on the Notes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal entity are subject to Russian withholding tax at the rate of 20%, absent reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, VTB believes that payments of interest to the Fiduciary on each Loan should not be subject to withholding tax under the terms of the double tax treaty between Russia and Luxembourg. However, there can be no assurance that advance relief will be available.

If interest under a Loan becomes payable to the Issuer pursuant to a Loan Assignment, payments of interest on such an assigned Loan should not be subject to withholding tax under the terms of the double tax treaty between Russia and Luxembourg. If interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the double tax treaty between Russia and Luxembourg will cease and payments of interest may be subject to Russian withholding tax at the rate of 20%. In such cases, Noteholders may seek reduction of withholding tax under double taxation treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable.

For treaty relief from Russian withholding tax, preliminary approval from the Russian tax authorities is neither required nor possible. However, the Russian tax authorities may subsequently scrutinise the Issuer's or the Fiduciary's eligibility for treaty relief during tax audits.

If payments under any Loan are subject to any withholding of Russian tax (as a result of which the Issuer would reduce payments under the corresponding Series of Notes or the Fiduciary would reduce payments

under the corresponding Deposit, as the case may be, in the amount of such withholding), VTB is obliged (subject to certain conditions) to increase payments as may be necessary so that the net payments received by the Noteholders will be equal to the amounts they would have received in the absence of such withholding. It should be noted, however, that the tax gross-up provisions may not be enforceable under Russian law. In the event that VTB fails to make increased payments, such failure would constitute an Event of Default pursuant to the Loan Agreement. If VTB is obliged to increase payments, it may (without premium or penalty), subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes of the corresponding Series and the corresponding Deposit would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of redemption.

No value added tax will be payable in Russia in respect of interest and principal payments under each Loan.

Luxembourg

The following general summary is based upon the tax laws of Luxembourg as in effect on the date of this Offering Circular and is subject to any change that may come into effect after that date. Under the existing laws of Luxembourg:

- (a) All payments of interest and principal by the Issuer under the Notes will be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein to the extent that such interest has been negotiated at arm's length and is not profit participating;
- (b) A Noteholder who derives income from a Note or who realises a gain on the disposal or redemption of a Note will not be subject to Luxembourg taxation on income or capital gains unless:
 - (i) the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
 - (ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg;
- (c) Luxembourg net wealth tax will not be levied on a Noteholder unless:
 - (i) the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
 - (ii) such Note is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg;
- (d) Luxembourg gift or inheritance taxes will not be levied on the transfer of a Note by way of gift by, or on the death of, a Noteholder unless:
 - (i) the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
 - (ii) the transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of death or gift, is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
 - (iii) such Note is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg; or
 - (iv) the gift is registered in Luxembourg, which is not mandatory;
- (e) There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes or the performance of the Issuer's obligations under the Notes, except that in the case of court proceedings in a Luxembourg court or the presentation of the documents relating to the

Notes, other than the Notes, to an “autorité constituée,” such court or “autorité constituée” may require registration thereof, in which case the documents will be subject to registration duties depending on the nature of the documents and, in particular, a loan agreement, not represented by the Notes, will be subject to an ad valorem registration duty of 0.24% calculated on the amounts mentioned therein;

- (f) There is no Luxembourg value added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note, provided that Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services; and
- (g) A Noteholder will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of a Note or the execution, performance, delivery and/or enforcement of the Note.

EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Directive 2003/48/EC)

On June 3, 2003, the Council of the European Union adopted a directive on the taxation of savings income (Directive 2003/48/EC) (the “Directive”) under which each member state of the European Union (“Member State”) will generally be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to or for an individual (the “Beneficiary”) resident in that other Member State. Exceptionally (and for a transitional period only, which will end after agreement on exchange of information is reached between the European Union and certain non-European Union States), Belgium, Luxembourg and Austria will instead be required to impose a withholding tax (at a rate of 15% during the first three years from the date of application of the Directive, at a rate of 20% for the subsequent three years and at a rate of 35% thereafter) on such payments unless the Beneficiary authorises the person making the payment to report the payment or presents a certificate from the relevant tax authority establishing exemption therefrom. The Directive will, subject to certain conditions being satisfied, apply from a date not earlier than July 1, 2005. Noteholders should consult their own tax advisers regarding the implications of this Directive in their own particular circumstances.

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Pricing Supplement will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary deals only with purchasers of Notes that are U.S. Holders that will hold the Notes as capital assets and whose functional currency is the U.S. dollar. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes. Moreover, the summary deals only with Notes with a term of 30 years or less. The U.S. federal income tax consequences of owning Notes with a longer term will be discussed in the applicable Pricing Supplement.

As used herein, the term “U.S. Holder” means a beneficial owner of Notes that is a citizen or resident of the United States or a domestic corporation or that otherwise is subject to United States federal income taxation on a net income basis in respect of a Note.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Characterisation of the Notes

The following summary assumes that the Notes will be treated as indebtedness for U.S. federal income tax purposes.

Payments of Interest

Interest on a Note, whether payable in U.S. dollars or a currency other than U.S. dollars (a “foreign currency”), other than interest on a “Discount Note” that is not “qualified stated interest” (each as defined below under “– Original Issue Discount – General”), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes. Interest paid by the Issuer on the Notes and OID, if any, accrued with respect to the Notes (as described below under “Original Issue Discount”) generally will constitute income from sources outside the United States.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with original issue discount (“OID”). The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuer issues contingent payment debt instruments the applicable Pricing Supplement will describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a “Short-Term Note”), will be treated as issued with OID (a “Discount Note”) if the excess of the Note’s “stated redemption price at maturity” over its “issue price” is equal to or more than a de minimis amount (0.25% of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an “instalment obligation”) will be treated as a Discount Note if the excess of the Note’s stated redemption price at maturity over its issue price is greater than or equal to 0.25% of the Note’s stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note’s weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note’s stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest.” The term “qualified stated interest” generally means stated interest that is unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or, subject to certain conditions, at a variable rate based on one more interest indices.

U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note (“accrued OID”). The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment

of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. In the case of a Note that pays a variable rate of interest (a "Variable Interest Rate Note") and that is a Discount Note, both the "yield to maturity" and "qualified stated interest" will generally be determined for these purposes as though the Discount Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Note on its date of issue or in the case of certain Variable Interest Rate Notes, the rate that reflects the yield that is reasonably expected for the Note. (Additional rules may apply if interest on a Variable Interest Rate Note is based on more than one interest index.) The "adjusted issue price" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "acquisition premium") and that does not make the election described below under "Election to Treat All Interest as Original Issue Discount," is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note's adjusted issue price.

Market Discount

A Note, other than a Short-Term Note, purchased in the secondary market generally will be treated as purchased at a market discount (a "Market Discount Note") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's adjusted issue price, exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note's stated redemption price at maturity or adjusted issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an instalment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "de minimis market discount."

In general terms, market discount is accrued on a rateable basis, or, at the U.S. Holder's election, on a constant yield basis, but is not currently includible in taxable income. A constant yield election is irrevocable unless the IRS consents to a revocation. Upon disposition or maturity of a Market Discount Note, or upon receipt of a partial principal payment on a Market Discount Note that is an instalment obligation, any gain will be treated as ordinary income to the extent that the gain does not exceed the market discount that has accrued on the Note whilst held by such U.S. Holder. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently (on either a rateable or constant yield basis) over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under "Original Issue Discount – General," with certain modifications. For purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any

amortisable bond premium (described below under “Notes Purchased at a Premium”) or acquisition premium. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under “Market Discount” to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note’s stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder’s purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as “amortisable bond premium,” in which case the amount required to be included in the U.S. Holder’s income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note’s yield to maturity) to that year. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also “– Original Issue Discount – Election to Treat All Interest as Original Issue Discount.”

Purchase, Sale and Retirement of Notes

A U.S. Holder’s tax basis in a Note will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder’s income with respect to the Note (whether or not de minimis) and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note.

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. Except to the extent described above under “– Original Issue Discount – Market Discount” or “– Original Issue Discount – Short Term Notes” or attributable to accrued but unpaid interest or changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period in the Notes exceeds one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars. If a payment received in a foreign currency is not immediately converted into U.S. dollars, the later disposition of the foreign currency may give rise to further exchange gain or loss.

OID

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale of the Note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Market Discount

Market Discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Bond Premium

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond

premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a market loss when the Note matures.

Sale or Retirement

As discussed above under “– Purchase, Sale and Retirement of Notes,” a U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder’s tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder’s purchase price for the Note (or, if less, the principal amount of the Note) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to the U.S. dollar amount taken into account as interest or proceeds from sale or retirement of a Note. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

In general, payments of interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments and to accruals of OID if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Reportable Transactions

Recently issued U.S. Treasury regulations require a U.S. taxpayer that participates in a “reportable transaction” to disclose this participation to the IRS. The scope and application of these rules is not entirely clear. In the event the acquisition, holding or disposition of Notes constitutes participation in a “reportable transaction” for purposes of these rules, a U.S. Holder may be required to disclose its investment by filing Form 8886 with the IRS. In addition, the Issuer and its advisers may be required to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

CERTAIN ERISA CONSIDERATIONS

ERISA imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, “ERISA Plans”), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor “plan assets” regulation, 29 CFR Section 2510.3-101 (the “Plan Assets Regulation”) and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code (together with ERISA Plans, “Plans”)) and certain persons (referred to as “parties in interest” or “disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption applies to the transaction. In particular, an extension of credit between a Plan and a “party in interest” or “disqualified person” may constitute a prohibited transaction. It is possible that the Notes, even if regarded as equity for purposes of the Plan Assets Regulations (as discussed below) would nevertheless be regarded as debt for purposes of the prohibited transaction rules of ERISA and Section 4975 of the Code. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other liabilities under ERISA and the Code.

The Issuer, the Trustee or the Fiduciary, directly or through affiliates, may be considered a party in interest or disqualified person with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Notes are acquired by a Plan with respect to which the Issuer, the Trustee or the Fiduciary or any of their respective affiliates is a party in interest or a disqualified person, unless the Notes are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which that decision is made. However, Notes may not be acquired by any Plans as discussed below.

Under a “look-through rule” set forth in the Plan Assets Regulations, if a Plan invests in an “equity interest” of an entity and no other exception applies, the Plan’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets. This rule will only apply where equity participation in an entity by benefit plan investors is “significant.” Equity participation by benefit plan investors is significant if 25 per cent. or more of the value of any class of equity interest in the entity is held by benefit plan investors. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. The term “benefit plan investor” includes (a) an employee benefit plan (as defined in Section 3(3) of ERISA) whether or not subject to Title I of ERISA, (b) a plan described in Section 4975(e)(1) of the Code or (c) an entity whose underlying assets include “plan assets” by reason of any such plan’s investment in the entity. Where the value of an interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity.

Because the Notes do not represent an interest in any property of the Issuer other than the Deposit or Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the Loan or Deposit. Further, neither the Issuer nor the Fiduciary will be able to monitor the Noteholders’ possible status as benefit plan investors. Accordingly, the Notes should not be acquired by any benefit plan investor.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT A BENEFIT PLAN INVESTOR (AS DEFINED IN THE PLAN ASSETS REGULATIONS) AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH NOTE OR INTEREST TO ANY PERSON WITHOUT FIRST OBTAINING THESE SAME FOREGOING REPRESENTATIONS AND WARRANTIES FROM THAT PERSON.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby.

Rule 144A Notes

Each purchaser of a beneficial interest in the Rule 144A Notes, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) If it is a U.S. person within the meaning of Regulation S it is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.
- (2) It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.\$100,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book-entry depositories.
- (3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP or (b) to a non-U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States.
- (4) It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.
- (5) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not an employee benefit plan as described in Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), whether or not subject to the provisions of Title I of ERISA, a plan described in Section 4975(e)(1) of the Code, or an entity whose underlying assets include plan assets by reason of a plan's investment in the entity and (b) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.
- (6) It understands that the Rule 144A Global Note and any Definitive Notes issued in respect thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE DEPOSIT AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB") THAT IS A QUALIFIED PURCHASER ("QP")

WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$100,000 PRINCIPAL AMOUNT OF NOTES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”) IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (7) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILST IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND A QP THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE A BENEFIT PLAN INVESTOR (AS DEFINED IN 29 CFR SECTION 2510.3-101) AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THIS NOTE THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.

- (7) It acknowledges that the Issuer, the Fiduciary, VTB, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Fiduciary, VTB and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
- (8) It understands that Rule 144A Notes of a Series will be evidenced by a Rule 144A Global Note. Before any interest in a Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of a beneficial interest in the Regulation S Notes outside the United States, by accepting delivery of this Offering Circular and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Fiduciary, VTB or a person acting on behalf of such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that Regulation S Notes of a Series will be evidenced by a Regulation S Global Note. Before any interest in a Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (4) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period it holds such Notes or any interest therein (a) it is not an employee benefit plan as described in Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), whether or not subject to the provisions of Title I of ERISA, a plan described in Section 4975(e)(1) of the Code, or an entity whose underlying assets include plan assets by reason of a plan's investment in the entity and (b) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining these same foregoing representations and warranties from that person.
- (5) It acknowledges that the Issuer, the Fiduciary, VTB, the Registrar, the Dealer(s) and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, the Fiduciary, VTB, and the Dealer(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN IFRS AND U.S. GAAP

The financial information included in this offering circular has been prepared in accordance with IFRS. Whilst VTB and the Group select their accounting policies to minimise the number of differences between IFRS and U.S. GAAP, certain differences remain which might be material to the financial information presented in this offering circular.

The following sections summarise the major differences between IFRS and U.S. GAAP that management believes apply to the Group's consolidated financial information. The Group has not prepared a reconciliation of its consolidated financial information and related footnote disclosure between IFRS and U.S. GAAP and has not quantified such differences. Accordingly, no assurance is provided that the following summary of differences between IFRS and U.S. GAAP is complete. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and U.S. GAAP, and how these differences might affect the financial information in this offering circular.

IFRS is a relatively young, principles-based set of standards whilst U.S. GAAP is more mature, rules-based and contains more specificity and implementation guidance. IFRS does not yet address many of today's technical issues, but does point users to the more developed bases of accounting, such as U.S. GAAP, when an issue is not addressed by IFRS.

IFRS

Accounting framework

Historic cost, except that property, plant and equipment may be stated at estimated fair value and certain financial assets are stated at fair value.

The measurement currency for the Group has been determined as the U.S. dollar. Consequently, all transactions are measured in U.S. dollars and the financial statements presented in U.S. dollars.

Property, plant and equipment

Assets may be revalued to fair value, which is market value or depreciated replacement cost. Any surplus arising on the revaluation is taken directly to a revaluation reserve within equity except to the extent that the surplus reversed a previous revaluation deficit on the same asset charged to the statement of operations, in which case the credit to the extent is recognised in the statement of operations. Any deficit of revaluation is charged to the statement of operations except that it reverses a previous revaluation surplus on the same asset, in which case it is taken directly to the revaluation reserve.

If an asset is revalued, then all property, plant and equipment of the same class must be revalued and these revaluations must be kept up to date. Depreciation on a revalued asset is based upon its revalued amount, as are gains and losses on disposal.

The revaluation surplus may be transferred directly to retained earnings as the surplus is realised through depreciation and ultimate disposal.

U.S. GAAP

Historic cost, except that certain financial assets and investments are stated at fair value.

Uses the concept of a functional currency and re-measurement of the underlying transactions into this functional currency. Consequently, if the functional currency is the U.S. dollar, the end result is similar to that resulting from the use of the U.S. dollar as the measurement currency under IFRS.

Revaluation above historical cost is not permitted except in connection with purchase or sale of a business or a significant assets.

IFRS

Depreciation and amortisation

The depreciable amount of an item of property, plant and equipment must be expensed on a systematic basis over its useful life, reflecting the pattern in which each individual asset's benefits are consumed by the entity. Any changes in the depreciation method used are treated as a change in accounting estimates and reflected in the depreciation charge for current and prospective periods.

Comprehensive income

Does not require disclosure of comprehensive income.

Definition of a subsidiary

Focuses on the legal power to control in determining whether a parent/subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Subsidiaries are consolidated from the date on which effective control is transferred and are no longer consolidated from the date control ceases. In the absence of special shareholder and management agreements, the result is similar to U.S. GAAP.

Goodwill

Capitalise and amortise over its useful life, there is a rebuttable presumption that the useful life of goodwill does not exceed 20 years.

Negative goodwill relating to expected future losses or expenses identified in the acquirer's plan for the acquisition must be recognised in the statements of operations when those losses/expenses occur. Otherwise negative goodwill not exceeding the fair value of acquired identifiable, non-monetary assets must be recognised in the statement of operations on a systematic basis over the useful lives of such assets. Where negative goodwill exceeds the fair value of non-monetary assets it must be immediately recognised in the statement of operations.

U.S. GAAP

Similar to IFRS, except that U.S. GAAP classifies a change in the depreciation method as a change in accounting policy. The cumulative effect of the change is then reflected in the current year's statement of operations.

Requires disclosure of comprehensive income, which is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distribution to owners. Translation, unrealised gains and losses of qualified hedges and certain other transactions are elements of comprehensive income.

For a reporting period prior to December 15, 2003, "subsidiary" refers to a corporation that is controlled, directly or indirectly, by another corporation. The usual condition for control is ownership of the majority (over 50%) of the outstanding voting stock. However, the power to control may also exist with a lesser ownership percentage, for example by virtue of a contract, lease, agreement with other stockholders or a court decree.

For a reporting period after December 15, 2003, focuses on a controlling financial interest through ownership of a majority voting interest in an entity's equity. Also, variable interest entities in which a parent does not have voting control but absorbs the majority of losses or returns must be consolidated.

For reporting periods beginning on or after 15 December 2001, goodwill should not be amortised but should be tested annually for impairment. For prior periods, goodwill was required to be capitalised and amortised over periods not exceeding 40 years.

Negative goodwill is treated in a similar manner to IFRS except that the provision for expected future losses is not allowable as part of the fair value exercise for the purposes of determining goodwill under U.S. GAAP.

IFRS

Taxation

Current and deferred taxes are measured based on tax laws and rates that have been enacted or substantively enacted by the balance sheet date. In some jurisdictions announcements of tax rates have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced rates.

Deferred taxes

Deferred tax assets are recognised when it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. The carrying value of deferred tax assets are reviewed at each balance sheet date and reduced if appropriate.

A temporary difference arises when a foreign currency non-monetary asset is translated into the measurement currency at historical rates because changes in exchange rates change the tax base of the asset. A deferred tax asset or liability is calculated and recognised for this difference.

Segment reporting

Report primary and secondary (business and geographic) segments based on risk and returns.

Related parties

There is no specific requirement to disclose the name of the related party or the amounts involved in a transaction. Disclosure of pricing policy' is required along with the elements of transactions necessary for an understanding of the financial statements.

U.S. GAAP

Current and deferred taxes are measured using enacted tax laws and rates.

Similar to IFRS but recognise all deferred tax assets and provide a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realised.

Prohibits the recognition of a deferred tax asset or liability on differences related to assets or liabilities that are re-measured from the local currency into the reporting currency using historical exchange rates and that result from changes in exchange rates.

Report based on primary decision maker's use of information to manage and monitor the operations of the business. Operating segments are those business activities for which discrete information is available, and whose operating results are regularly reviewed by the primary decision maker in determining resource allocation and assessing performance.

Transactions involving related parties cannot be presumed to be carried out on an arm's length basis because the requisite conditions of competitive free market dealing may not exist. U.S. GAAP requires the disclosure of any changes in the method of establishing terms' for related party transactions and the resulting effect on the financial statements. In addition disclosure of the nature of the relationship, a description of the transaction, the amounts for each period, and the amounts due to or from related parties is required. Similar to IFRS there is no specific requirements to disclose names of related parties.

IFRS

Business combinations

Business combinations can be accounted for in the form of either an acquisition (purchase method) or a uniting of interest (pooling of interest). However, the use of the uniting of interest method is restricted.

The acquisition date is the date on which the acquirer obtains control over the acquired entity.

Retirement benefits obligations

The present value of long-term employee benefits (namely defined benefit pension plans) are determined using the project unit credit method.

The rate at which the obligation is discounted is that of high quality corporate or government bonds that have similar maturities to the obligations.

Plan assets are valued using market prices and are hence stated at fair value.

Regular (not defined) actuarial valuations are required of obligations and assets.

Any systematic method of recognising actuarial (or experience) gains/losses is permitted.

If the net effect of the actuarial calculations and asset valuations is an overall asset, then the asset to be recognised is further reduced to the present value of available contribution reductions or refunds plus unrecognised actuarial gains/losses and unrecognised past service costs.

U.S. GAAP

All business combinations initiated after 30 June 2001 are acquisitions and accounted for using the purchase method. Before 30 June 2001, business combinations were accounted for using either the purchase method or the pooling of interest method.

The exception to the above are transactions between entities under common control, for example the transfer of business/entities between sub-groups of the same ultimate parent, for which the pooling of interest methodology is used.

The date of acquisitions is the date on which assets are received or securities are issued.

Similar results to those of IFRS are obtained under U.S. GAAP for most benefit plans using the benefit/year-of-service method.

This discount rate should be based on the rate at which the obligation could be settled.

Generally similar asset valuation techniques are used, but market-related value calculations are permitted that recognise changes in value over a five year period.

Annual actuarial valuations are required of obligations and assets.

Actuarial (or experience) gains/losses greater than a 10% corridor amount are amortised over the average remaining service life of the employees concerned.

There is no explicit limitation on the recognition of net (pension) assets.

IFRS

Financial assets

All financial instruments (not just securities) are classified as one of the following for the purposes of measurement:

trading assets;

held-to-maturity assets;

originated loans or receivables,

available-for-sale assets; or,

other liabilities

Originated loans and receivables should be carried at amortised cost using the effective interest rate method. All other financial assets are carried at fair value.

Changes in the fair value of available-for-sale assets can be accounted for through the statement of operations or recognised directly in equity.

Guarantees

Guarantees are recognised as part of provisions and should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the guarantee is related to a derivative financial instrument, the obligation should be measured at fair value, with changes in fair value recognised in the income statement or equity based on whether the derivative is a qualifying or non-qualifying hedge instrument.

U.S. GAAP

Financial assets are considered to be only securities and are generally grouped into the following categories for measurement:

trading securities;

held-to-maturity debt securities; or,

available-for-sale securities.

All debt instruments that are not securities, and all equity securities that are not marketable are usually carried at (amortised) cost. All other financial assets are carried at fair value.

Changes in the fair value of available-for-sale assets, including that element due to exchange rate differences, are reported as a net amount in other comprehensive income (i.e. equity).

Decision of impairment of investments only for other than temporary.

Upon issuance of a guarantee, the guarantor must recognise a liability for the fair value of the obligation it assumes under the guarantee. The fair value of guarantees may be represented by transactions for similar guarantees on a stand-alone basis or part of bundled transactions or the present value of future expected economic outflows. Subsequent to its initial recognition, the liability for a guarantee should not continue to be measured at its fair value but amortised into earnings through a systemic method over the term of the guarantee or released at the expiration of obligation based on the terms of the obligation. Specific requirements exist for product warranties including a tabular reconciliation of the warranty liability for each period and a number of relationships have been excluded for treatments as guarantees including employee vacation, pension obligations, deferred compensation contracts and stock, residual value guarantees for capital leases, contingent rent, vendor rebates and guarantees between various member companies of a larger consolidated group.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below.

Pricing Supplement dated [●]

JSC VNESHTORGBANK

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]
by VTB Capital S.A., a société anonyme, having its registered office at 2, boulevard Konrad Adenauer,
L-1115 Luxembourg, registered with the Luxembourg register of commerce and companies under number
B-97.053, for the purpose of financing deposits with Deutsche Bank Luxembourg S.A.
for the purpose of financing a Loan to JSC VNESHTORGBANK (“**VTB**”)
under a U.S.\$2,000,000,000 Programme for the Issuance of Loan Participation Notes

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [●] 2004 [and the supplemental Offering Circular dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented].

[The following alternative language applies if the first Series of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated [●] 2004. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the supplemental Offering Circular dated [●] 2004], save in respect of the Conditions which are extracted from the Offering Circular dated [●] 2004 and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (n/a). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

- | | | |
|----|--|---|
| 1. | (i) Issuer: | VTB Capital S.A. |
| | (ii) Fiduciary | Deutsche Bank Luxembourg S.A. |
| 2. | Series Number: | [●] |
| | [(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.) | [●]] |
| 3. | Specified Currency: | [●] |
| 4. | Aggregate Principal Amount: | [●] |
| 5. | (i) Issue Price: | [●] per cent. of the Aggregate Principal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| | (ii) [Net proceeds: | [●] (Required only for listed issues)] |
| 6. | Specified Denominations: | [●] ¹ |
| | | [●] |
| 7. | (i) Issue Date: | [●] |
| | (ii) Interest Commencement Date: | [●] |

¹ Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

8. Maturity Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
9. Interest Basis: ☐ per cent. Fixed Rate]
[Floating Rate]
(further particulars specified below)
10. Redemption/Payment Basis: Redemption at par
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12. Status and Form of the Notes: Senior, Registered
13. Listing: [Luxembourg/Other
(specify)/None]
14. Method of distribution: [Syndicated/Non-syndicated]
15. Financial Centres (Condition 7): ☐
16. Deposit: ☐

**PROVISIONS RELATING TO INTEREST PAYABLE
UNDER THE DEPOSIT AND THE LOAN**

17. Fixed Rate Note Provisions: *[Applicable/Not Applicable] (if not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate [(s)] of Interest: ☐ per cent. per annum payable
[annually/semi-annually] in arrear
- (ii) Interest Payment Date(s): ☐ in each year *[adjusted in accordance with specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted]*
- (iii) Fixed Coupon Amount [(s)]: ☐ per ☐ in principal amount
- (iv) Broken Amount: *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate]*
- (v) Day Count Fraction (Condition 5): ☐
(Day count fraction should be Actual/Actual-ISMA for all fixed rate issues other than those denominated in U.S. dollars, unless the client requests otherwise)
- (vi) Determination Date(s) (Condition 5): ☐ in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]***
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
18. Floating Rate Note Provisions: *[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): ☐
- (ii) Specified Interest Payment Dates: ☐

** Only to be completed for an issue where Day Count Fraction is Actual/Actual-ISMA

- | | |
|---|--|
| (iii) Business Day Convention: | [Floating Rate Business Day Convention/
Following Business Day Convention/Modified
Following Business Day Convention/
Preceding Business Day/Convention/other
(<i>give details</i>)] |
| (iv) Business Centre(s): | [●] |
| (v) Manner in which the Rate(s) of Interest is/
are to be determined: | [Screen Rate Determination/ISDA
Determination/other (<i>give details</i>)] |
| (vi) Interest Period Date(s): | [Not Applicable/ <i>specify dates</i>] |
| (vii) Party responsible for calculating the Rate(s)
of Interest and Interest Amount(s) (if not
the Calculation Agent): | [●] |
| (viii) Screen Rate Determination: | As set out in the attached Fiduciary Deposit
Supplement and Loan Supplement |
| (ix) ISDA Determination: | As set out in the attached Fiduciary Deposit
Supplement and Loan Supplement |
| (x) Margin(s): | [+/-] [●] per cent. per annum |
| (xi) Minimum Rate of Interest: | [●] per cent. per annum |
| (xii) Maximum Rate of Interest: | [●] per cent. per annum |
| (xiii) Day Count Fraction (Condition 5): | [●] |
| (xiv) Rate Multiplier: | [●] |
| (xv) Fall back provisions, rounding provisions,
denominator and any other terms relating to
the method of calculating interest on Floating
Rate Loans, if different from those set out in
the Conditions: | [●] |

PROVISIONS RELATING TO REDEMPTION

- | | |
|--|--|
| 19. Final Redemption Amount of each Note: | [[●] per Note of [●] specified denomination/
Other] |
| 20. Early Redemption Amount(s) of each Note
payable if the Loan should become repayable
under the Loan Agreement prior to the
Maturity Date: | [Principal amount/Other] |

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- | | |
|--|--|
| 21. Other terms or special conditions: ¹ | [Not Applicable/ <i>give details</i>] |
|--|--|

DISTRIBUTION

- | | |
|--|--|
| 22. (i) If syndicated, names of Managers: | [Not Applicable/ <i>give names</i>] |
| (ii) Stabilising Agent (if any): | [Not Applicable/ <i>give name</i>] |
| (iii) Dealer's Commission: | [●] |
| 23. If non-syndicated, name of Dealer: | [Not Applicable/ <i>give name</i>] |
| 24. Additional selling restrictions: | [Not Applicable/ <i>give details</i>] |

OPERATIONAL INFORMATION

- | | |
|---|--|
| 25. ISIN Code: | [●] |
| 26. Common Code: | [●] |
| 27. Any clearing system(s) other than Euroclear
and Clearstream, Luxembourg and the relevant
identification number(s): | [Not Applicable/ <i>give name(s) and number(s)</i>] |
| 28. The Agents appointed in respect of the Notes are: | [●] |

GENERAL

29. Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 10: [Not Applicable/*give details*]
30. The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [●], producing a sum of (for Notes not denominated in U.S. dollars): [Not Applicable/U.S.\$[●]]

[LISTING APPLICATION]

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$2,000,000,000 Programme for the Issuance of Loan Participation Notes of VTB Capital S.A. for the purpose of financing fiduciary deposits with Deutsche Bank Luxembourg S.A. for the purpose of financing loans to VTB.]

[STABILISING]

In connection with this issue, [*insert name of Stabilising Agent*] (the “Stabilising Agent”) or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.]

[MATERIAL ADVERSE CHANGE STATEMENT]

[Except as disclosed in this document, there/There]² has been no significant change in the financial or trading position of the Issuer, VTB or of the Group since [*insert date of last audited accounts or interim accounts (if later)*] and no material adverse change in the financial position or prospects of the Issuer, VTB or of the Group since [*insert date of last published annual accounts.*]

RESPONSIBILITY

VTB accepts responsibility for the information contained in this Pricing Supplement other than in respect of the Issuer and the Fiduciary, for which the Issuer and the Fiduciary accept responsibility respectively, which, when read together with the Offering Circular [and the supplemental Offering Circular] referred to above, contains all information that is material in the context of the issue of the Notes.

1. If full terms and conditions are to be used, please add the following here:

“The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary.”

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the pricing supplement.

2. If any change is disclosed in the Pricing Supplement, it will require approval by the Stock Exchanges. Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.

[THE FINAL FORM OF FIDUCIARY DEPOSIT SUPPLEMENT AND LOAN SUPPLEMENT WILL BE ATTACHED]

GENERAL INFORMATION

- (1) VTB, the Fiduciary and the Issuer have obtained or will obtain all necessary consents, approvals and authorisations in Russia and Luxembourg in connection with any Loan, any Deposit and the issue and performance of the corresponding Series of Notes. The establishment of the Programme was authorised by Board of Directors of the Issuer on November 19, 2003 and the update of the Programme was authorised by the Board of Directors of the Issuer on June 25, 2004 and September 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 and September 21, 2004.
- (2) In connection with the application to list the Notes issued under the Programme on the Luxembourg Stock Exchange, a legal notice relating to the issue of the Notes and copies of the Articles of Incorporation of the Issuer and the charter of VTB will be deposited with the Register of Commerce and Companies in Luxembourg where such documents may be examined and copies obtained upon request.
- (3) The Luxembourg Stock Exchange has allocated the number 12953 to the Programme for listing purposes.
- (4) No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of Luxembourg for the maintaining of any Deposit or for the issue and performance of the corresponding Series of Notes.
- (5) Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position or prospects of VTB or the Group since March 31, 2004 and no material adverse change in the financial or trading position or prospects of VTB or the Group since December 31, 2003. Except as disclosed in this Offering Circular, there has been no significant change and/or material adverse change in the financial or trading position or prospects of the Issuer since November 12, 2003.
- (6) Neither VTB nor any of its subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Notes nor, so far as VTB is aware, is any such litigation or arbitration pending or threatened.
- (7) For so long as any Series of Notes is outstanding, copies (and English translations where the documents in question are not in English) of the following documents may be obtained free of charge at the specified offices of the Trustee and the Paying Agent in Luxembourg during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
 - the latest annual report and consolidated audited annual financial statements of the Group prepared in accordance with IFRS (published annually);
 - the latest interim consolidated unaudited financial statements of the Group prepared in accordance with IFRS (until 2003, VTB prepared and published audited semi-annual financial statements and starting in 2004 began preparing and publishing unaudited quarterly financial statements);
 - the latest unconsolidated audited annual financial statements of VTB prepared in accordance with RAR (published annually);
 - the latest interim unconsolidated unaudited financial statements of VTB prepared in accordance with RAR (prepared and published quarterly);

and copies of the following documents will be available for inspection at the specified offices of the Trustee and the Paying Agent in Luxembourg during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the Trust Deed in respect of the Notes (including the forms of the Global Notes and definitive Notes);
- the Agency Agreement;

- each Fiduciary Deposit Agreement; and
- each Loan Agreement.

The Group and VTB do not prepare financial statements in accordance with U.S. GAAP.

- (8) The Fiduciary is a 100% group subsidiary of Deutsche Bank AG, whose principal office is located in Taunusanlage 12, D-60262, Frankfurt am Main, Germany. The Fiduciary was incorporated in the Grand Duchy of Luxembourg as a société anonyme with unlimited duration on August 12, 1970, under the laws of Luxembourg and under the name Compagnie Financière de la Deutsche Bank S.A. The Fiduciary's business objectives, in accordance with its Articles of Association, are to transact banking and financial business for its own account and for the account of third parties and all activities directly or indirectly connected thereto.

The registered office of the Fiduciary is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg. The Fiduciary is registered with the Register of Commerce and Companies of Luxembourg under number B-9164. The share capital of the Fiduciary amounts to €215 million and is divided into 860,000 shares. The share capital is fully paid up.

The Fiduciary's current Board of Directors is as follows:

<u>Name</u>	<u>Principal activity (if any) of significance to the Fiduciary</u>
Dr. Tessen von Heydebreck	Chairman, Member of the Board of Managing Directors and Member of the Group Executive Committee of Deutsche Bank AG
Ernst Wilhelm Contzen	Chief Executive Officer of Deutsche Bank Luxembourg S.A.
Werner Helmut Steinmueller	Chief Operating Officer of CIB – Global Banking Division of Deutsche Bank AG
Detlef Bindert	Group Treasurer of Deutsche Bank AG
Bruno Meier	Global Chief Operating Officer, Private Wealth Management Division and Chief Executive Officer of Deutsche Bank (Suisse) S.A.

The business address of the Fiduciary is 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

- (9) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Pricing Supplement. In addition, application may be made to have Rule 144A Notes designated as eligible for trading on PORTAL.
- (10) The European Union Transparency Obligations Directive is currently being finalised and may be implemented in Luxembourg in a manner that is unduly burdensome for the Issuer and for VTB. In such circumstances the Issuer and/or VTB may, subject to the provisions of the Trust Deed, decide to seek an alternative listing for the Notes outside the European Union.
- (11) According to chapter VI, article 3, point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange, no transaction made on the Luxembourg Stock Exchange shall be cancelled.

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Report of Independent Auditors

To the Board of Directors and Shareholders of the Bank for Foreign Trade:

We have audited the accompanying consolidated balance sheet of the Bank for Foreign Trade (“the Bank”) and its subsidiaries (together “the Group”) as of 31 December 2003, and the related consolidated statements of income, cash flows, and changes in shareholders’ equity for the year then ended. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Group as of and for the years ended 31 December 2002 and 2001, were audited by other auditors whose reports dated 18 April 2003 and 30 April 2002, respectively, expressed an unqualified opinion.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank for Foreign Trade and its subsidiaries at 31 December 2003, and the consolidated results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards as published by the International Accounting Standard Board.

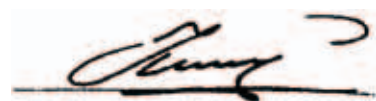
Ernst & Young (CIS) Limited

7 May 2004

Bank for Foreign Trade
Consolidated Balance Sheets as at December 31,
(expressed in millions of US dollars)

	Note	2003	2002	2001
Assets				
Cash and short term funds	5	1,030	643	628
Mandatory cash balances with local central banks		382	211	153
Trading securities	6	1,270	921	233
Due from other banks	7	1,895	1,246	574
Loans and advances to customers, net	8	4,795	3,016	2,198
Investment securities available for sale	9	1,174	961	1,987
Investment securities held to maturity		7	–	–
Accrued interest income and other assets	10	330	144	237
Premises and equipment	11	262	130	118
Deferred tax asset	23	83	–	–
Total assets		11,228	7,272	6,128
Liabilities				
Due to other banks	12	1,812	1,285	597
Customer accounts	13	4,259	2,437	1,783
Other borrowed funds	14	707	694	1,361
Debt securities in issue	15	1,738	460	365
Accrued interest expense and other liabilities	16	222	175	49
Deferred tax liability	23	12	27	88
Total liabilities		8,750	5,078	4,243
Minority interest	17	105	76	50
Shareholders' equity				
Share capital	18	2,153	2,153	2,153
Share premium		34	34	34
Retained earnings (accumulated deficit)		186	(69)	(352)
Total shareholders' equity		2,373	2,118	1,835
Total liabilities, minority interest and shareholders' equity ..		11,228	7,272	6,128

Approved for issue by the Management Board and signed on its behalf on 7 May 2004



A.L. Kostin
Chairman and Chief Executive Officer



O.A. Avdeeva
Chief Accountant

The notes set out on pages F-7 to F-47 form an integral part of these consolidated financial statements.

Bank for Foreign Trade
Consolidated Statements of Income for the years ended December 31,
(expressed in millions of US dollars)

	Note	2003	2002	2001
Interest income	19	665	530	437
Interest expense	19	(345)	(182)	(149)
Net interest income		320	348	288
(Provision for) release of provision for loan impairment ...	7,8	(78)	36	(207)
Net interest income after provision for loan impairment ...		242	384	81
Gains less losses arising from investment securities available for sale		105	168	320
Gains less losses arising from trading securities		105	36	116
Gains less losses arising from dealing in foreign currencies .		34	17	15
Gains less losses from derivative financial instruments	27	24	7	86
Foreign exchange translation gains less losses		22	(23)	(17)
Fee and commission income	20	74	44	37
Fee and commission expense	20	(6)	(6)	(6)
Provision for losses on credit related commitments	27	–	–	(3)
Other operating income	21	61	20	26
Operating income		661	647	655
Operating expenses	22	(391)	(263)	(159)
Profit before taxation		270	384	496
Income tax benefit (expense)	23	17	(106)	(170)
Profit after taxation		287	278	326
Minority interest	17	(23)	(17)	(16)
Net profit		264	261	310

The notes set out on pages F-7 to F-47 form an integral part of these consolidated financial statements.

Bank for Foreign Trade**Consolidated Statements of Cash Flows for the Years ended December 31, 2003, 2002 and 2001***(expressed in millions of US dollars)*

	Note	2003	2002	2001
Cash flows from operating activities				
Interest received		650	543	434
Interest paid		(289)	(166)	(143)
Income received on operations with securities		421	244	50
Income received on dealing in foreign currency		39	19	17
Fees and commissions received		74	44	37
Fees and commissions paid		(6)	(6)	(6)
Other operating income received		44	18	21
Operating expenses paid		(366)	(239)	(154)
Income tax paid		(119)	(121)	(100)
Operating profit before changes in operating assets and liabilities .		448	336	156
Net cash decrease (increase) in operating assets				
Net (increase) decrease in mandatory cash balances with local central banks		(146)	(58)	22
Net decrease (increase) in restricted cash		69	(17)	96
Net (increase) decrease in trading securities		(393)	(688)	201
Net (increase) decrease in due from banks		(585)	(614)	29
Net increase in loans and advances to customers		(1,734)	(837)	(1,417)
Net (increase) decrease in other assets		(60)	77	(20)
Net cash (decrease) increase in operating liabilities				
Net increase (decrease) in due to banks		443	667	(14)
Net increase in customer accounts		1,659	654	478
Net increase (decrease) in debt securities in issue		820	99	(140)
Net increase in other liabilities		11	74	17
Net cash provided by operating activities		532	(307)	(592)
Cash flows from investing activities				
Purchase of subsidiaries		(40)	(13)	(51)
Disposal of subsidiaries		(1)	—	—
Disposal of investments		—	1	3
Cash inflow from dividends		2	—	—
Proceeds from sales or maturities of investment securities available for sale		322	1,458	—
Purchase of investment securities available for sale		(641)	(388)	(198)
Purchase of investment securities held to maturity		(7)	—	—
Purchase of premises and equipment		(99)	(43)	(13)
Proceeds from disposal of premises and equipment		2	1	—
Net cash used in investing activities		(462)	1,016	(259)
Cash flows from financing activities				
Increase in Central Bank of the Russian Federation funding		—	1,096	1,014
Decrease in Central Bank of the Russian Federation funding		(380)	(2,002)	—
Increase in other borrowed funds		144	65	74
Decrease in other borrowed funds		(86)	(51)	(10)
Issue of debentures		66	24	—
Redemption of debentures		—	(32)	—
Dividends paid		(53)	(20)	—
Proceeds from issue of Eurobonds		300	—	—
Proceeds from syndicated loan		455	225	—
Repayment of syndicated loan		(120)	—	—
Net cash provided by (used in) financing activities		326	(695)	1,078
Effect of exchange rate changes on cash and cash equivalents		46	(16)	(7)
Net increase (decrease) in cash and cash equivalents		442	(2)	220
Cash and cash equivalents at beginning of the year	5	487	489	269
Cash and cash equivalents at the end of the period	5	929	487	489

The notes set out on pages F-7 to F-47 form an integral part of these consolidated financial statements.

Bank for Foreign Trade
Consolidated Statements of Changes in Shareholders' Equity for the Years ended December 31, 2003,
2002 and 2001
(expressed in millions of US dollars)

	<u>Share capital</u>	<u>Share premium</u>	<u>Retained earnings (Accumulated deficit)</u>	<u>Total shareholders' equity</u>
Balance at 1 January 2001	2,153	34	(697)	1,490
Profit for the period	—	—	310	310
Other movements	—	—	35	35
Balance at 31 December 2001	2,153	34	(352)	1,835
Profit for the period	—	—	261	261
Dividends declared and paid	—	—	(20)	(20)
Other movements	—	—	42	42
Balance at 31 December 2002	2,153	34	(69)	2,118
Profit for the period	—	—	264	264
Dividends declared (Note 24)	—	—	(53)	(53)
Other movements	—	—	44	44
Balance as at 31 December 2003	2,153	34	186	2,373

The notes set out on pages F-7 to F-47 form an integral part of these consolidated financial statements.

Bank for Foreign Trade

Notes to the Consolidated Financial Statements – December 31, 2003

(expressed in millions of US dollars)

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 that the Group controls.

The Bank for Foreign Trade, more commonly known as Vneshtorgbank (the “Bank”, “Vneshtorgbank”, or “VTB”), is an open joint-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 is the second largest bank in Russia in terms of both capital and total assets. 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 30.

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 43 branches, 76 sub-branches and 39 outlets, located in Moscow and all major Russian regions.

The number of employees of the Group at 31 December 2003 was 6,892 (31 December 2002: 5,840, 31 December 2001: 4,750).

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 November 29, 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 millions 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

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 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.

4 Significant Accounting Policies

Principles of Consolidation

Subsidiaries are those companies and other entities in which the Group owns, either directly or indirectly, more than 50% of the voting rights of a company’s share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are removed from consolidation from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued, or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of an acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. The purchases of subsidiaries from the major shareholder have been accounted for under the uniting of interest method as the transactions are between two entities under common control.

Intercompany transactions, balances, and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded separately from liabilities and shareholders’ equity and is affected by the foreign currency translation adjustment applicable to the minority shareholders’ interest in the subsidiary. Minority interest related to operational results of the current period is recorded in the consolidated statement of income.

The line “Other movements” in the consolidated statement of changes in shareholders’ equity includes the translation effect on equity, which arises for those subsidiaries whose measurement currency differs

from the reporting currency of the Group (the US dollar), and other movements due to the acquisition and consolidation of certain subsidiaries.

Associates. Associates are entities over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves, which is not recognised in the consolidated statements of income, is recognised directly in equity. The cumulative post-acquisition movements are adjusted against the cost of the investments. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associate.

Cash and short-term funds. 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.

Mandatory cash balances with local Central banks. Mandatory cash balances with local Central banks represent mandatory reserve deposits which are not available to finance the Group's day to day operations and are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities as trading securities if it has the intention to sell them within one year after purchase.

Trading securities are initially recognised at cost (which includes transaction costs) and subsequently remeasured at their estimated fair value. In determining fair value, all trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

All related realised and unrealised gains and losses are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period in which the change occurs. Interest earned on trading securities is reflected in the consolidated statement of income as interest income on securities. Dividends received are included within other operating income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at the trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in trading securities or investment securities available for sale as appropriate. The corresponding liability is presented within due to other banks or other borrowed funds. Securities purchased under agreements to resell ("reverse repo") are recorded as due from other banks or loans and advances to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties continue to be recognised in the consolidated financial statements. Securities borrowed are not recognised in the consolidated financial statements, unless they are sold to third parties, in which case the results of purchase and sale are recorded within gains less losses arising

from trading securities in the consolidated statement of income. The obligation to return the securities is recorded at fair value as a trading liability.

Originated loans and advances and allowances for loan impairment. Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recognised when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less allowance for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at the origination date.

A credit risk allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to the original contractual terms. The amount of the allowance is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in homogeneous components of the loan portfolio at the balance sheet date. These losses have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers, and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

If the amount of the allowance for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the provision for loan impairment in the consolidated statement of income.

Loans held for sale

Loans are designated as held for sale when the Bank has a positive intent to sell them. Loans held for sale are carried at the lower of cost or market value. Interest income with respect to loans held for sale is accrued on the principal amount outstanding.

Leases

- **Finance – Group as lessor.** The Group presents leased assets as lease receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognised as expenses when incurred.
- **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 lease are recognised as expenses on a straight-line basis over the lease-term and included into operating expenses.

Other credit related commitments. In the normal course of business, the Group enters into other credit related commitments including letters of credit, commitments to extend credit, and guarantees. Specific allowances are recorded against other credit related commitments when losses are considered probable.

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

Investment securities available for sale. This classification includes investment securities which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices. Management determines the appropriate classification of its securities at the time of purchase.

Investment securities available for sale are initially recognised at cost (which includes transaction costs) and are subsequently remeasured to fair value based at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price, or fair value as estimated by Management. Certain investments available for sale for which there is no available independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Realised and unrealised gains and losses arising from changes in the value of investment securities available for sale are included in the consolidated statement of income in the period in which they arise. Interest earned on investment securities available for sale are reflected in the consolidated statement of income as interest income on securities. Dividends received are included within other operating income.

All regular way purchases and sales of investment securities available for sale are recognised at the trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

Investment securities held to maturity. This classification includes investment securities which Management intends to hold to maturity. Initially, investment securities held to maturity are recorded at cost (which includes transaction costs), which is the fair value of the consideration given, and subsequently are carried at amortised cost less allowance for impairment, if any. Amortised cost is based on the fair value of expected future cash inflows discounted at the market rate on acquisition. The difference between cost and amortised cost is recorded in the consolidated statement of income as interest income from securities.

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

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 movements in the fair values of the premises and equipment being revalued.

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.

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.

Goodwill. The excess of the cost of an acquisition over the Bank's interest in the fair value of the net identifiable assets acquired at the date of the transaction is recorded as goodwill and recognised as an asset in the consolidated balance sheet. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over its useful life, which has been estimated as being 10 years. Goodwill net of amortisation is included within other assets; amortisation of goodwill is included in operating expenses of the consolidated income statement.

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

	<u>Useful life</u>	<u>Depreciation rates</u>
Premises	40 years	2.5% per annum
Equipment.....	4 – 20 years	5 – 25% per annum

Borrowings. Borrowings are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the borrowings 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 recognised as gain or loss arising from early retirement of debt in the consolidated statement of income.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit, eurobonds, and debentures issued by the Group. Debt securities in issue are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the security issue 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 and the consideration paid is recognised as gain or loss arising from early retirement of debt in the consolidated statement of income.

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

Dividends. Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Group entities are the basis for profit distribution and other appropriations.

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.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Taxes, other than on income, are recorded within operating expenses.

Income and expense recognition. Interest income and expense are recognised in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes interest earned on fixed income securities and accrued discount and premium on promissory notes and other discounted instruments. When loans

Bank for Foreign Trade

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become doubtful as to collection, they are written down to their recoverable amount based on discounted estimated cash flows and interest income is thereafter recognised based on contractual interest rate.

Fees, commissions, and other income and expense items are generally recorded on an accrual basis when the service has been provided. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares, or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

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

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

As certain members of the Group located outside Russia operate independently of the Group, in accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” (“IAS 21”), these entities are considered to be foreign entities (operations not integral to those of the parent) with respect to the Group. Thus, the financial statements of these foreign entities have been translated into USD as follows: balance sheets are translated at the applicable period end exchange rate and the statements of income are translated using a basis that approximates the rate of exchange at the date of the transactions. This method of translation leads to the translation of non-monetary assets and liabilities, existing at 31 December 2003, at two different rates (e.g. 31 December 2002 and 31 December 2003). In accordance with IAS 21, the exchange difference arising from the use of the two different exchange rates forms part of the Group’s net investment in the foreign entity and is classified as an element of equity in the consolidated financial statements until disposal, at which time it is recognised as income or expense. This exchange difference is reflected within the “Other movements” line in the consolidated statement of changes in shareholders’ equity.

At 31 December 2003, the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 = RR 29.4545 (at 31 December 2002: USD 1 = RR 31.7844, at 31 December 2001: USD 1 = RR 30.14) and the principal rate of exchange used for translating balances in EURO was USD 1 = Euro 0.7999 (at 31 December 2002: USD 1 = EURO 0.9600, at 31 December 2001: USD 1 = EURO 1.1378).

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, currency swaps, options, and other derivative financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, or using the spot rate at the year end as the basis, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative and are included within other assets or other liabilities as appropriate.

Changes in the fair value of derivatives are included in gains less losses arising from derivative financial instruments.

Fiduciary assets. Assets and liabilities 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.

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

Provisions. Provisions 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

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

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 within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

5 Cash and Short-Term Funds

	31 December 2003	31 December 2002	31 December 2001
Cash on hand	165	79	93
Cash balances with local central banks (other than mandatory reserve deposits)	408	135	128
Correspondent accounts with other banks			
– Russian Federation	195	259	23
– Other countries	262	170	384
Total cash and short-term funds	1,030	643	628
Less: restricted cash	(101)	(156)	(139)
Total cash and cash equivalents	929	487	489

Restricted cash balances represent the balances on escrow accounts placed by the Bank in foreign banks on behalf of its customers totalling USD 52 million (31 December 2002: USD 108 million, 31 December 2001: USD 87 million) and cash placed by the Bank on nostro accounts with foreign and Russian banks in non-freely convertible currencies totalling USD 49 million (31 December 2002: USD 48 million, 31 December 2001: USD 52 million). For the purposes of the consolidated statement of cash flows, restricted cash is not considered to be cash and cash equivalents.

6 Trading Securities

	31 December 2003	31 December 2002	31 December 2001
USD denominated securities			
MinFin bonds (OVGVZ)	500	506	29
Russian corporate Eurobonds	90	105	20
Bills of exchange	63	53	–
Other	12	15	8
RR denominated securities			
Bills of exchange and debentures	424	68	59
Federal loan bonds (OFZ)	92	54	39
Other	56	25	9
Securities denominated in other currencies			
Securities issued by foreign governments	3	43	40
Russian corporate Eurobonds	15	19	–
Other	15	33	29
Total trading securities	1,270	921	233

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

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%. These bonds have maturity dates ranging from May 2007 to May 2011, and yields to maturity ranging from 5% to 7% (31 December 2002: maturity dates from May 2003 to May 2011, and yields to maturity from 5% to 8%. 31 December 2001: maturity dates from May 2003 to May 2011 and yield to maturity from 10% to 13%).

Russian corporate Eurobonds are interest bearing securities issued by major Russian corporates, which are freely tradable internationally. These bonds have maturity dates ranging from April 2004 to March 2013, coupon rates ranging from 8% to 13%, and yields to maturity ranging from 6% to 9%. (31 December 2002: maturity dates ranging from December 2003 to February 2009, coupon rates ranging from 9.7% to 13% and yields to maturity ranging from 6% to 10%).

Bills of exchange and debentures represent securities issued primarily by Russian banks, large manufacturing, telecom and oil and gas companies, and local authorities. These bills of exchange and debentures have maturity dates ranging from January 2004 to February 2009 and yields to maturity ranging from 6% to 20%. (31 December 2002: maturity dates ranging from March 2003 to June 2007 and yields to maturity ranging from 5% to 18%).

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 January 2004 to August 2012, coupon rates ranging from 8% to 12%, and yields to maturity ranging from 3% to 8%. (31 December 2002: maturity dates ranging from January 2003 to September 2008, coupon rates ranging from 10% to 14%, and yields to maturity ranging from 12% to 14%. 2001: coupon rates ranging from 5 to 30% and yield to maturity ranging from 14% to 16%).

At 31 December 2002, included in securities issued by foreign governments are German government bonds, which have annual coupon rates ranging from 3% to 10% and maturities ranging from July 2003 to July 2012.

Included in trading securities are USD nil (31 December 2002: USD 234 million, 31 December 2001: nil) of securities pledged under sale and repurchase agreements with other banks. All sale and repurchase agreements mature within one month of their inception.

7 Due from Other Banks

	31 December 2003	31 December 2002	31 December 2001
Current term placements with other banks.	1,792	1,165	581
Reverse sale and repurchase agreements with other banks.	112	35	–
Overdue placements with other banks.	113	165	166
Less: Allowance for loan impairment	(122)	(119)	(173)
Total due from other banks	1,895	1,246	574

Due from other banks include Rouble denominated loans to a Russian bank totalling USD 96 million (31 December 2002: USD 144 million, 31 December 2001: USD 149 million). At 31 December 2003, the allowance for impairment on these loans comprises USD 96 million (31 December 2002: USD 96 million, 31 December 2001: USD 124 million). Subsequent to 31 December 2002, USD 48 million of these loans were repaid.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

Movements in the allowance for loan impairment are as follows:

	2003	2002	2001
Allowance for loan impairment at 1 January . . .	119	173	176
Provision (reversal of) for loan impairment during the period	3	(54)	26
Due from other banks written off during the year as uncollectable	–	–	(29)
Allowance for loan impairment at 31 December.	122	119	173

At 31 December 2003, the estimated fair value of due from other banks was USD 1,895 million (31 December 2002: USD 1,246 million, 31 December 2001: USD 574 million).

8 Loans and Advances to Customers

	31 December 2003	31 December 2002	31 December 2001
Current loans and advances	4,925	3,097	2,344
Rescheduled loans and advances	100	100	118
Overdue loans and advances	202	181	131
Less: Allowance for loan impairment	(432)	(362)	(395)
Total loans and advances to customers	4,795	3,016	2,198

At 31 December 2003, included in current loans is lease receivables of USD 9 million (31 December 2002: nil, 31 December 2001: nil), equal to the net investment in the lease.

Movements in the allowance for loan impairment are as follows:

	2003	2002	2001
Allowance for loan impairment as at 1 January .	362	395	214
Provision for loan impairment during the period	75	18	181
Loans and advances to customers written off during the period as uncollectable	(5)	(51)	–
Allowance for loan impairment as at 31 December	432	362	395

Included in overdue loans is a deposit of USD 100 million (31 December 2002: USD 100 million, 31 December 2001: 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% (31 December 2002: 100%, 31 December 2001: 75%) allowance for loan impairment against these loans. The loans were originally financed by deposits from a state-owned Russian bank, which is included in due to other banks.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

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

	31 December 2003		31 December 2002		31 December 2001	
	Amount	%	Amount	%	Amount	%
Manufacturing	1,958	37	703	21	418	16
Trade and commerce	764	15	357	11	194	8
Finance	530	10	139	4	9	–
Energy	506	10	1,201	36	1,305	50
Construction	216	4	85	2	130	5
Food and Agriculture	205	4	104	3	68	3
Chemical	201	4	161	5	120	5
Mining	185	4	183	5	71	3
Telecommunications and media	161	3	130	4	63	2
Transport	158	3	79	2	63	2
Fishing	109	2	101	3	100	4
Government bodies	128	2	66	2	3	–
Other	106	2	69	2	49	2
Total loans and advances to customers	5,227	100	3,378	100	2,593	100

At 31 December 2003, the Group has 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.

At 31 December 2002, the Group had 9 borrowers with aggregated loan amounts above USD 50 million. The total amount of these loans was USD 1,607 million or 48% of the gross loan portfolio. Included in loans and advances were loans to a large corporate customer totalling USD 734 million (22% of the loan portfolio) with maturity dates from March 2003 to January 2004 and a fixed interest rate of 10% per annum. Of this amount USD 310 million was repaid subsequent to year-end 2002. At 31 December 2002 the Group also has an exposure totalling USD 346 million (10% of the total loan portfolio) to one group of borrowers, of which USD 200 million is collateralised by restricted customer deposits.

At 31 December 2001, the Group had 8 borrowers with aggregated loan amounts above USD 50 million. The total amount of these loans was USD 1,331 million or 51% of the loan portfolio. Included in loans and advances are loans to a large corporate customer totalling USD 670 million (26% of the loan portfolio) with maturity dates from March 2003 to January 2004 and fixed interest rate 10% per annum. Also included in the total amount of the loans greater than USD 50 million is one particular group of related borrowers to whom the Group has an outstanding exposure totalling USD 286 million or 11% of the total loan portfolio, of which USD 200 million is collateralised by restricted customer deposits.

At 31 December 2003, the total gross amount of impaired loans, on which interest was not accrued, was USD 259 million. Unrecognised interest, in accordance with the original terms of the loans, related to such loans amounted to USD 69 million.

At 31 December 2003, the estimated fair value of loans and advances to customers was USD 4,795 million (31 December 2002: USD 3,016 million, 31 December 2001: USD 2,198 million).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)***9 Investment Securities Available for Sale**

	31 December 2003	31 December 2002	31 December 2001
Debt securities			
Eurobonds of the Russian Federation	483	756	1,517
MinFin bonds (OVGVZ)	100	93	431
Bills of exchange of Russian companies and banks	22	–	–
Bonds of Russian companies and banks	213	–	–
State bonds of foreign countries	122	–	–
Bonds of foreign companies and banks	58	–	–
Other	21	2	–
Equity securities			
Corporate shares	104	68	16
Other	51	42	23
Total investment securities available for sale . . .	1,174	961	1,987

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. At 31 December 2003 the Group's portfolio of Eurobonds consists of 8 tranches of securities with maturity dates ranging from March 2004 to March 2030. The annual coupon rates on these bonds range from 5% to 13% per annum and interest is payable semi-annually. The Group's nominal value of investments in Eurobonds of the Russian Federation range from approximately 0.01% to 1.62% of the respective tranches' total nominal value issued. At 31 December 2002 the Group's portfolio of Eurobonds consisted of 7 tranches of securities with maturity dates ranging from June 2003 to March 2030. The annual coupon rates on these bonds range from 5% to 12.75% per annum and interest is payable semi-annually. The Group's investments in Eurobonds of the Russian Federation range from approximately 0.07% to 13.07% of the respective tranches' total nominal value issued.

At 31 December 2001 The Group's portfolio of Eurobonds consisted of 7 tranches of securities with maturity dates varying from June 2003 to March 2030. The annual coupon rates on these bonds vary from 2.5% to 12.75% and interest is payable semi-annually. The Group's investments in Russian Federation Eurobonds range from approximately 1% to 23% of the respective tranches' total nominal value issued.

In December 2001 the Bank entered a forward agreement with the CBRF to sell Eurobonds of the Russian Federation of tranches 18 and 28 with nominal value of USD 903 million for USD 777 million with delivery and settlement in February 2002. Management believed that the fair value of these securities based on market quotations as at 31 December 2001 did not depict their true fair value, and, therefore, this block of securities had been fair valued by Management as at 31 December 2001 at USD 777 million, which represented the amount to be received in February 2002 on the sale of these bonds in accordance with this forward agreement. This agreement was settled in February 2002.

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 their nominal value and carry an annual coupon of 3%. The bonds have maturity dates ranging from November 2007 to May 2011 and yields to maturity ranging from 5% to 7%. (31 December 2002: maturity dates ranging from May 2006 to May 2011 and yields to maturity ranging from 7% to 8%. 31 December 2001: maturity dates from May 2003 to May 2011 and yield to maturity from 10% to 13% per annum).

MinFin bonds (OVGVZ) bonds as at 31 December 2001 included bonds totalling USD 111 million with a nominal value of USD 196 million. Under an agreement with the CBRF, any potential losses that may arise from holding these OVGZ bonds were guaranteed by a placement of a corresponding deposit. This

Bank for Foreign Trade

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guarantee was treated in these consolidated financial statements in accordance with IAS 39 as a put option agreement with the CBRF. These securities were sold in August 2002 in accordance with the option terms.

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 2004 to March 2013 and have both floating and fixed rates from 3 month LIBOR plus 1.75% to 12.75%.

Included in state bonds of foreign countries are bonds of Austria with a fair value of USD 63 million, bonds of Germany with a fair value of USD 20 million and bonds of Ukraine with a fair value of USD 16 million.

Bonds of foreign companies and banks are held by foreign subsidiaries of the Group and represent bonds of local issuers.

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 31 December 2003, the Group owned 19.9% (31 December 2002: 19.9%, 31 December 2001: 19.4%) of KAMAZ's and 8.3% (31 December 2002: 8.3%, 31 December 2001: nil) of Avtovaz's authorised ordinary share capital. These investments have been included in securities available for sale at Management's estimate of their fair value.

Included in the line "other" of equity securities is an investment in Ost-West Handelsbank of USD 41 million (31 December 2002: USD 29 million, 31 December 2001: USD 19 million). This represents 31.9% of the net assets of this bank (31 December 2002: 31.9%, 31 December 2001: 30%). This associate is accounted for in these consolidated financial statements using the equity method.

Also included in the line "Other" of equity securities is an investment in a Russian commercial bank (Most-Bank). In 2000 the Group acquired 100% of the share capital of Most-Bank for RR 5.5 million (USD 0.2 million). At the time of acquisition, the acquired bank was under the temporary administration of the CBRF. The CBRF withdrew Most-Bank's banking licenses on 20 April 2001 and the bank is currently subject to bankruptcy procedures initiated in May 2001. Due to the poor financial condition of this bank, the fair value of this investment has been estimated by Management as nil (31 December 2002: nil, 31 December 2001: nil). The Group had also issued loans to this bank in 2000, which have been fully reserved. Most-Bank is not consolidated into Group's financial statements as the Group does not exercise control over its financial and operating activities.

Included in investment securities available for sale are securities with fair value at 31 December 2003 of USD 503 million (31 December 2002: USD 107 million, 31 December 2001: nil) pledged under sale and repurchase agreements. All sale and repurchase agreements mature within one month of their inception.

In addition, investment securities available for sale with fair value of USD 56 million (31 December 2002: USD 13 million, 31 December 2001: USD 16 million) have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)***10 Accrued Interest Income and Other Assets**

	31 December 2003	31 December 2002	31 December 2001
Accrued interest income.....	75	60	88
Trade debtors and prepayments	43	33	26
Unsettled transactions.....	30	12	1
Precious metals	10	9	9
Balances arising from derivative financial instruments	25	8	88
Settlements on conversion operations	3	4	3
Goodwill	20	–	–
Prepaid taxes	53	7	8
Loans held for sale	34	–	–
Other	37	11	14
Total accrued interest income and other assets ..	330	144	237

11 Premises and Equipment

	Premises	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2001	80	28	10	118
Cost or revalued amount				
Opening balance at 1 January 2002	86	63	10	159
Additions.....	11	32	–	43
Disposals.....	(2)	(8)	–	(10)
Closing balance at 31 December 2002.....	95	87	10	192
Accumulated depreciation				
Opening balance at 1 January 2002	6	35	–	41
Depreciation charge	3	9	–	12
Impairment charge	–	–	10	10
Disposals.....	–	(1)	–	(1)
Closing balance at 31 December 2002.....	9	43	10	62
Net book amount at 31 December 2002	86	44	–	130

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

	<u>Premises</u>	<u>Office and computer equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or revalued amount				
Opening balance at 1 January 2003	95	87	–	182
Acquisitions of subsidiaries	11	36	2	49
Additions	71	28	13	112
Disposals	(9)	(8)	(5)	(22)
Translation difference	3	8	–	11
Closing balance at 31 December 2003	171	151	10	332
Accumulated depreciation				
Opening balance at 1 January 2003	9	43	–	52
Depreciation charge	4	19	–	23
Disposals	(1)	(4)	–	(5)
Translation difference	1	(1)	–	–
Closing balance at 31 December 2003	13	57	–	70
Net book amount at 31 December 2003	158	94	10	262

The Bank's premises were independently valued as of 31 December 2000. The valuation was carried out by an internationally recognised independent firm of valuers, American Appraisal. The basis used for the appraisal was primarily open market value.

12 Due to Other Banks

	<u>31 December 2003</u>	<u>31 December 2002</u>	<u>31 December 2001</u>
Correspondent accounts and overnight deposits of other banks	512	495	341
Sale and repurchase agreements with other banks	503	273	–
Term deposits	797	517	256
Total due to other banks	1,812	1,285	597

Securities pledged against sale and repurchase agreements are available for sale securities with a fair value of USD 503 million at 31 December 2003 (31 December 2002: USD 234 million, 31 December 2001: nil) and trading securities with a fair value of USD nil at 31 December 2003 (31 December 2002: USD 107 million, 31 December 2001: nil). The repurchase agreements bear interest rates ranging from 0.1% to 10% and mature from January 2004 to October 2006.

Included in correspondent accounts and overnight deposits of other banks is a USD 100 million collateral deposit 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 31 December 2003, the estimated fair value of due to other banks was USD 1,812 million (31 December 2002: USD 1,285 million, 31 December 2001: USD 597 million).

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13 Customer Accounts

	31 December 2003	31 December 2002	31 December 2001
State and public organisations			
Current/settlement accounts	167	249	246
Term deposits.....	7	7	6
Other legal entities			
Current/settlement accounts	1,441	802	632
Term deposits.....	1,665	835	675
Individuals			
Current/settlement accounts	169	103	73
Term deposits.....	810	441	151
Total customer accounts.....	4,259	2,437	1,783

Economic sector concentrations within customer accounts are as follows:

	31 December 2003		31 December 2002		31 December 2001	
	Amount	%	Amount	%	Amount	%
Individuals	979	23	544	22	224	12
Trade.....	940	23	398	16	154	9
Manufacturing.....	820	19	255	10	95	5
Finance.....	634	15	166	7	32	2
Government bodies	174	4	256	11	252	14
Energy	172	4	474	19	788	44
Transport	67	2	67	3	–	–
Construction	52	1	19	1	–	–
Foreign entities representative offices	50	1	66	3	30	2
Telecommunication and mass media..	41	1	68	3	31	2
Other	330	8	124	5	177	10
Total customer accounts	4,259	100	2,437	100	1,783	100

Included in customer accounts were:

- Restricted deposits amounting to USD 52 million (31 December 2002: USD 108 million, 31 December 2001: USD 87 million), where matching deposits were placed by the Group on escrow accounts.
- Deposits of USD 60 million (31 December 2002: USD 56 million, 31 December 2001: USD 67 million) was held as collateral against irrevocable commitments under import letters of credit.

At 31 December 2002 included in customer accounts were restricted deposits of USD 200 million (2001: USD 200 million) held as collateral for loans issued to a group of related borrowers (Refer Note 8).

At 31 December 2003, the estimated fair value of customer accounts was USD 4,259 million (31 December 2002: USD 2,437 million, 31 December 2001: USD 1,783 million).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)***14 Other Borrowed Funds**

	31 December 2003	31 December 2002	31 December 2001
CBRF funding	–	380	1,286
Syndicated loans	560	225	–
Revolving credit lines	147	89	74
Other borrowings	–	–	1
Total other borrowed funds	707	694	1,361

At 31 December 2002, CBRF funding included term deposits totalling USD 150 million with interest rates ranging from 3.8 to 3.9% which was repaid in January and March 2003. At 31 December 2001 included in CBRF funding was a deposit of USD 670 million with a fixed interest rate of 4% per annum, which was repaid by the Group at maturity in February 2002.

Also included in CBRF funding as at 31 December 2001, was a deposit of USD 196 million, the use of which is restricted and which was extended to the Group specifically for the purpose of financing the purchase of OVGZ bonds with nominal value of USD 196 million. This deposit was repaid by the Group in August 2002.

In December 2002 the Group attracted a syndicated loan of USD 225 million from a syndicate of international banks. The loan was arranged by Citibank, N.A., London and Deutsche Bank AG, London and bears an interest rate of LIBOR plus 2.5-2.7% with maturities ranging from December 2003 to June 2004. In December 2003 the Group rolled-over and increased the first tranche of the loan up to USD 270 million maturing in December 2004 and bearing an interest rate of LIBOR plus 1.5%.

In October 2003 the Group attracted a syndicated loan with a carrying amount of USD 175 million arranged by a group of thirteen major international financial institutions with an interest rate of LIBOR plus 1.5% and maturity in September 2004.

At 31 December 2003 syndicated loans include several JPY-denominated syndicated loans of USD 10 million arranged by Japan Bank for International Cooperation jointly with three Japanese banks with interest rates from 2.54% to 2.64% and maturity ranging from February 2006 to February 2008.

The Group attracted a revolving credit line opened with the European Bank for Reconstruction and Development (EBRD), which carries an interest rate of LIBOR plus 1.5-2%. At 31 December 2003, the carrying amount of the loan was USD 147 million (31 December 2002: USD 89 million; 31 December 2001: USD 74 million).

Syndicated loans and revolving credit lines have certain covenants. The Group is in compliance with all of such covenants.

15 Debt Securities in Issue

	31 December 2003	31 December 2002	31 December 2001
Promissory notes	1,154	432	327
Eurobonds	298	–	–
Debentures and deposit certificates	286	28	38
Total debt securities in issue	1,738	460	365

In April 2002 and February 2003 the Group issued the second and third tranches of Russian Rouble denominated debentures, which are publicly traded in the Russian market. The second tranche of

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debentures, with a face value of USD 33 million, was issued at a discount to nominal value, with an effective rate of 16%. The second tranche was fully repaid at its maturity in April 2004. The market price of these securities at 31 December 2003 represented 98% of their nominal value. The third tranche of debentures, with a face value USD 66 million, was issued at nominal value with a coupon rate ranging from 14% to 15.5% and maturing in February 2006. The market price of these securities at 31 December 2003 represented 111.6% of their nominal value.

In December 2003 the Group issued Series 1 USD-denominated Eurobonds with face value of USD 300 million maturing in December 2008 under Euro Medium Term Note borrowings program of USD 2,000 million. The Eurobonds carry fixed coupon payable semi-annually of 6.875%. The market price of the securities at 31 December 2003 was 101%.

At 31 December 2003, the estimated fair value of debt securities in issue was USD 1,748 million (31 December 2002: USD 458 million, 31 December 2001: 363 million).

16 Accrued Interest Expense and Other Liabilities

	31 December 2003	31 December 2002	31 December 2001
Trade creditors.....	41	37	10
Taxation payable.....	72	45	2
Accrued interest expense.....	45	40	19
Other reserves.....	26	21	5
Unsettled transactions.....	13	11	1
Allowance for credit related commitments.....	10	10	10
Settlements on conversion operations.....	–	2	–
Balances arising from derivative financial instruments.....	1	1	2
Other.....	14	8	–
Total accrued interest expense and other liabilities ...	222	175	49

17 Minority Interest

	2003	2002	2001
Minority interest at 1 January	76	50	109
Share of net profit.....	23	17	16
Other movements.....	6	9	(75)
Minority interest at 31 December	105	76	50

The caption “Other movements” includes movements in the minority interest arising due to the translation effect on minority interest arising for subsidiaries whose operating currency differs from the reporting currency of the Group (US dollar) and movements in the minority interest arising due to acquisition of additional shares of Donau-Bank, East-West United Bank and other Russian subsidiaries by the Group in 2001.

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18 Share Capital

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

	31 December 2003		31 December 2002		31 December 2001	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Ordinary shares	42,137,236	2,153	42,137,236	2,153	42,137,236	2,153
Total share capital.	42,137,236	2,153	42,137,236	2,153	42,137,236	2,153

Contributions to the Bank's share capital were originally made in the form of Roubles, foreign currency, and gold bullion. All ordinary shares have a nominal value of RR 1 thousand per share, rank equally and carry one vote. The Bank also has 10,000,000 authorised ordinary shares with a par value of RR 1 thousand each, which are currently unissued.

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

19 Interest Income and Expense

	2003	2002	2001
Interest income			
Loans and advances to customers	454	334	172
Securities.	139	157	206
Due from other banks	72	39	59
Total interest income	665	530	437
Interest expense			
Customer accounts	(154)	(108)	(46)
Debt securities in issue.	(121)	(31)	(29)
Due to banks and other borrowed funds	(70)	(43)	(74)
Total interest expense.	(345)	(182)	(149)
Net interest income.	320	348	288

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)***20 Fee and Commission Income and Expense**

	2003	2002	2001
Commission on settlement transactions	28	22	19
Commission on cash transactions	12	9	8
Commission on guarantees issued	16	4	3
Other	18	9	7
Total fee and commission income	74	44	37
Commission on settlement transactions	(2)	(2)	(2)
Commission on cash transactions	(1)	(1)	(1)
Commission on cash collection	(1)	(1)	(1)
Other	(2)	(2)	(2)
Total fee and commission expense	(6)	(6)	(6)
Net fee and commission income	68	38	31

21 Other Income

	2003	2002	2001
Dividends received	2	–	–
Income less expenses on operations with precious metals	1	1	4
Income arising from non-banking activities	40	8	2
Other	18	11	18
Total other income	61	20	26

22 Operating Expenses

	2003	2002	2001
Staff costs	165	117	79
Taxes other than on income	40	23	16
Depreciation and other expenses related to premises and equipment	40	24	16
Administrative expenses	38	17	9
Leasing and rent expenses	20	19	15
Professional services	7	3	2
Charity	6	13	1
Impairment charge on premises and equipment	–	10	–
Amortisation of goodwill	2	–	–
Other	73	37	21
Total operating expenses	391	263	159

23 Income Taxes

Income tax expense comprises the following:

	2003	2002	2001
Current tax charge	81	167	82
Deferred taxation movement due to the origination and reversal of temporary differences	(119)	(61)	152
Effect of change in tax rate	21	–	(64)
Income tax (benefit) expense for the year	(17)	106	170

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The income tax rate applicable to the majority of the Group's income is 24% (2002: 24%, 2001: 43%). The income tax rate applicable to subsidiaries income ranges from 4.25% to 34% (2002: from 4% to 34%; 2001: from 4% to 43%). A reconciliation between the expected and the actual taxation charge is provided below.

	2003	2002	2001
IFRS profit before taxation	270	384	496
Theoretical tax charge at the applicable statutory rate.....	76	92	203
Tax effect of items which are not deductible or assessable for taxation purposes:			
– Non deductible expenses	38	114	99
– Income which is exempt from taxation	(6)	(75)	(11)
– Income on government securities taxed at different rates.....	(9)	(5)	(16)
– Effect of change in tax rates	21	–	(64)
– Other non-temporary differences	9	6	5
– Tax losses utilised	(14)	(26)	(15)
– Translation effect	(33)	–	–
– Effect of unrecognised deferred tax assets	(99)	–	(31)
Income tax expense (benefit) for the year	(17)	106	170

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 the rate of 4.25% to 34%. The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities, so that deferred tax assets and deferred tax liabilities are separately assessed for each entity.

	31 December 2003	Movement	31 December 2002	Movement	31 December 2001
Tax effect of deductible temporary differences					
Tax loss carry forward	78	78	–	–	–
Provision for loan impairment.....	48	17	31	26	5
Fair valuation of securities.....	–	(9)	9	(42)	51
Accruals.....	1	(14)	15	10	5
Other	6	6	–	–	–
Gross deferred tax asset	133	78	55	(6)	61
Tax effect of taxable temporary differences					
Fair valuation of securities.....	(48)	19	(67)	26	(93)
Premises and equipment.....	(14)	(8)	(6)	3	(9)
Accrued income.....	–	–	–	27	(27)
Fair valuation of derivative financial instruments.....	–	–	–	20	(20)
Provision for loan impairment.....	–	9	(9)	(9)	–
Gross deferred tax liability	(62)	20	(82)	67	(149)
Total net deferred tax liability	(12)	15	(27)	61	(88)
Total net deferred tax asset	83	83	–	–	–

The Group's subsidiaries have approximately USD 203 million (31 December 2002:USD 502 million, 31 December 2001: 479 million) of tax losses available for relief against future profits. The Group also has negative valuation of securities of USD 101 million. In 2003 the Group recognised the probable portion

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

of tax losses carry forward for one of its subsidiaries of USD 292 million. These tax losses can be carried forward for an indefinite period of time. The remaining tax losses carry forwards and negative valuation of securities have not been recognised as a deferred tax asset due to uncertainty surrounding the Group's ability to utilise these tax losses and negative valuation of securities in the future.

24 Dividends

In 2003 the Bank declared and paid dividends in the amount of USD 53 million for the year 2002 (2002: USD 20 million, 2001: nil). Dividends were declared and paid in Russian roubles.

25 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 year ended 31 December 2003.

	Russia	Europe	Total
Total revenues	831	234	1,065
Segment results	156	114	270
Taxation			17
Profit after taxation			287
Minority interest			(23)
Net profit			264
Segment assets	8,441	2,787	11,228
Segment liabilities	6,768	1,982	8,750
Other segment items			
Capital expenditure	107	5	112
Depreciation	22	1	23
Other non-cash (expenses) income	(55)	–	(55)

The Group has one reportable business segment, which is commercial banking. The summary information of this business segment at 31 December 2003 is presented below:

	Commercial banking
Operating income	661
Segment assets	11,228
Credit related commitments	3,041
Capital expenditure	112

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Segment information for the year ended 31 December 2002 is set out below:

	Russia	Europe	Total
Total revenues	652	170	822
Segment results	288	96	384
Taxation			(106)
Profit after taxation			278
Minority interest			(17)
Net profit			261
Segment assets	5,932	1,340	7,272
Segment liabilities	4,080	998	5,078
Other segment items			
Capital expenditure	42	1	43
Depreciation	11	1	12
Impairment charge	(10)	–	(10)
Other non-cash (expenses) income	(31)	34	3

The summary information of the business segment for the year ended 31 December 2002 is presented below:

	Commercial banking
Operating income	647
Segment assets	7,272
Credit related commitments	675
Capital expenditure	43

Segment information for the year ended 31 December 2001 is set out below:

	Russia	Europe	Total
Total revenues	810	227	1,037
Segment results	409	86	495
Income from associated companies			1
Profit before taxation			496
Taxation			(170)
Profit after taxation			326
Minority interest			(16)
Net profit			310
Segment assets	5,022	1,106	6,128
Segment liabilities	3,336	907	4,243
Other segment items			
Capital expenditure	10	3	13
Depreciation	2	1	3
Other non-cash expenses	(147)	(50)	(197)

The summary information of the business segment for the year ended 31 December 2001 is presented below:

	Commercial banking
Operating income	655
Segment assets	6,128
Credit related commitments	429
Capital expenditure	13

External revenues, assets, other than assets detailed below, 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.

26 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, currency, liquidity, and interest rate), operational risks, and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. Risk assessment also forms the basis for optimal risk-adjusted capital allocation, transaction pricing, and performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and limits are subject to an annual or more frequent review. Limits on the level of credit risk by borrower and industry sector are approved regularly by the Credit Committee.

The exposure to any one borrower including groups and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored regularly.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits, and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Asset/Liability Committee sets limits on the value of risk that may be accepted, which is monitored on a regular basis.

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Currency risk. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset/Liability Committee sets limits on the level of exposure by currency and in total for both spot and forward positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2003. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values. At 31 December 2003, the Group has the following positions in currencies:

	USD	RR	Euro	Other currencies	Total
Assets					
Cash and short term funds.....	352	508	106	64	1,030
Mandatory cash balances with local central banks.....	–	371	11	–	382
Trading securities.....	665	572	19	14	1,270
Due from other banks	1,307	315	231	42	1,895
Loans and advances to customers..	2,925	1,697	143	30	4,795
Investment securities available for sale.....	891	45	238	–	1,174
Investment security held to maturity.....	–	1	–	6	7
Accrued interest income and other assets	93	157	67	13	330
Premises and equipment.....	1	243	16	2	262
Deferred tax asset.....	–	34	49	–	83
Total assets	6,234	3,943	880	171	11,228
Liabilities					
Due to other banks.....	1,101	249	370	92	1,812
Customer accounts	2,104	1,701	439	15	4,259
Other borrowed funds	689	–	8	10	707
Debt securities in issue.....	1,150	582	6	–	1,738
Accrued interest expense and other liabilities	53	124	36	9	222
Deferred tax liability.....	–	–	12	–	12
Total liabilities	5,097	2,656	871	126	8,750
Net balance sheet position	1,137	1,287	9	45	2,478
Credit related commitments	2,443	373	183	42	3,041
Off-balance sheet net notional position	(578)	(39)	481	160	24

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At 31 December 2002, the Group had the following positions in currencies:

	USD	RR	Euro	Other currencies	Total
Net balance sheet position	1,730	357	81	26	2,194
Credit related commitments	569	15	34	57	675
Off-balance sheet net notional position	(282)	4	247	38	7

At 31 December 2001, the Group had the following positions in currencies:

	USD	RR	Euro	Other currencies	Total
Net balance sheet position	1,366	426	101	(8)	1,885
Credit related commitments	298	70	45	16	429
Off-balance sheet net notional position	(101)	(3)	93	12	1

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees, and from margin and other calls on cash settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Asset/Liability Committee and the Treasury.

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The table below shows assets and liabilities at 31 December 2003 by their remaining contractual maturity.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and short-term funds.....	923	–	–	–	107	1,030
Mandatory cash balances with local central banks.....	274	70	28	10	–	382
Trading securities.....	1,270	–	–	–	–	1,270
Due from other banks	1,159	354	77	305	–	1,895
Loans and advances to customers..	515	1,393	1,200	1,613	74	4,795
Investment securities available for sale.....	1,174	–	–	–	–	1,174
Investment securities held to maturity.....	–	–	–	7	–	7
Accrued interest income and other assets	170	51	40	3	66	330
Premises and equipment.....	–	–	–	–	262	262
Deferred tax asset.....	–	–	–	83	–	83
Total assets	5,485	1,868	1,345	2,021	509	11,228
Liabilities						
Due to banks	1,142	440	92	137	1	1,812
Customer accounts	2,830	878	361	190	–	4,259
Other borrowed funds	6	120	562	19	–	707
Securities issued.....	174	537	121	905	1	1,738
Accrued interest expense and other liabilities	62	16	34	7	103	222
Deferred tax liability.....	–	–	–	–	12	12
Total liabilities	4,214	1,991	1,170	1,258	117	8,750
Net liquidity gap	1,271	(123)	175	763	392	2,478
Cumulative liquidity gap at 31 December 2003	1,271	1,148	1,323	2,086	2,478	–

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The liquidity position of the Group at 31 December 2002 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and short-term funds.....	487	–	–	–	156	643
Mandatory cash balances with local central banks.....	125	51	16	1	18	211
Trading securities.....	921	–	–	–	–	921
Due from other banks	897	144	117	40	48	1,246
Loans and advances to customers..	353	969	636	1,047	11	3,016
Investment securities available for sale.....	851	–	–	–	110	961
Accrued interest income and other assets	107	29	7	1	–	144
Premises and equipment, net.....	–	–	–	–	130	130
Total assets	3,741	1,193	776	1,089	473	7,272
Liabilities						
Due to banks	1,127	95	33	30	–	1,285
Customer accounts	1,357	568	233	123	156	2,437
Other borrowed funds	70	290	215	119	–	694
Securities issued.....	261	130	41	28	–	460
Accrued interest expense and other liabilities	73	62	4	26	10	175
Deferred tax liability.....	–	–	27	–	–	27
Total liabilities	2,888	1,145	553	326	166	5,078
Net liquidity gap	853	48	223	763	307	2,194
Cumulative liquidity gap at 31 December 2002	853	901	1,124	1,887	2,194	–

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The liquidity position of the Group at 31 December 2001 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and short-term funds.....	489	–	–	–	139	628
Mandatory cash balances with local central banks.....	69	71	6	7	–	153
Trading securities.....	233	–	–	–	–	233
Due from other banks	300	162	58	54	–	574
Loans and advances to customers..	294	605	421	878	–	2,198
Investment securities available for sale.....	1,837	–	–	111	39	1,987
Accrued interest income and other assets	126	9	16	86	–	237
Premises and equipment, net.....	–	–	–	–	118	118
Total assets	3,348	847	501	1,136	296	6,128
Liabilities						
Due to banks	465	98	9	25	–	597
Customer accounts	1,031	420	166	27	139	1,783
Other borrowed funds	5	1,232	1	123	–	1,361
Securities issued.....	238	91	34	2	–	365
Accrued interest expense and other liabilities	11	22	16	–	–	49
Deferred tax liability.....	–	–	–	88	–	88
Total liabilities	1,750	1,863	226	265	139	4,243
Net liquidity gap	1,598	(1,016)	275	871	157	1,885
Cumulative liquidity gap at 31 December 2002	1,598	582	857	1,728	1,885	–

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses or diminished profitability. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of the fact that the majority of the Group's security portfolio matures 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. As such, the Group has included the securities in the "on demand and less than one month" category.

Further, Management believes that although a substantial portion of customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these deposits provide a long-term and stable source of funding for the Group.

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

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Assets/Liability Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored on a regular basis. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

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The table below summarises the Group's exposure to interest rate risks at 31 December 2003. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and short-term funds.....	923	–	–	–	107	1,030
Mandatory cash balances with local central banks.....	274	70	28	10	–	382
Trading securities.....	1,270	–	–	–	–	1,270
Due from other banks	1,159	354	77	305	–	1,895
Loans and advances to customers..	515	1,420	1,333	1,453	74	4,795
Investment securities available for sale.....	1,174	–	–	–	–	1,174
Investment securities held to maturity.....	–	–	–	7	–	7
Accrued interest income and other assets	170	51	40	3	66	330
Premises and equipment.....	–	–	–	–	262	262
Deferred tax asset	–	–	–	83	–	83
Total assets	5,485	1,895	1,478	1,861	509	11,228
Liabilities						
Due to banks	1,142	440	92	137	1	1,812
Customer accounts	2,830	878	361	190	–	4,259
Other borrowed funds	6	690	5	6	–	707
Securities issued.....	174	537	121	905	1	1,738
Accrued interest expense and other liabilities	62	16	34	7	103	222
Deferred tax liability.....	–	–	–	–	12	12
Total liabilities	4,214	2,561	613	1,245	117	8,750
Net repricing gap	1,271	(666)	865	616	392	2,478
Cumulative repricing gap at 31 December 2003.....	1,271	605	1,470	2,086	2,478	–

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

As at 31 December 2002 the Group's interest rate sensitivity analysis based on the repricing of the Group's assets and liabilities is set out below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ overdue/ non- interest bearing	Total
Assets						
Cash and short-term funds.	487	–	–	–	156	643
Mandatory cash balances with local central banks.	125	51	16	1	18	211
Trading securities.	921	–	–	–	–	921
Due from other banks.	898	234	60	6	48	1,246
Loans and advances to customers. .	373	1,108	624	900	11	3,016
Investment securities available for sale.	851	–	–	–	110	961
Accrued interest income and other assets.	98	29	7	1	9	144
Premises and equipment.	–	–	–	–	130	130
Total assets.	3,753	1,422	707	908	482	7,272
Liabilities						
Due to banks.	1,163	98	16	8	–	1,285
Customer accounts.	1,357	568	233	123	156	2,437
Other borrowed funds.	70	525	77	22	–	694
Securities issued.	261	130	41	28	–	460
Accrued interest expense and other liabilities.	73	62	4	26	10	175
Deferred tax liability.	–	–	–	–	27	27
Total liabilities.	2,924	1,383	371	207	193	5,078
Net repricing gap.	829	39	336	701	289	2,194
Cumulative repricing gap at 31 December 2002.	829	868	1,204	1,905	2,194	–

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

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

	31 December 2003				31 December 2002			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Cash and cash equivalents	1%	0%	1%	1%	1%	0%	1%	1%
Debt trading securities	4%	10%	8%	4%	10%	13%	7%	5%
Due from other banks	5%	8%	3%	1%	4%	9%	4%	2%
Loans and advances to customers . .	9%	14%	7%	2%	9%	21%	10%	–
Debt investment securities								
available for sale	8%	2%	6%	–	9%	–	–	–
Liabilities								
Due to other banks	5%	6%	2%	1%	1%	9%	3%	2%
Customer accounts	4%	6%	4%	4%	6%	6%	2%	2%
Other borrowed funds	3%	–	4%	3%	3%	–	–	–
Debt securities in issue	8%	12%	3%	–	7%	9%	7%	–

	31 December 2001			
	USD	RR	Euro	Other currencies
Assets				
Cash and cash equivalents	1%	0%	1%	0%
Debt trading securities	3%	15%	4%	–
Due from other banks	4%	14%	4%	3%
Loans and advances to customers	10%	21%	7%	7%
Debt investment securities available for sale	8%	–	–	–
Liabilities				
Due to other banks	4%	20%	4%	1%
Customer accounts	4%	7%	6%	1%
Other borrowed funds	4%	–	–	–
Debt securities in issue	6%	6%	–	–

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

27 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,

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

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%.

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

Capital commitments. At 31 December 2003 the Group has no capital commitments.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are USD 3 million during 2004 and 2005. (At 31 December 2002: USD 3 million during 2003 and 2004. At 31 December 2001: USD 5 million for the subsequent 2 years).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees which 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:

	31 December 2003	31 December 2002	31 December 2001
Guarantees issued	1,514	226	216
Undrawn credit lines	718	292	102
Import letters of credit	157	123	69
Commitments to extend credit	162	44	52
Other credit related commitments	500	–	–
Less: allowance for losses on credit related commitments	(10)	(10)	(10)
Total credit related commitments	3,041	675	429

The Bank has also received export letters of credit for further advising to its customers. Total amount outstanding as of 31 December 2003 was USD 1,345 million (31 December 2002: USD 1,088 million, 31 December 2001: USD 360 million). Commitments under import letters of credit are collateralised by customer deposits of USD 60 million (31 December 2002: USD 56 million, 31 December 2001: USD 67 million).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

At 31 December 2003, 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 31 December 2003, included in guarantees issued above are guarantees issued for one Russian company of USD 932 million (62% of the guaranties issued). The guarantee was secured by promissory notes issued by VTB with total nominal amount of USD 577 million. Movements in the allowance for losses on credit related commitments are as follows:

	2003	2002	2001
Allowance for losses on credit related commitments			
at 1 January	10	10	7
Provision for losses on credit related commitments			
during the period.	–	–	3
Allowance for losses on credit related commitments			
at 31 December	10	10	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 31 December 2003. These contracts were mainly entered into in December 2003 and settled early in January 2004.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

The table below includes contracts outstanding at 31 December 2003.

	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
<i>Deals entered into in 2003:</i>						
Spot						
– sale of foreign currency	28	–	–	54	–	–
– purchase of foreign currency	49	–	–	26	–	–
– sale of securities	8	–	–	–	–	–
– purchase of securities	–	–	–	–	–	–
Term						
– sale of securities	25	–	–	–	–	–
– purchase of securities	–	–	–	–	–	–
Deliverable forwards						
– sale of securities	–	–	–	–	–	–
– purchase of securities	–	–	–	1	–	–
Swap						
– sale of foreign currency	98	–	–	–	–	–
– purchase of foreign currency	17	–	–	565	(1)	25
Total	225	–	–	646	(1)	25

Bank for Foreign Trade
Notes to the Consolidated Financial Statements – December 31, 2003
(expressed in millions of US dollars)

The table below includes contracts outstanding at 31 December 2002.

	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
<i>Deals entered into in 2002:</i>						
Deliverable forwards						
– sale of foreign currency	–	–	–	6	–	–
– sale of precious metals	–	–	–	1	–	–
– sale of securities	20	–	–	–	–	–
Spot						
– sale of foreign currency	11	–	–	3	–	–
– purchase of foreign currency . . .	11	–	–	3	–	–
– sale of securities	13	–	–	–	–	–
Swap						
– sale of foreign currency	–	–	–	24	(1)	–
– purchase of foreign currency . . .	12	–	–	295	–	8
Total	67	–	–	332	(1)	8

The table below includes contracts outstanding at 31 December 2001.

	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
<i>Deals entered into in 2001:</i>						
Deliverable forwards						
– sale of foreign currency	–	–	–	1	–	–
– sale of precious metals	–	–	–	26	–	–
– sale of securities	777	–	–	–	–	–
Spot						
– sale of foreign currency	17	–	–	–	–	–
Option						
– sale of securities	196		85			
Swap						
– sale of foreign currency	–	–	–	24	–	3
– purchase of foreign currency . . .	–	–	–	119	(2)	–
Total	990	–	85	170	(2)	3

At 31 December 2001 the Group had an outstanding forward agreement with the CBRF for sale of investment securities available for sale (Eurobonds of the Russian Federation). The Bank entered a

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

forward agreement with the CBRF to sell this block of securities for USD 777 million with delivery and settlement in February 2002. This deal was settled in February 2002.

OVGVZ bonds at 31 December 2001 included bonds totalling USD 111 million with a nominal value of USD 196 million. Under an agreement with the CBRF, any potential that may arise from holding these OVGZ bonds were guaranteed by a corresponding deposit. This guarantee was treated in these consolidated financial statements in accordance with IAS 39 as a put option agreement with the CBRF. These securities were realised in August 2002 in accordance with the option terms.

Purchase commitments. As of 31 December 2003 the Group had a USD 119 million outstanding commitments for purchase of precious metals.

Fiduciary assets. These assets are not included in the Group's consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

	31 December 2003	31 December 2002	31 December 2001
	Nominal value	Nominal value	Nominal value
MinFin bonds (OVGVZ)	4,712	6,252	5,189
Eurobond of the Russian Federation	304	858	2,040
Eurobond of foreign countries	39	–	–
Other Eurobonds	155	–	–
Other	649	260	353

Assets pledged. At 31 December 2003, the Group has USD 56 million (31 December 2002: USD 13 million, December 2001: USD 16 million) of securities pledged as collateral. At 31 December 2003, the Bank, also, pledged securities with the fair value of USD 503 million (31 December 2002: of USD 341 million, 31 December 2001: nil) under sale and repurchase agreements with other banks. All these operations were performed by the Bank in the normal course of business.

28 Fair Value 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. The Russian Federation has shown signs of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. 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 realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities, and investment securities available for sale are carried on the balance sheet at their fair value. The fair value of these assets were determined by Management on the basis of market quotations.

Due from other banks. Management has estimated that at 31 December 2003, 2002 and 2001 the fair value of due from other banks 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.

Loans and advances to customers. Management has estimated that at 31 December 2003, 2002 and 2001 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)*

Borrowings. Management has estimated that at 31 December 2003, 2002 and 2001 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 in issue. The fair value of debt securities were determined by Management on the basis of market quotations.

29 Related Party Transactions

For the purposes of these consolidated financial statements, 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.

Banking transactions are entered into in the normal course of business with shareholders, non-consolidated subsidiaries and associates. These transactions include settlements, loans, deposit taking, trade finance, and foreign currency transactions. Transactions are priced predominantly at market rates.

The interest income and expense as well as other transactions for the period with the major shareholder (commencing October 2002: the Ministry of Property Relations of the Russian Federation; prior to October 2002: the CBRF) are as stated in the table below:

	2003	2002	2001
Interest income	–	1	–
Interest expense	–	(18)	(31)
Dividends declared	(53)	(20)	–
Gains less losses on operations with investment securities available for sale	–	36	–
Dividends (USD per share).....	1.26	0.47	–

The Group did not have any balances outstanding with related parties at 31 December 2003 and 2002. The outstanding balances with the major shareholder at 31 December 2001 are stated in the table below:

	31 December 2001
Mandatory cash balances with local central banks	148
Loans and advances to customers and due from other banks	123
Customer accounts and due to other banks	2
Other borrowed funds	1,286
Balances arising from derivative financial institutions	85
Guarantees received	9
Deliverable forward on investment securities	777
Investment securities pledged	13

In the year ended 31 December 2003 the total remuneration of the directors and key management personnel, including pension contributions, and discretionary compensation amounts to USD 11 million (31 December 2002: USD 10 million, 31 December 2001: USD 6 million).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – December 31, 2003***(expressed in millions of US dollars)***30 Consolidated Subsidiaries and Associates**

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

Name	Activity	Country of registration	Equity controlled		
			31 December 2003	31 December 2002	31 December 2001
Subsidiaries					
Donau-bank	Banking	Austria	85.0%	85.0%	85.0%
Russian Commercial Bank.	Banking	Cyprus	100.0%	100.0%	100.0%
Russian Commercial Bank.	Banking	Switzerland	100.0%	100.0%	100.0%
East-West United Bank	Banking	Luxembourg	53.0%	53.0%	58.0%
Bank “Zabaikalsky”	Banking	Russia	99.9%	99.9%	99.9%
VOK Vneshtorgbank	Banking	Russia	—	99.4%	99.4%
Novosibirskvneshtorgbank	Banking	Russia	97.5%	97.5%	97.5%
Ulyanovskvneshtorgbank	Banking	Russia	60.4%	60.4%	60.4%
Multicarta Ltd	Plastic cards	Russia	100.0%	50.0%	50.0%
Euroleasing, GMBH	Leasing	Germany	60.0%	60.0%	60.0%
Rafinco Co., NY	Trading	USA	100.0%	100.0%	100.0%
ITC Consultants.	Finance	Cyprus	100.0%	100.0%	100.0%
VB Service	Commerce	Russia	100.0%	100.0%	100.0%
Trading House VTB	Commerce	Russia	100.0%	100.0%	100.0%
Vympel-B Ltd	Security	Russia	100.0%	100.0%	100.0%
Non-state Pension Fund of					
Vneshtorgbank.	Finance	Russia	100.0%	100.0%	100.0%
ZAO Konobeevo.	Recreation	Russia	89.9%	89.9%	89.9%
Insurance capital Ltd	Insurance	Russia	69.8%	69.8%	69.8%
ZAO “Binex”.	Oil	Russia	51.0%	51.0%	51.0%
ZAO “Almaz Press”.	Publishing	Russia	100.0%	—	—
OAO “VTB-Leasing”.	Leasing	Russia	100.0%	—	—
Associates					
Ost-West Handelsbank	Banking	Germany	31.9%	31.9%	29.9%

On 4 November 2003, the Group sold its stake in VOK Vneshtorgbank for a cash payment of RR 76 million (USD equivalent was USD 2.6 million).

On 30 December 2002, the Group sold 5% of the share capital of EWUB for USD 1 million, which decreased the Group’s holding from 58% to 53%.

On 16 April 2002, the Group acquired 2% of Ost-West Handelsbank’s share capital for a cash payment of Euro 1 million (USD equivalent is USD 1 million), thus increasing its share in Ost-West Handelsbank to 31.9%.

31 Acquisition of Subsidiaries

In April 2003 the Group acquired 100% of ZAO “Almaz-Press”’s share capital for a cash payment of USD 41 million and recognised goodwill in the amount of USD 20 million.

In July and August 2003 the Group made two cash contributions to the share capital of OAO “VTB-Leasing” of RR 310 million each (the USD equivalent was USD 20 million). The share of the Group in the share capital of OAO “VTB-Leasing” comprised 100%.

32 Subsequent Events

In March 2004 the Group issued the fourth tranche of Russian Rouble denominated debentures. The fourth tranche with a face value of USD 176 million at the exchange rate at the date of issue, was issued at nominal value with a coupon rate of 5.43% and maturing in March 2009.

In March 2004 the Group issued additional Series 1 Eurobonds with a face value of USD 250 million which were consolidated and formed a single series with the Eurobonds with a face value of USD 300 million maturing in December 2008 under the Euro Medium Term Note program of USD 2,000 million (the “Program”).

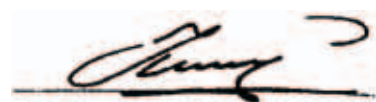
In April 2004 the Group also issued under the Program Series 2 USD denominated floating rate Eurobonds with a face value of USD 325 million maturing in April 2005. The Eurobonds carry a floating rate coupon payable quarterly of LIBOR plus 2%.

In April 2004 the Group acquired 70% of the share capital of ArmSberbank located in Armenia in exchange for a cash payment of USD 9 million.

Bank for Foreign Trade**Consolidated Balance Sheets as at March 31, 2004 and December 31, 2003***(expressed in millions of US dollars)*

	Note	31 March 2004 (Unaudited)	31 December 2003 (Note 3)
Assets			
Cash and short term funds	4	502	1,030
Mandatory cash balances with local central banks		405	382
Trading securities	5	1,341	1,270
Due from other banks	6	2,429	1,895
Loans and advances to customers, net	7	5,136	4,795
Investment securities available for sale	8	1,202	1,174
Investment securities held to maturity		8	7
Accrued interest receivable and other assets		489	413
Premises and equipment		275	262
Total assets		11,787	11,228
Liabilities			
Due to other banks	9	1,632	1,812
Customer accounts	10	3,885	4,259
Other borrowed funds	11	712	707
Debt securities in issue	12	2,775	1,738
Accrued interest payable and other liabilities		229	234
Total liabilities		9,233	8,750
Minority interest		105	105
Shareholders' equity			
Share capital		2,153	2,153
Share premium		34	34
Retained earnings		262	186
Total shareholders' equity		2,449	2,373
Total liabilities, minority interest and shareholders' equity ..		11,787	11,228

Approved for issue by the Management Board and signed on its behalf on 30 July 2004.



A.L. Kostin
Chairman and Chief Executive Officer



O.A. Avdeeva
Chief Accountant

The notes set out on pages F-52 to F-65 form an integral part of these interim consolidated financial statements.

Bank for Foreign Trade
Consolidated Statements of Income (unaudited) for the three month periods ended
March 31, 2004 and 2003
(expressed in millions of US dollars)

		For the three month periods ended	
		31 March	
	Note	2004	2003
Interest income	13	189	137
Interest expense	13	(97)	(85)
Net interest income		92	52
Provision for loan impairment	6,7	(42)	(30)
Net interest income after provision for loan impairment ...		50	22
Gains less losses arising from securities		80	107
Gains less losses arising from dealing in foreign currencies .		3	4
Gains less losses from derivative financial instruments	15	(2)	—
Foreign exchange translation gains less losses		26	10
Fee and commission income		26	17
Fee and commission expense		(2)	(1)
Other operating income		17	9
Operating income		198	168
Operating expenses	14	(101)	(87)
Profit before taxation		97	81
Income tax expense		(20)	(15)
Profit after taxation		77	66
Minority interest		(3)	(5)
Share in profit of associated company		—	1
Net profit		74	62

The notes set out on pages F-52 to F-65 form an integral part of these interim consolidated financial statements.

Bank for Foreign Trade
Consolidated Statements of Cash Flows (unaudited) for the three month periods ended
March 31, 2004 and 2003
(expressed in millions of US dollars)

		For the three month periods ended	
		31 March	
	Note	2004	2003
Cash flows from operating activities			
Interest received		188	145
Interest		(97)	(44)
Income received on operations with securities		56	152
Income received on dealing in foreign currency		27	9
Fees and commissions received		26	17
Fees and commissions paid		(2)	(1)
Other operating income received		15	15
Operating expenses paid		(96)	(80)
Income tax paid		(23)	(15)
Operating profit before changes in operating assets and liabilities		94	198
Net cash decrease (increase) in operating assets			
Net increase in mandatory cash balances with local central banks		(23)	(61)
Net (increase) decrease in restricted cash		(5)	403
Net increase in trading securities		(59)	(176)
Net increase in due from banks		(543)	(509)
Net increase in loans and advances to customers		(374)	(423)
Net increase in other assets		(63)	(27)
Net cash (decrease) increase in operating liabilities			
Net decrease in due to banks		(180)	(465)
Net (decrease) increase in customer accounts		(374)	488
Net increase in debt securities in issue		622	618
Net (decrease) increase in other liabilities		(5)	31
Net cash (used in) provided by operating activities		(910)	77
Cash flows from investing activities			
Proceeds from sales or maturities of investment securities available for sale		6	6
Purchases of investment securities available for sale		(22)	252
Purchases of investment securities held to maturity		(1)	–
Purchases of premises and equipment		(32)	–
Net cash (used in) provided by investing activities		(49)	258
Cash flows from financing activities			
Proceeds from other borrowed funds		17	–
Repayment of other borrowed funds		(13)	(241)
Cash proceeds from issue of debentures		176	61
Proceeds from issuance of Eurobonds		250	–
Net cash provided by (used in) financing activities		430	(180)
Effect of exchange rate changes on cash and cash equivalents		(4)	(5)
Net (decrease) increase in cash and cash equivalents		(533)	150
Cash and cash equivalents at beginning of the year	4	929	487
Cash and cash equivalents at the end of the period	4	396	637

The notes set out on pages F-52 to F-65 form an integral part of these interim consolidated financial statements.

Bank for Foreign Trade**Consolidated Statements of Changes in Shareholders' Equity (unaudited) for the three month periods ended March 31, 2004 and 2003***(expressed in millions of US dollars)*

Balance at 31 December 2002	2,153	34	(69)	2,118
Profit for three months.....	—	—	62	62
Other movements	—	—	—	—
Balance at 31 March 2003	2,153	34	(7)	2,180
Balance at 1 January 2004 (Note 3)	2,153	34	186	2,373
Profit for three months.....	—	—	74	74
Other movements	—	—	2	2
Balance at 31 March 2004	2,153	34	262	2,449

The notes set out on pages F-52 to F-65 form an integral part of these interim consolidated financial statements.

Bank for Foreign Trade

Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)

(expressed in millions of US dollars)

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 that the Group controls.

The Bank for Foreign Trade, more commonly known as Vneshtorgbank (the “Bank”, “Vneshtorgbank”, or “VTB”), is an open joint-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 is the second largest bank in Russia in terms of both capital and total assets under Russian Statutory Accounting Standards (according to public statistics). 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 16.

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.

The number of employees of the Group at 31 March 2004 was 7,552 (31 December 2003: 6,892).

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 November 29, 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 three-month period ended 31 March 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 date but does 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 December 31, 2003, and for the year then ended.

Income tax expense is recognised 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)***4 Cash and Short-Term Funds**

	31 March 2004	31 December 2003
Cash on hand	119	165
Cash balances with local central banks (other than mandatory reserve deposits)	112	408
Correspondent accounts with other banks		
– Russian Federation	65	195
– Other countries	206	262
Total cash and short-term funds	502	1,030
Less: restricted cash	(106)	(101)
Total cash and cash equivalents	396	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 55 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

	31 March 2004	31 December 2003
USD denominated securities		
MinFin bonds (OVGVZ)	228	500
Russian corporate Eurobonds	204	90
Bills of exchange	3	63
Other	35	12
RR denominated securities		
Bills of exchange and debentures	540	424
Federal loan bonds (OFZ)	192	92
Other	109	56
Securities denominated in other currencies		
Securities issued by foreign governments	3	3
Russian corporate Eurobonds	16	15
Other	11	15
Total trading securities	1,341	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 and yields to maturity ranging from 4% to 6%.

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 March 2013 and coupons ranging from 7.25% to 12.75%.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)*

Bills of exchange and debentures represent securities issued primarily by Russian banks, large manufacturing, telecom and oil and gas companies, and local authorities. The debentures have maturities ranging from April 2004 to January 2010 and coupon ranging from 8% to 19%.

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

6 Due from Other Banks

	31 March 2004	31 December 2003
Current term placements with other banks.....	1,825	1,792
Reverse sale and repurchase agreements with other banks.....	614	112
Overdue placements with other banks.....	121	113
Less: Allowance for loan impairment	(131)	(122)
Total due from other banks	<u>2,429</u>	<u>1,895</u>

Due from other banks include Rouble denominated loans to a Russian bank totalling USD 97 million (31 December 2003: USD 96 million). At 31 March 2004, the allowance for impairment on these loans comprised USD 97 million (31 December 2003: USD 96 million).

Movements in the allowance for loan impairment are as follows:

	2004	2003
Allowance for loan impairment at 1 January	<u>122</u>	<u>119</u>
Provision for (reversal of) loan impairment during the period.....	9	(18)
Allowance for loan impairment at 31 March	<u>131</u>	<u>101</u>

At 31 March 2004, the estimated fair value of due from other banks was USD 2,429 million (31 December 2003: USD 1,895 million).

7 Loans and Advances to Customers

	31 March 2004	31 December 2003
Current loans and advances.....	5,286	4,925
Rescheduled loans and advances	84	100
Overdue loans and advances.....	231	202
Less: Allowance for loan impairment	(465)	(432)
Total loans and advances to customers	<u>5,136</u>	<u>4,795</u>

At 31 March 2004, included in current loans is lease receivables of USD 10 million (31 December 2003: USD 9 million), equal to the net investment in the lease.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)*

Movements in the allowance for loan impairment are as follows:

	2004	2003
Allowance for loan impairment at 1 January	432	362
Provision for loan impairment during the period	33	48
Allowance for loan impairment at 31 March	465	410

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:

	31 March 2004		31 December 2003	
	Amount	%	Amount	%
Manufacturing	1,920	34	1,958	37
Trade and commerce	853	15	764	15
Finance	616	11	530	10
Energy	509	9	506	10
Transport	253	5	158	3
Food and Agriculture	230	4	205	4
Chemical	226	4	201	4
Construction	219	4	216	4
Government bodies	199	4	128	2
Telecommunications and media	190	3	161	3
Mining	134	2	185	4
Fishing	108	2	109	2
Other	144	3	106	2
Total loans and advances to customers	5,601	100	5,227	100

At 31 March 2004, the Group has 18 borrowers with aggregated loan amounts above USD 50 million. The total amount of these loans is USD 2,204 million or 39% of the gross loan portfolio. Included in loans and advances were loans to a large corporate customer totalling USD 355 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.

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.

At 31 March 2004, the total gross amount of impaired loans, on which interest was not accrued, was USD 265 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 3 million for the three month period ended March 31, 2004.

At 31 March 2004, the estimated fair value of loans and advances to customers was USD 5,136 million (31 December 2003: USD 4,795 million).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)***8 Investment Securities Available for Sale**

	31 March 2004	31 December 2003
Debt securities		
Eurobonds of the Russian Federation	435	483
MinFin bonds (OVGVZ)	83	100
Bills of exchange of Russian companies and banks	129	22
Bonds of Russian companies and banks	213	213
State bonds of foreign countries	65	122
Bonds of foreign companies and banks	79	58
Other	21	21
Equity securities		
Corporate shares	108	104
Other	69	51
Total investment securities available for sale	1,202	1,174

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 8 tranches of securities with maturity dates ranging from March 2005 to March 2030. The annual coupon rates on these bonds range 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 their nominal value and carry an annual coupon of 3%. The bonds have maturity dates ranging from May 2006 to May 2011 and yields to maturity ranging from 4% to 6%.

Bonds of Russian companies and banks are mainly Eurobonds of large Russian companies and banks, which are freely tradable internationally.

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 31 March 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.

Included in the line "other" of equity securities is an investment in Ost-West Handelsbank of USD 49 million (31 December 2003: USD 41 million). This represents 31.9% of the net assets of this bank. This associate is accounted for in these consolidated financial statements using the equity method.

Included in investment securities available for sale are securities with fair value at 31 March 2004 of USD 331 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 4 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)***9 Due to Other Banks**

	31 March 2004	31 December 2003
Correspondent accounts and overnight deposits of other banks.....	438	512
Sale and repurchase agreements with other banks	331	503
Term loans and deposits	863	797
Total due to other banks	<u>1,632</u>	<u>1,812</u>

Securities pledged against sale and repurchase agreements are available for sale securities with a fair value of USD 331 million at 31 March 2004 (31 December 2003: USD 503 million). The repurchase agreements bear interest rates ranging from 0.1% to 2.7% and mature from April 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 31 March 2004, the estimated fair value of due to other banks was USD 1,632 million (31 December 2003: USD 1,812 million).

10 Customer Accounts

	31 March 2004	31 December 2003
State and public organisations		
Current/settlement accounts	214	167
Term deposits.....	7	7
Other legal entities		
Current/settlement accounts	1,426	1,441
Term deposits.....	1,097	1,665
Individuals		
Current/settlement accounts	190	169
Term deposits.....	951	810
Total customer accounts	<u>3,885</u>	<u>4,259</u>

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 42 million (31 December 2003: USD 60 million) were held as collateral against irrevocable commitments under import letters of credit.

The Group repaid short terms deposits to three large customers for the three month period ended March 31, 2004 for the total amount of approximately USD 410 million in accordance with the terms of the original deposits.

At 31 March 2004, the estimated fair value of customer accounts was USD 3,885 million (31 December 2003: USD 4,259 million).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)***11 Other Borrowed Funds**

	31 March 2004	31 December 2003
Syndicated loans	558	560
Revolving credit lines	154	147
Total other borrowed funds	712	707

In December 2002 the Group attracted a syndicated loan of USD 225 million from a syndicate of international banks. The loan was arranged by Citibank, N.A., London and Deutsche Bank AG, London and bears an interest rate of LIBOR plus 2.7% with maturity in June 2004. In December 2003 the Group rolled-over and increased the first tranche of the loan up to USD 270 million maturing in December 2004 and bearing an interest rate of LIBOR plus 1.5%. At 31 March 2004 and 31 December 2003, the second tranche of the loan was USD 104 million.

In October 2003 the Group attracted a syndicated loan with a carrying amount of USD 175 million arranged by a group of thirteen major international financial institutions with an interest rate of LIBOR plus 1.5% and maturity in September 2004.

At 31 March 2004 syndicated loans include several JPY-denominated syndicated loans of USD 9 million arranged by Japan Bank for International Cooperation jointly with three Japanese banks with interest rates from 2.54% to 2.64% and maturity ranging from February 2006 to February 2008.

The Group attracted a revolving credit line opened with the European Bank for Reconstruction and Development (EBRD), which carries an interest rate of LIBOR plus 1.5-2%. At 31 March 2004, the carrying amount of the loan was USD 154 million (31 December 2003 USD 147 million).

12 Debt Securities in Issue

	31 March 2004	31 December 2003
Promissory notes	1,768	1,154
Eurobonds	536	298
Debentures and deposit certificates	471	286
Total debt securities in issue	2,775	1,738

In April 2002 and February 2003 the Group issued the second and third tranches of Russian Rouble denominated debentures, which are publicly traded in the Russian market. The second tranche of debentures, with a face value of USD 35 million, was issued at a discount to face value, with an effective rate of 16%. The second tranche was fully repaid at its maturity in April 2004. The market price of these securities at 31 March 2004 represented 99.8% of their face value (31 December 2003: 98%). The third tranche of debentures, with a face value USD 70 million, was issued at face value with a coupon rate ranging from 14% to 15.5% and maturing in February 2006. The market price of these bonds at 31 March 2004 was 114% of their face value. In March 2004 the Group also issued the fourth tranche of Russian Rouble denominated debentures with face value of USD 176 million. The market price of these securities at 31 March 2004 represented 100% of their face value.

In December 2003 the Group issued Series 1 USD-denominated Eurobonds with a face value of USD 300 million maturing in December 2008 under Euro Medium Term Note borrowings program of USD 2,000 million. In March 2004 the Group issued additional Series 1 Eurobonds with a face value of USD 250 million that were consolidated and formed a single series with the Eurobonds with a face value of USD 300 million. The Eurobonds carry fixed coupon payable semi-annually of 6.875%. The market price of the securities at 31 March 2004 was 102.8% (31 December 2003: 101%).

At 31 March 2004, the estimated fair value of debt securities in issue was USD 2,803 million (31 December 2003: USD 1,748 million).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)***13 Interest Income and Expense**

	31 March 2004	31 March 2003
Interest income		
Loans and advances to customers.....	125	97
Securities.....	41	28
Due from other banks	23	12
Total interest income	189	137
Interest expense		
Customer accounts	(50)	(41)
Debt securities in issue.....	(34)	(29)
Due to banks and other borrowed funds	(13)	(15)
Total interest expense	(97)	(85)
Net interest income	92	52

14 Operating Expenses

	31 March 2004	31 March 2003
Staff costs	45	42
Taxes other than on income	6	5
Depreciation and other expenses related to premises and equipment.....	4	4
Administrative expenses.....	14	9
Leasing and rent expenses.....	6	4
Professional services	1	1
Charity.....	2	1
Amortisation of goodwill	1	–
Other	22	21
Total operating expenses	101	87

15 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%.

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

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)*

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:

	31 March 2004	31 December 2003
Guarantees issued	1,615	1,514
Undrawn credit lines	510	718
Import letters of credit	143	157
Commitments to extend credit	230	162
Other credit related commitments	502	500
Less: allowance for losses on credit related commitments	(8)	(10)
Total credit related commitments	2,992	3,041

The Bank has also received export letters of credit for further advising to its customers. Total amount outstanding as of 31 March 2004 and 31 December 2003 was USD 1,335 and 1,345 million, respectively. Commitments under import letters of credit are collateralised by customer deposits of USD 42 million (31 December 2003: USD 60 million).

At 31 March 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 31 March 2004, included in guarantees issued above are guarantees issued for one Russian company of USD 990 million (61% of the guarantees issued) (31 December 2003: USD 932 million, 62% of the guarantees issued). The guarantee was secured by promissory notes issued by VTB with total nominal amount of USD 627 million (31 December 2003: USD 577 million). Movements in the allowance for losses on credit related commitments are as follows:

	2004	2003
Allowance for losses on credit related commitments at 1 January	10	10
(Release of provision)/provision for losses on credit related commitments during the period	(2)	6
Allowance for losses on credit related commitments at 31 March	8	16

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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)*

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 31 March 2004. These contracts were mainly entered into in March 2004 and settled early in April 2004.

The table below includes contracts outstanding at 31 March 2004.

	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
<i>Deals entered into in 2004:</i>						
Spot						
– sale of foreign currency	113	–	–	45	–	–
– purchase of foreign currency	126	–	–	22	–	–
– purchase of securities	5	–	1	–	–	–
Term						
-sale of securities	22	–	–	20	–	–
-purchase of securities	30	–	–	48	–	–
Swap						
– sale of foreign currency	207	–	–	2	–	–
– purchase of foreign currency	30	–	–	415	(5)	2
Total	533	–	1	552	(5)	2

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)*

The table below includes contracts outstanding at 31 December 2003.

	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
<i>Deals entered into in 2003:</i>						
Spot						
– sale of foreign currency	28	–	–	54	–	–
– purchase of foreign currency	49	–	–	26	–	–
– sale of securities	8	–	–	–	–	–
– purchase of securities	–	–	–	–	–	–
Term						
– sale of securities	25	–	–	–	–	–
– purchase of securities	–	–	–	–	–	–
Deliverable forwards						
– sale of securities	–	–	–	–	–	–
– 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 31 March 2004 the Group had a USD 388 million outstanding commitments for purchase of precious metals (31 December 2003: USD 119 million).

Assets pledged. At 31 March 2004, the Group had USD 4 million (31 December 2003: USD 56 million) of securities pledged as collateral. At 31 March 2004, the Bank also pledged securities with the fair value of USD 331 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)***(expressed in millions of US dollars)***16 Consolidated Subsidiaries and Associates**

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

Name	Activity	Country of registration	Equity controlled	
			31 March 2004	31 December 2003
Subsidiaries and Associates				
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%
East-West United Bank	Banking	Luxembourg	53.0%	53.0%
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%
Ost-West Handelsbank	Banking	Germany	31.9%	31.9%

17 Subsequent Events

In April 2004 the Group acquired 70% of the share capital of ArmSberbank located in Armenia in exchange for a cash payment of USD 9 million.

In April 2004 the Group issued under the Euro Medium Term Note Program Series 2 USD denominated floating rate Eurobonds with a face value of USD 325 million maturing in April 2005. The Eurobonds carry a floating rate coupon payable quarterly of LIBOR plus 2%.

On 22 June 2004 the Group sold 6,172 shares of East-West United Bank, Luxembourg to AFK Systema for cash of approximately USD 2 million, decreasing its participation from 53% to 48%.

On 25 June 2004 the Bank obtained and fully drew down a syndicated floating-rate loan arranged by Citibank, N.A. London and HSBC Bank Plc of USD 275 million, bearing interest rate of LIBOR plus 1.4%. The loan is repayable within 364 days of the first drawdown, with an extension option for 364 days.

On 30 June 2004, VTB’s annual meeting of shareholders declared a dividend of RUR 1.6 billion (USD 55 million at the exchange rate of RUR 29.04 per USD 1). VTB expects to pay these dividends by the end of August 2004.

In June 2004 the Bank repaid a USD 112 million portion of an outstanding syndicated loan reducing the outstanding balance of that loan to USD 270 million.

Bank for Foreign Trade

Notes to the Consolidated Financial Statements – March 31, 2004 (unaudited)

(expressed in millions of US dollars)

In July 2004, the Russian banking sector experienced a temporary liquidity crisis. As a result of the crisis, several privately-owned banks have collapsed or significantly limited their operations. Russian banks owned or controlled by the Russian Government, or the CBR, including VTB, generally remained unaffected.

In July 2004, the CBR approached VTB to acquire Guta Bank, a large bank experiencing liquidity difficulties due to the current banking market situation described above. 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). The ultimate impact of this acquisition on VTB's consolidated financial statements will be dependant upon an independent valuation, which is expected to be performed in the near future.

In connection with the acquisition of Guta Bank, the CBR provided financial assistance by placing a USD 700 million special purpose deposit with VTB at the LIBOR rate for the term of one year. The deposit is available to maintain Guta Bank's liquidity and for the use in its operations. The term of the deposit may be prolonged with the agreement of VTB and the CBR.

In July 2004 the Group also issued under the Euro Medium Term Note Program 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%.

BORROWER

JSC Vneshtorgbank
16 Kuznetsky Most Street
Moscow 103031
Russian Federation

ISSUER

VTB Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

FIDUCIARY

Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

ARRANGERS AND PERMANENT DEALERS

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Deutsche Bank AG London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Dresdner Bank Aktiengesellschaft
Jurgen-Ponto-Platz 1
60301 Frankfurt am Main
Germany

UBS Limited
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

PERMANENT DEALERS

ABN AMRO Bank N.V.
250 Bishopsgate
London EC2M 4AA
United Kingdom

Bayerische Hypo- und Vereinsbank AG
c/o Bank Austria Creditanstalt
Aktiengesellschaft
Julius-Tandler-Platz 4
1090 Vienna
Austria

Barclays Bank plc
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

BNP PARIBAS
10 Harewood Avenue
London NW1 6AA
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

ING Bank N.V., London Branch
60 London Wall
London EC2M 5TQ
United Kingdom

J.P. Morgan Europe Securities Ltd.
125 London Wall
London EC2Y 5AJ
United Kingdom

LEGAL ADVISERS TO VTB

As to U.S. and English law

Cleary, Gottlieb, Steen & Hamilton
City Place House
55 Basinghall Street
London EC2V 5EH
United Kingdom

As to Russian law

Cleary, Gottlieb, Steen & Hamilton
(CGS&H Limited Liability Company)
Paveletskaya Square 2/3
Moscow 115054
Russian Federation

LEGAL ADVISERS TO THE ARRANGERS, THE PERMANENT DEALERS AND THE TRUSTEE

As to U.S. and English law

Linklaters
One Silk Street
London EC2Y 8HQ
United Kingdom

As to Russian law

Linklaters CIS
Paveletskaya Square 2
Bld. 2
Moscow 115054
Russian Federation

LEGAL ADVISERS TO THE FIDUCIARY

As to Luxembourg law

Allen & Overy Luxembourg
56, rue Charles Martel
L-2134 Luxembourg

As to English law

Allen & Overy
One New Change
London EC4M 9QQ
United Kingdom

LEGAL ADVISERS TO THE ISSUER

As to Luxembourg law

Linklaters Loesch
4, rue Carlo Hemmer
L-1734 Luxembourg

PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT

Citibank, N.A. London
5 Carmelite Street
London, EC4Y 0PA
United Kingdom

PAYING AGENT AND TRANSFER AGENT

Citibank, N.A. New York
111 Wall St.
New York, NY 10048
United States of America

TRUSTEE

Citicorp Trustee Company Limited
Citigroup Centre, Canada Square
Canary Wharf
London E14 5LB
United Kingdom

LISTING AGENT, PAYING AGENT, TRANSFER AGENT AND CALCULATION AGENT

Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

AUDITORS TO VTB

for fiscal 2003

Ernst & Young (CIS) Limited
Sadovnicheskaya Naberezhnaya, 77, building 1
Moscow 115035
Russian Federation

for fiscal 2002 and 2001

ZAO Pricewaterhouse Coopers Audit
Kosmodamianskaya Naberezhnaya, 52, building 5
Moscow 113054
Russian Federation