



*U.S.\$750,000,000 6.315 per cent. Loan Participation Notes due 2015
with interest rate step-up in 2010*

issued by, but with limited recourse to,

VTB CAPITAL S.A.

for the purpose of financing a subordinated loan to

JSC VNESHTORGBANK

Issue Price: 100%

VTB Capital (the "Issuer") is issuing an aggregate principal amount of U.S.\$750,000,000 6.315 per cent. Loan Participation Notes due 2015 with an interest rate step-up in 2010 (the "Notes").

The Notes are limited recourse obligations of the Issuer and are being offered for the sole purpose of funding a ten-year subordinated loan (the "Subordinated Loan") to JSC Vneshtorgbank (also known as the Bank for Foreign Trade) ("VTB"), pursuant to a subordinated loan agreement dated February 3, 2005 between the Issuer and VTB (the "Subordinated Loan Agreement"). The Notes will be constituted by, be subject to, and have the benefit of, a trust deed to be dated February 4, 2005 (the "Trust Deed") between the Issuer and Citicorp Trustee Company Limited as trustee (the "Trustee") for the benefit of the holders of the Notes from time to time (the "Noteholders"). In the Trust Deed, the Issuer will charge by way of first fixed charge as security for its payment obligations in respect of the Notes (a) its right to principal, interest and other amounts as lender under the Subordinated Loan Agreement and (b) amounts received pursuant to the Subordinated Loan in an account of the Issuer (as described herein), and the Issuer will also assign absolutely its administrative rights under the Subordinated Loan Agreement to the Trustee, in each case other than the Reserved Rights (as defined in "Terms and Conditions of the Notes") and certain amounts relating to the Reserved Rights.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders for an amount equivalent to all principal, interest and additional amounts (if any) actually received by, or for the account of, the Issuer pursuant to the Subordinated Loan Agreement. The Issuer will have no other financial obligation under the Notes. Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the covenant to pay under the Subordinated Loan Agreement and on the credit and financial standing of VTB in respect of the financial servicing of the Notes.

On each Interest Payment Date (being February 4 and August 4 in each year commencing on August 4, 2005), 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 pursuant to the Subordinated Loan Agreement, which interest under the Subordinated Loan accrues at a rate of 6.315 per cent. per annum up to, but excluding, February 4, 2010 (the "Reset Date") and, provided that the Subordinated Loan is not prepaid at or before such time, from and including the Reset Date, at the Reset Rate (as defined in the Subordinated Loan Agreement).

The Subordinated Loan is intended to be eligible for inclusion into own funds (capital) ("Tier 2 Capital") of VTB under regulations of the Central Bank of Russia (the "CBR"). The Subordinated Loan Agreement provides that VTB may, in the event of any amendment or clarification of, or change in (including a change in interpretation or application of), such regulations resulting in the Subordinated Loan ceasing to qualify as Tier 2 Capital, prepay the Subordinated Loan in whole, but not in part together with accrued interest, any additional amounts and any applicable Make Whole Premium (as defined in the Subordinated Loan Agreement) on any Interest Payment Date. In addition, the Subordinated Loan Agreement provides that VTB may prepay the Subordinated Loan, in whole but not in part, together with accrued interest and any additional amounts on the Reset Date subject to the prior consent of the CBR. Upon the exercise of such option, the Issuer shall, to the extent it has received the relevant funds from VTB in prepayment of the Subordinated Loan, redeem the Notes. See "Risk Factors – Risks Relating to the Notes and the Trading Market – The Notes may be redeemed prior to their scheduled maturity due to uncertainties surrounding Russian regulatory capital regulations."

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

The Notes and the Subordinated Loan (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")).

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes will be represented by interests in a global Note in registered form (the "Global Note"), without interest coupons, which will be deposited with a common depositary 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 February 4, 2005. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. 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.

Joint Lead Managers

Barclays Capital

Deutsche Bank

HSBC

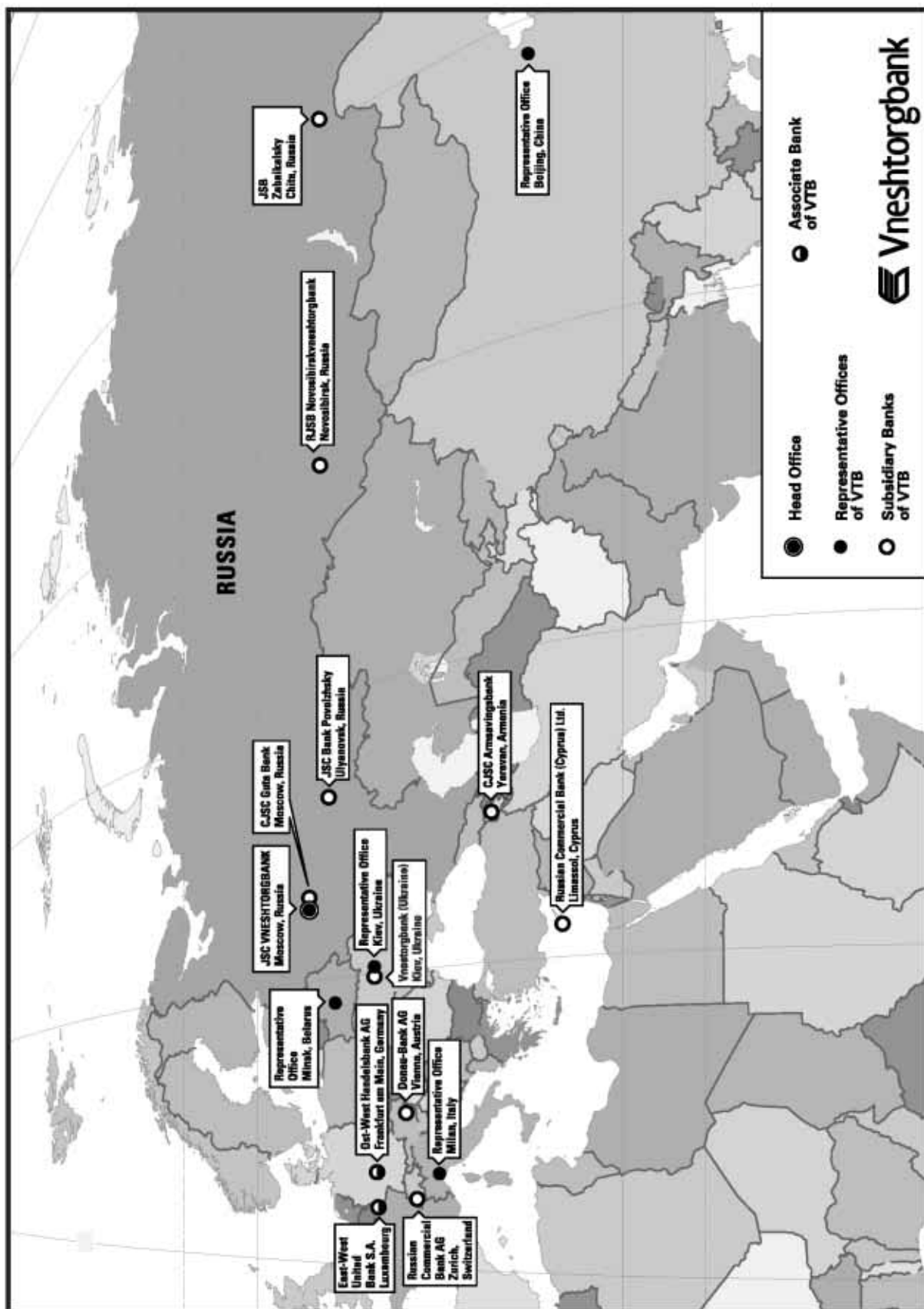
JPMorgan

Co-Managers

Alpha Bank

Nomos-Bank

The date of this Offering Circular is February 3, 2005



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 Subordinated Loan 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 Subordinated Loan 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 enquiries have been made by VTB to ascertain such facts and to verify the accuracy of all such information and statements. VTB accepts responsibility accordingly. The Issuer 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 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 (“Russia”) 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, VTB, the Group, or the Managers (as defined in “Subscription and Sale”) 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, VTB, the Group and the Managers 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 so contained must not be relied upon as having been authorised by or on behalf of the Issuer, VTB, the Group, the Trustee or the Managers. 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, VTB, the Group, or the Managers or any of their respective representatives makes 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 its own advisers as to the legal, tax, business, financial and related aspects of purchase of the Notes.

In connection with the issue of the Notes, Barclays Bank PLC or any person acting for it (in such capacity, 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 MANAGERS 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 MANAGERS ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF VTB AND THE ISSUER 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 THAT MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

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ENFORCEABILITY OF JUDGMENTS

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

- effect service of process within the United Kingdom upon any of VTB's directors or executive officers named in this Offering Circular; or
- enforce, in the English courts, judgments obtained outside the English 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, liabilities predicated upon English laws.

Judgments rendered by a court in any jurisdiction outside Russia 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 Russia and the country where the judgment is rendered and/or (ii) a federal law of Russia provides for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed and no such treaty exists between the United Kingdom and Russia for the reciprocal enforcement of foreign court judgments. See "Risk Factors – Risks Relating to the Russian Legal System and Russian Legislation – Foreign judgments may not be enforceable against VTB."

The Subordinated 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 ("LCIA"). Russia 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 Russia 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.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules of the LCIA and the application of English law to the Subordinated Loan Agreement may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies and credit organisations in particular.

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 nine months ended September 30, 2004 and 2003 (the "Interim IFRS Financial Statements"), as set forth beginning on page F-45 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 beginning on page F-2 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 Russia;
- "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;
- "£" means the lawful currency of the United Kingdom of Great Britain and Northern Ireland;
- "GEL" means the lawful currency of the Republic of Georgia ("Georgia"); and
- "Hryvna" means the lawful currency of Ukraine.

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.

Exchange Rates

Certain amounts have been translated from local currencies into U.S. dollars on a convenience basis. Unless otherwise indicated, all exchange rates relate either to the relevant date, the end of the relevant period, the date that the relevant information became available to VTB or January 22, 2005.

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 nine months ended September 30, 2004 have been reviewed by Ernst & Young (CIS) Limited, independent accountants, and their review report is included herein. 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 2004 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.

SUMMARY OF THE GROUP

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 November 2004 survey by *Kommersant: Money* magazine, a leading Russian business weekly, as of October 1, 2004 VTB was the second-largest commercial bank in Russia in terms of net assets, lending volume 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 10% market share measured by volume as of September 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 1 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 (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 nine months ended September 30, 2004, the Group generated operating income (net interest income, after the provision for loan impairment, plus other income) of U.S.\$442 million and net profit of U.S.\$67 million. Of the Group's operating income in the first nine months of 2004, net interest income after the provision for loan impairment (U.S.\$92 million) accounted for U.S.\$242 million, or 55% of operating income, gains less losses arising from securities, derivatives and foreign currency activities accounted for U.S.\$96 million, or 22% of operating income, and net fee and commission income accounted for U.S.\$74 million, or 17% 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 "Business – Other Group Banks – Domestic Banks and Participations – Domestic Banks – Gута Bank."

The Government, acting through the Federal Agency for Management of Federal Property (the "Federal Property Agency"), holds 99.9% of VTB's shares and is its controlling shareholder. Of the nine seats on VTB's Supervisory Council, six are held by representatives of various Government ministries and agencies, and one is held by representatives of each of the CBR and the Russian President and by 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 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 "F3," a long-term foreign currency rating of "BBB-," an individual rating of "C/D" and a support rating of "2" 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. In December 2004, VTB's shareholders approved the transfer of VTB's legal address to St. Petersburg. VTB expects that the transfer will take place in 2005.

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 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 Agency, 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 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 its governance and management systems.

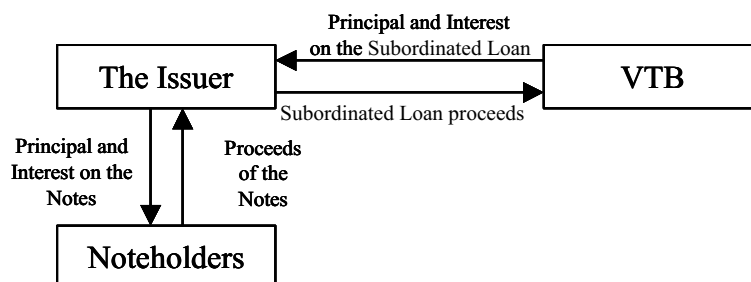
- *Expansion of Corporate Client Services.* The Group plans to expand the range and volume of its corporate client services through diversifying its corporate client base, financing new projects in the Russian economy, expanding services provided to small businesses in Russia, maintaining and strengthening 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, in particular term 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 16 additional branches and approximately 163 additional sub-branches and outlets in Russia by 2008 and to expand its

operations within the CIS. See “Business – VTB’s Branch Network,” “Business – Other Group Banks – Foreign Banks – Development” and “Business – Other Group Banks – Foreign 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 that envisions transferring ownership of foreign banks outside the CIS to a single subsidiary bank. This bank will be the Group’s primary foreign bank and will manage the operations of the Group’s foreign banks outside the CIS. VTB may also, in the future, rebrand the foreign banks with the VTB name and convert some of them into branches of VTB. See “Business – Other Group Banks – Foreign Banks – Development.”
- *Developing Investment Banking in Russia.* Due partly 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 “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, putting in place a code of corporate conduct, 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 STRUCTURE

The following summary descriptions of the structure and the offering should be read in conjunction with, and is qualified in its entirety by, the Terms and Conditions of the Notes and the provisions of the Subordinated Loan Agreement, which are set out elsewhere in this Offering Circular.



The transaction will be structured as a subordinated loan (the “Subordinated Loan”) to VTB by the Issuer. The Issuer will issue the Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the Subordinated Loan to VTB. The Notes will be constituted by, be subject to, and have the benefit of, the Trust Deed. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement less any amount in respect of the Reserved Rights (as defined in the Trust Deed).

As provided in the Trust Deed, the Issuer will charge by way of first fixed charge in favour of the Trustee for the benefit of the Noteholders as continuing security for its payment obligations in respect of the Notes (the “Charge”):

- All principal, interest and other amounts payable by VTB to the Issuer under the Subordinated Loan Agreement;
- The right to receive all sums which may be or become payable by VTB under any claim, award or judgment relating to the Subordinated Loan Agreement; and
- All the rights, title and interest in and to all sums of money now or in the future deposited in an account with Citibank, N.A. London, in the name of the Issuer (the “Account”) and the debts represented thereby (including interest from time to time earned on the Account, if any),

provided, in each case, that Reserved Rights and any amounts relating to Reserved Rights are excluded from the Charge.

In addition, the Issuer, with full title guarantee, will assign absolutely to the Trustee for the benefit of the Noteholders all the rights, title, interest and benefits, both present and future, which have accrued or may accrue to the Issuer, as lender under or pursuant to the Subordinated Loan Agreement (including, without limitation, all monies payable to the Issuer and any claims, awards and judgments in favour of the Issuer in connection with the Subordinated Loan Agreement and the right to take proceedings to enforce the obligations of VTB under the Subordinated Loan) other than any rights, interests and benefits which are subject to the Charge and other than the Reserved Rights and any amounts relating to the Reserved Rights. As a consequence of such assignment, the Trustee will assume the rights of the Issuer under the Subordinated Loan Agreement as set out in the relevant provisions of the Trust Deed.

The Issuer will covenant not to agree to any amendments to or any modification or waiver of, or authorise any breach of, the terms of the Subordinated Loan Agreement unless the Trustee has given its prior written consent and the CBR has given its approval. 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 the Subordinated Loan Agreement, save as otherwise provided in the Trust Deed and except in relation to the Reserved Rights. Any amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with Condition 14 of the Terms and Conditions relating to the Notes and shall be binding on the Noteholders.

The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, that is, the earlier of the failure by the Issuer to make any payment of principal or interest on the Notes when due, subject to any applicable grace period, or certain events of insolvency relating to the Issuer.

SUMMARY OF THE OFFERING

Issuer/Lender	VTB Capital S.A.
Borrower	JSC Vneshtorgbank.
Offering	U.S.\$750,000,000 6.315 per cent. Notes due 2015 with interest rate step-up in 2010.
Trustee	Citicorp Trustee Company Limited.
Principal Paying Agent and Transfer Agent	Citibank, N.A. London.
Registrar	Citibank, N.A. London.
Luxembourg Paying Agent, Transfer Agent and Calculation Agent	Deutsche Bank Luxembourg S.A.
Issue Price of Notes	100 per cent. of the principal amount of Notes.
Issue Date	February 4, 2005.
Maturity Date	February 4, 2015.
Interest	The issuer will account, semi-annually in arrear on February 4 and August 4 in each year to the Noteholders for an amount equal to the amounts of interest actually received by it pursuant to the Subordinated Loan Agreement, which interest under the Subordinated Loan Agreement is equal to 6.315 per cent. per annum from the Issue Date to the Reset Date (as defined in the Subordinated Loan Agreement) and, provided that the Subordinated Loan Agreement is not prepaid at or before such time, from and including the Reset Date, at the Reset Rate (as defined in the Subordinated Loan Agreement), all as more fully described under “Terms and Conditions of the Notes.”
Limited Recourse	The Notes will constitute the obligations of the Issuer to apply the proceeds from the issue of the Notes solely for the purpose of financing the Subordinated Loan to VTB pursuant to the terms of the Subordinated Loan Agreement. The Lender must only account to the Noteholders for the amounts equivalent to those (if any) received from VTB under the Subordinated Loan Agreement or held on deposit in the Account less amounts in respect of the Reserved Rights (as defined in the Trust Deed), all as more fully described under “Terms and Conditions of the Notes.”
Status of the Notes	The Notes constitute unsecured and unsubordinated obligations of the Issuer and shall at all times rank <i>pari passu</i> and without preference among themselves, all as more fully described under “Terms and Conditions of the Notes – Status.”
Status of the Subordinated Loan	Any rights under the provisions of the Subordinated Loan Agreement against VTB in respect of the principal of, and interest on, the Subordinated Loan will be subordinated, in the event of a winding-up of VTB or in the event of the administration of VTB where the administrator makes a distribution to creditors, to the claims of Senior Creditors (as defined in the Subordinated Loan Agreement) in accordance with the Federal Law “On Insolvency (Bankruptcy) of Credit Organisations” No. 40-FZ dated 25 February 1999 (as amended), will rank at least <i>pari passu</i> with the claims of other

subordinated creditors of VTB and will be senior to the claims of holders of VTB's share capital.

Form	The Notes will be issued in registered form in the denomination of U.S.\$100,000 or integral multiples of U.S.\$1,000 in excess thereof, without interest coupons attached, and will be represented by the Global Note. The Global Note will be exchangeable for Notes in definitive form in the limited circumstances specified in the Global Note. See "Summary of the Provisions Relating to the Notes in Global Form."
Initial Delivery of Notes	On or before the Issue Date, the Global Note will be deposited with Citibank, N.A. London, as a common depositary for Euroclear and Clearstream, Luxembourg. The Notes will be registered in the name of Citivic Nominees Limited as nominee of the common depositary for such clearing systems.
Withholding Tax	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 Russia or the Grand Duchy of Luxembourg ("Luxembourg") or any authority thereof or therein having the power to tax, unless the deduction is required by law. In such event, the Issuer shall pay such additional amounts as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such deduction or withholding had been required, but only to the extent and only at such time as the Issuer receives an equivalent amount from VTB under the Subordinated Loan Agreement. See "Terms and Conditions of the Notes – Taxation."
Call Option	Under the terms of the Subordinated Loan, VTB will have the right to prepay the Subordinated Loan either (a) subject to the prior consent of the CBR, on the Reset Date or (b) following the CBR's first unconditional approval of the Subordinated Loan Agreement and the Subordinated Loan as Tier 2 Capital, on any Interest Payment Date (as defined in the Subordinated Loan Agreement) if, as a result of any amendment or clarification of, or change in (including a change in interpretation or application of), Regulation of the CBR No. 215-P of 10 February 2003 "On the method of determination of own funds (capital) of credit organisations" (as amended, supplemented or replaced) ("Regulation No. 215-P") or other applicable requirements of the CBR, the Loan would cease to qualify as Tier 2 Capital. In such circumstances, if the Subordinated Loan is repaid prior to the Maturity Date, all Notes outstanding will become due and redeemable or repayable at par, together with interest accrued to the date of such redemption, and, if the prepayment is to be pursuant to (b) above, the Make Whole Premium (as defined in the Subordinated Loan Agreement), if any.
Tax or Illegality Redemption	The Issuer may, subject to the prior consent of the CBR, redeem the Notes, in whole but not in part, at their principal amount, together with interest accrued to the date of redemption, if (i) certain changes in taxation in Russia or Luxembourg result in additional payments being required or (ii) it becomes unlawful or contrary to applicable law, regulation, regulatory requirement or directive for the Issuer to allow all or part of the Notes or the Subordinated Loan to remain outstanding, all as further described in "Terms and Conditions of the Notes – Redemption and Purchase – Early Redemption."

Events of Default	For a description of certain events that will permit the acceleration of the Notes and/or the commencement of proceedings for the winding up of VTB and the proving of claims in any liquidation of VTB, see “Terms and Conditions of the Notes – Enforcement.”
Use of Proceeds	The Issuer will use the gross proceeds from the offering of the Notes for the sole purpose of financing the Subordinated Loan to VTB. VTB will use the gross proceeds of the Subordinated Loan, which will be U.S.\$750,000,000, for general corporate purposes. The Issuer and VTB will receive the proceeds of the Notes and the Subordinated Loan, respectively, on a gross basis. VTB will separately pay an arrangement fee, as increased by front-end fees, commissions and expenses, of U.S.\$3,539,063.43 to the Issuer, and the Issuer will separately pay fees, commissions and expenses of U.S.\$3,539,063.43 to various parties, including itself and the Managers.
Further Issues	The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes on the same terms as existing Notes and such further Notes shall be consolidated and form a single series with such existing Notes.
Ratings	The Notes have been rated Baa2 by Moody’s, BB+ by Fitch and BB– by S&P. 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 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.
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange.
Governing Law	The Notes will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg Law on commercial companies of August 10, 1915, as amended, are excluded.
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. The Notes may be sold in other jurisdictions (including the United Kingdom, the Russian Federation, Luxembourg, Germany, Hong Kong, Italy, the Netherlands, Singapore and Switzerland) only in compliance with applicable laws and regulations. See “Subscription and Sale” and “Transfer Restrictions.”
Risk Factors	An investment in the Notes involves a high degree of risk. See “Risk Factors.”
ISIN	XS0211922017
Common Code	221192201

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 the Subordinated Loan Agreement and, as a result, the debt service on the 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 89% (U.S.\$392 million) for the nine months ended September 30, 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 December 1, 2004, 1,304 banks and other non-bank credit organisations that have banking licences were registered in Russia. An additional 227 credit organisations had had their banking licences 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 Agency holds 99.9% of VTB's shares and is its controlling shareholder. Of the nine seats on VTB's Supervisory Council, six are held by representatives of various Government ministries and agencies, and one is held by representatives of each of the CBR and the Russian President and by 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 Russia and its successor, the Federal Property Agency) 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 Gута Bank. See "Business – Other Group Banks – Domestic Banks and Participations – Domestic Banks – Gута 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 European Bank for Reconstruction and Development (the "EBRD") and the International Finance Corporation (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 Russia," 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."

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

In the last three years and the first nine months 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 55% of the Group's operating income in the first nine months 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 55% of the Group's total assets as of September 30, 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 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 seeking lower-cost funding in the international capital and interbank markets, increasing its loan-to deposit ratio, investing in high-yield corporate securities 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.

Partly as a result of these strategies, the Group's net interest margin rose in the first nine months of 2004 compared to the same period in 2003. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – General Market Conditions and Operating Environment" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Periods Ended September 30, 2004 and 2003 – Net Interest Income Before Provision for Loan Impairment."

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.\$96 million (22% of operating income) in the first nine months 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, Government action 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 "Risk Management – Market Risks – Securities Portfolio Risk."

Prices of Russian securities declined significantly in the second quarter of 2004, negatively affecting the Group's revenues for that period, but rose again in the third quarter of 2004 and remained relatively stable in the fourth quarter of 2004 and early 2005. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Principal Activities," "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Periods ended September 30, 2004 and 2003 – Non-Interest Income – Gains Less Losses from Securities" and "Business – Banking Services and Activities – Proprietary Activities."

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 56% in the first nine months of 2004 compared to the same period in 2003. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Principal Activities" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Periods ended September 30, 2004 and 2003 – Non-Interest Income – Gains less losses from securities." 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.

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.

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. "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"). 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 require approval by a majority of the disinterested directors of the company. In cases where all the directors are interested, where 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 of certain share placements, a majority vote of the disinterested shareholders of the company is also 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 Russia, 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.

There were procedural irregularities in the election of VTB’s current Supervisory Council

At their extraordinary meeting on December 15, 2004, VTB’s shareholders elected a new Supervisory Council, whose members were nominated by VTB’s principal shareholder, the Federal Property Agency. However, the Federal Property Agency made the Supervisory Council nominations later than is required by Russian law and VTB’s charter. As a result, the election of the Supervisory Council may be challenged by VTB’s 0.1% minority shareholders within six months of the date on which the challenging shareholder learned or was supposed to have learned about the election, although VTB believes that the possibility of such a challenge is remote.

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 nine months of 2004, by 60% to U.S.\$7.7 billion. These figures represent 41%, 43% and 55% of the Group’s total assets as of December 31, 2002, December 31, 2003 and September 30, 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 September 30, 2004, the manufacturing, finance, trade and commerce and energy sectors accounted for 30%, 14%, 12% and 7%, respectively, of the Group’s gross loan portfolio (excluding loans to banks and off-balance sheet credit related commitments). As of that date, total loans to the Group’s 10 largest borrowers amounted to U.S.\$2.5 billion, representing 31% 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 company operating in the energy sector and its subsidiaries, amounted to U.S.\$397 million, representing 5% of the Group’s gross loan portfolio (excluding loans to banks and off-balance sheet credit related commitments). In addition, in December 2004, a group of banks that included Russian Commercial Bank (Cyprus) Limited (“RCB-Cyprus”), a wholly-owned subsidiary of VTB, made a U.S.\$1 billion loan to a Russian company operating in the metals and mining industry. RCB-Cyprus’ portion of the loan was U.S.\$450 million. 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 to Russian companies in industries 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 7% as of September 30, 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 5% as of September 30, 2004 (constituting loans to a company operating in the energy sector and its subsidiaries). However, its exposure to its single largest borrower increased in December 2004, as described above. 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 its 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 “– 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 379% and 29% in 2003 and the first nine months of 2004, respectively, 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 September 30, 2004, the Group had issued guarantees amounting to U.S.\$1.9 billion and import letters of credit amounting to U.S.\$261 million. Guarantees issued to one Russian company as of that date accounted for 59% (U.S.\$1,063 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.\$1.3 billion 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 – Contingencies, Commitments and Derivative Financial Instruments" and "Risk Management – Credit Risk – Credit Approval Procedures for Legal Entities – Credit Related Commitments."

As of September 30, 2004, the Group had an allowance of U.S.\$26 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.

VTB's measures to prevent money laundering and/or terrorist financing may not be completely effective

The existence of "black" and "grey" market economies in Russia, the presence of organised crime in the economy, loopholes in legislation and lack of administrative guidance on its interpretation increase the risk of Russian financial institutions being used as vehicles for money laundering. In addition, recent terrorist attacks in Moscow and in the south of Russia point to the existence of terrorist financing networks that support terrorist activities in Russia.

VTB has implemented measures aimed at preventing it being used as a vehicle for money laundering and/or terrorist financing. See "Risk Management – Procedures for Prevention of Money Laundering and Terrorist Financing." However, there can be no assurance that these measures will be completely effective. If VTB is associated with money laundering and/or terrorist financing, its reputation and financial performance may be adversely affected.

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 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 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 Russia

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 Russia was abolished and certain of its functions were transferred to the Federal Property Agency, 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

Russia 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 confirmed by regional legislatures are designed to minimize 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.

Moreover, 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 “The Banking Sector and Banking Regulation in Russia – Brief History of the Russian Banking Sector.” As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks, including Gута Bank, experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the Government or the CBR, including VTB, as well as foreign-owned banks, generally were not adversely affected by the turmoil. Although VTB believes that this turmoil in the Russian banking sector did not and will not have any material adverse effect on its business, VTB may face losses 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, tax claims brought by the Government against Yukos and the subsequent sale of OJSC Yuganskneftegaz, Yukos’ primary production unit, 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 or similar events may continue to affect the Russian market negatively 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.

Although the quality of tax legislation has generally improved with the introduction of the Tax Code, the possibility exists that Russia may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect VTB’s business. 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. Taxpayers and the Russian tax authorities often interpret the tax laws differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively. 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.

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 minimize 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 led, among other things, to 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 has 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 the interests of the Government and individual officials. Additionally, published reports indicate that certain members of the Russian media have published biased articles in exchange for payment. Although VTB and other Group members have internal compliance procedures to counteract effects of crime and corruption, its business, and the value of the Notes, could be adversely affected 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 has also been developing regulations on bank capital and bringing them into line with international standards. Currently, CBR regulations on bank regulatory capital are relatively new, rudimentary and untested, which could lead to uncertainty in their application and interpretation. See “Risk Factors – Risks Relating to the Notes and the Trading Market – The Notes may be redeemed prior to their scheduled maturity due to uncertainties surrounding Russian regulatory capital regulations.”

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 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. 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. Under CBR regulations adopted so far, such mandatory reserves and special account requirements do not apply to credit institutions. 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 further 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 Russia 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 Russia and the country where the judgment is rendered and/or (ii) a federal law of Russia provides for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed and no such treaty exists between the United Kingdom and Russia for the reciprocal enforcement of foreign court judgments. Thus, the enforcement of the court judgments rendered in the United Kingdom against VTB in Russia 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. Russia 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 Russia 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.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules of the London Court of International Arbitration and the application of English law to the Subordinated Loan Agreement may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies and credit organisations in particular.

The legislative framework governing bankruptcy in Russia 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 laws often differ from comparable laws in Western European countries and may be subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders against VTB would be resolved in the case of VTB's bankruptcy. In addition, under Russian law, VTB's obligations under the Subordinated Loan Agreement would be subordinated to the claims of its unsubordinated creditors. See "Risk Factors – Risks Relating to the Notes and the Trading Market – VTB's payment obligations under the Subordinated Loan are subordinated to the claims of its unsubordinated creditors."

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

VTB's payment obligations under the Subordinated Loan are subordinated to the claims of its unsubordinated creditors

VTB's obligations in respect of the payment of principal and interest under the Subordinated Loan, are subordinated in right of payment to the claims of its unsubordinated creditors. As a result, in case of the insolvency, liquidation, dissolution, winding up or analogous events of VTB (each a "Bankruptcy Event"), VTB's assets will be available to satisfy obligations in respect of the Subordinated Loan only after the claims of all unsubordinated creditors have been satisfied in full. Such remaining assets may not be sufficient to satisfy VTB's obligations under the Subordinated Loan.

The Subordinated Loan Agreement does not prohibit or limit the incurrence by VTB of unsubordinated indebtedness, other subordinated indebtedness that ranks equally with the indebtedness under the Subordinated Loan or other liabilities by VTB. Incurrence of such additional indebtedness or other liabilities could adversely affect VTB's ability to make payments under the Subordinated Loan. As of September 30, 2004, VTB had U.S.\$1,088 million of senior long-term indebtedness (in addition to indebtedness incurred in the ordinary course of its banking business, such as deposits). VTB anticipates that, from time to time, it will incur additional indebtedness, including unsubordinated indebtedness.

Winding up action commenced outside of Russia may not be recognised in Russia

The Subordinated Loan Agreement contains limited events of default and early repayment provisions. Upon (a) a failure by VTB to pay amounts payable under the Subordinated Loan Agreement, or (b) following the occurrence of a Bankruptcy Event, then in the case of (a), proceedings may be instituted in the manner and to the extent contemplated by the applicable law for the winding up or liquidation of VTB and in the case of (b), amounts payable under the Subordinated Loan Agreement may be declared immediately due and payable and, in each case, a claim may be made in a bankruptcy proceeding. However, if proceedings in connection with (a) for the winding up or liquidation are commenced outside of Russia, there is a risk that a Russian court would refuse to recognise any judgment in such proceedings on the basis of the mandatory application of Russian laws, which may result in payment of principal, accrued interest and additional amounts, if any, due under the Subordinated Loan Agreement not being paid in full. See "Risk Factors – Risks Relating to The Russian Legal System and Russian Legislation – Foreign judgments may not be enforceable against VTB."

The Notes may be redeemed prior to their scheduled maturity due to uncertainties surrounding Russian regulatory capital regulations

With respect to regulatory capital for banks and subordinated loans in particular, the concept of subordinated debt is relatively new in Russia, and the rules governing subordinated debt may be subject to further review, clarification and development. In particular, the regulatory capital regulations of the CBR are currently rudimentary as compared with regulatory capital legislation enacted in other jurisdictions, which could lead to uncertainty and a lack of clarity in the interpretation and application of such regulations. Furthermore, the CBR regulations do not currently address certain important concepts such as call options, step-up coupons and other issues relating to subordinated debt which are generally accepted as standard in the world's more developed financial markets, and which are contained in the Subordinated Loan Agreement. In this respect VTB is relying on letters issued by the CBR in response to VTB's requests to confirm, *inter alia*, that the CBR agrees with the structural aspects of the issue of the Notes. In addition, VTB is relying on conversations that it had with representatives of the CBR both before and after the receipt of these letters. Such letters issued by the CBR to VTB, as well as such conversations, are informal individual clarifications and do not have the effect of legislation, and as such they may, at any time, be revised, revoked and/or disappplied.

On the basis of the above, VTB expects the CBR to deliver its final approval and conclusion (*zakluchenie*) on the regulatory capital treatment of the Subordinated Loan between 30 and 90 days after the issue date of the Notes. There can, however, be no guarantee that such approval and conclusion will be granted. If the CBR does not initially grant such approval or conclusion, VTB will not have the right under the Subordinated Loan Agreement to prepay the Subordinated Loan pursuant to Clause 5.2(b) of the Subordinated Loan Agreement.

If such approval and conclusion are granted by the CBR, there is a risk either that the interpretation of such capital treatment could change or that the regulatory capital rules could be subsequently amended or clarified. As a result, VTB could lose the regulatory capital treatment granted to the Subordinated Loan Agreement and, therefore, exercise the right (described below) to prepay the Subordinated Loan which would result in the early repayment of the Notes.

Clause 5.2(b) of the Subordinated Loan Agreement provides that VTB will, *inter alia*, have the right, following the CBR's delivery of its first unconditional approval on the treatment of the Subordinated Loan as Tier 2 Capital, to prepay the Subordinated Loan, in whole but not in part, on any Interest Payment Date if, as a result of any amendment or clarification of, or change in (including a change in interpretation or application of), Regulation 215-P or other applicable requirements of the CBR, the Subordinated Loan would cease to qualify as Tier 2 Capital. If the Subordinated Loan is prepaid pursuant to this provision, all Notes will become due and repayable at their principal amount plus interest and the Make Whole Premium (as defined in the Subordinated Loan Agreement), if any.

VTB understands (and has received to this effect a written confirmation from the CBR) that the CBR proposes to amend its regulations governing subordinated debt (in particular, in Regulation No. 215-P) to include a five-year call option. This may reduce some of the aforementioned risk.

Prepayment of the Subordinated Loan may require the consent of the CBR

Certain of the provisions of the Subordinated Loan Agreement providing for the prepayment of the Subordinated Loan are subject to the consent of the CBR. There can be no guarantee that the consent of the CBR will be forthcoming at any time that the Subordinated Loan would otherwise be subject to prepayment pursuant to such provisions and, consequently, that VTB will be able to prepay at such time.

Payments under the Notes are limited to the amount of certain payments received under the Subordinated Loan Agreement

The Issuer is only obliged to make payments to the Noteholders under the Notes 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 VTB pursuant to the Subordinated Loan Agreement. Consequently, if VTB fails to meet its payment obligations under the Subordinated Loan Agreement in full, this will result in the Noteholders 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 Subordinated Loan Agreement. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Subordinated 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 the Subordinated Loan Assignment.

In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by VTB of its obligations under the Subordinated 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. The Notes are 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 the Subordinated 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 Issuer on the Subordinated 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 the Subordinated 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 the Subordinated 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 the Subordinated Loan are subject to any withholding of Russian or Luxembourg tax (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding), VTB will be obliged under the terms of the Subordinated 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 Subordinated 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 the Subordinated Loan in full. In such case, the Notes would 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 the 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 the Trust Deed

Under the Trust Deed, the Issuer will charge and assign all its present and future rights and interests in respect of the Subordinated Loan Agreement and the Account to the Trustee as security for the payment obligations of the Issuer under the 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 judgment. 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 the 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 Issuer will use the gross proceeds from the offering of the Notes for the sole purpose of financing the Subordinated Loan to VTB. VTB will use the gross proceeds of the Subordinated Loan, which will be U.S.\$750,000,000, for general corporate purposes. The Issuer and VTB will receive the proceeds of the Notes and the Subordinated Loan, respectively, on a gross basis. VTB will separately pay an arrangement fee, as increased by front-end fees, commissions and expenses, of U.S.\$3,539,063.43 to the Issuer, and the Issuer will separately pay fees, commissions and expenses of U.S.\$3,539,063.43 to various parties, including itself and the Managers.

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 September 30, 2004 and as adjusted to reflect the borrowing under the Subordinated Loan Agreement. 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 September 30, 2004⁽¹⁾	
	Actual	As Adjusted⁽²⁾
	<i>(millions of U.S. dollars)</i>	
Current portion of senior long-term debt⁽³⁾	1,296	1,296
Senior long-term debt		
Eurobonds and debentures	1,079	1,079
Other borrowings	9	9
Total senior long-term debt⁽⁴⁾	1,088	1,088
Borrowing under the Subordinated Loan Agreement	–	750
Total long-term debt⁽⁵⁾	1,088	1,838
42,137,236 ordinary shares with a par value of RUR1,000 each, issued and outstanding	2,153	2,153
Share premium	34	34
Retained earnings and other reserves	196	196
Total shareholders' equity	2,383	2,383
Total capitalisation	4,767	5,517

(1) Unaudited.

(2) Adjusted figures correspond to the consolidated capitalisation of the Group as of September 30, 2004, as adjusted to reflect the borrowing under the Subordinated Loan Agreement as if such borrowing occurred on September 30, 2004.

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

(4) The Group's senior long-term debt (with remaining contractual maturity of over one year) also includes U.S.\$942 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.

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

On October 12, 2004, VTB Capital S.A. issued U.S.\$450 million 7.50% Series 4 notes (the "Series 4 Notes") under its medium-term note programme (the "MTN Programme"). The maturity date of the Series 4 Notes is October 12, 2011. The proceeds of the Series 4 Notes were deposited with the Deutsche Bank Luxembourg S.A. on October 12, 2004. On that date, Deutsche Bank Luxembourg S.A. made a loan to VTB. The terms of the loan corresponded to the terms of the Series 4 Notes.

In October 2004, VTB made two drawdowns, for a total of U.S.\$2,700,000, and in December 2004, six drawdowns, for a total of U.S.\$102,000,000, under a revolving credit line from the EBRD. These loans have an interest rate of LIBOR plus 1% and must be repaid within a year of drawdown.

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

On December 22, 2004, VTB Capital S.A. issued U.S.\$350 million floating rate Series 5 notes (the "Series 5 Notes") under the MTN Programme. The maturity date of the Series 5 Notes is June 22, 2006. The proceeds of the Series 5 Notes were deposited with Deutsche Bank Luxembourg S.A. on December 22, 2004. On that date, Deutsche Bank Luxembourg S.A. made a loan to VTB. The terms of the loan corresponded to the terms of the Series 5 Notes.

On December 24, 2004, VTB signed a loan agreement with ABN AMRO Bank N.V., Citibank N.A. London and ING Bank N.V. The loan has a principal amount of U.S.\$300 million and an interest rate of LIBOR plus 1.0%. It was fully drawn down on December 29, 2004 and is scheduled to be fully repaid on March 29, 2005.

On January 24, 2005, VTB signed a loan agreement with Bank Austria Kreditanstalt AG. The loan has a principal amount of €130 million and an interest rate of EURIBOR + 1.15%. The loan was fully drawn down on January 26, 2005 and is scheduled to be repaid on January 25, 2006. German-law governed debt instruments (*Schuldscheindarlehen*) evidencing the loan were issued and sold to institutional investors.

There have been no other material changes in the Group's consolidated capitalisation since September 30, 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 nine months ended September 30, 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 nine months ended September 30,		For the year ended December 31,		
	<u>2004⁽¹⁾</u>	<u>2003⁽¹⁾</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(millions of U.S. dollars)				
Selected Income Statement Data					
Net interest income (before (provision)/release of provision for loan impairment)	334	205	320	348	288
(Provision)/release of provision for loan impairment	(92)	(78)	(78)	36	(207)
Net gains from trading securities	56	57	105	36	116
Net gains from investment securities available for sale	24	125	105	168	320
Net gains from dealing in foreign currencies	14	14	34	17	15
Net fee and commission income	74	47	68	38	31
Profit before taxation	102	164	270	384	496
Net profit	67	116	264	261	310

(1) Unaudited.

	<u>As of September 30,</u>	<u>As of December 31,</u>		
	<u>2004⁽¹⁾</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<i>(millions of U.S. dollars)</i>			
Selected Balance Sheet data				
Loans and advances to customers, net.....	7,650	4,795	3,016	2,198
Trading securities.....	1,559	1,270	921	233
Total assets.....	14,033	11,228	7,272	6,128
Related party assets.....	13	—	—	675
Customer accounts.....	5,081	4,259	2,437	1,783
Due to other banks.....	1,760	1,812	1,285	597
Debt securities issued.....	3,214	1,738	460	365
Total liabilities.....	11,580	8,750	5,078	4,243
Related party liabilities.....	—	—	—	1,290
Guarantees and import letters of credit issued.....	2,154	1,671	349	285
Related party guarantees and import letters of credit....	—	—	—	—
Shareholders' equity.....	2,383	2,373	2,118	1,835

(1) Unaudited.

	As of and for the nine months ended September 30,		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⁾	12,631	8,457	9,102	6,510	5,418
Average shareholders' equity ⁽²⁾	2,378	2,156	2,235	1,981	1,709
Profitability					
Return on average shareholders' equity ⁽³⁾	2.8%	5.4%	11.8%	13.2%	18.1%
Return on average total assets ⁽⁴⁾	0.5%	1.4%	2.9%	4.0%	5.7%
Average shareholders' equity as a percentage of average total assets	18.8%	25.5%	24.6%	30.4%	31.5%
Liquidity					
Net loans/total assets ⁽⁵⁾	54.5%	44.5%	42.7%	41.5%	35.9%
Net loans/customer deposits ⁽⁶⁾	150.6%	124.0%	112.6%	123.8%	123.3%
Customer deposits/total liabilities ⁽⁷⁾	43.9%	47.0%	48.7%	48.0%	42.0%
Capital adequacy					
Tier 1 capital ratio (BIS) ⁽⁸⁾	14.3%	20.3%	19.6%	26.1%	22.1%
Shareholders' equity/total assets ⁽⁹⁾	17.0%	22.8%	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 September 30 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 September 30 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 September 30 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 September 30 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 September 30 or December 31 of the relevant period.

(7) Customer accounts divided by total liabilities, calculated as of September 30 or December 31 of the relevant period.

(8) Tier 1 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 September 30 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 and analysis should be read in conjunction with the Interim IFRS Financial Statements as of and for the periods ended September 30, 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 have been extracted without material adjustment from the IFRS Financial Statements. The financial data extracted from the Interim IFRS Financial Statements is unaudited.

The following discussion and analysis use averages that are not calculated on a daily basis. If the averages were calculated on a daily basis, they would differ from those appearing below, as would data (such as net interest margin and net interest spread) that are based on such averages.

Overview

Principal Activities

The Group conducts operations across Russia and in parts of Europe. According to a November 2004 survey by *Kommersant: Money* magazine, a leading Russian business weekly, as of October 1, 2004, VTB was the second-largest commercial bank in Russia in terms of net assets, lending volume and retail deposits (all as calculated under RAR). VTB offers 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 the Group had no CBR funding. 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 the one-year LIBOR rate for a term of one year. As of September 30, 2004, the fair value of this deposit (amortised through period-end) was U.S.\$692 million, as it was placed with VTB at a below-market interest rate. The deposit is available to maintain Gута Bank's liquidity, and VTB may also use the undrawn funds in its operations. The term of the deposit may be prolonged with the agreement of VTB and the CBR. See "Business – Other Group Banks – Domestic Banks and Participations – Domestic Banks – Gута Bank." VTB believes that as long as the Government remains its controlling shareholder, 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 – Diversifying VTB's Shareholder Base." 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 48 full-service branches, 92 sub-branches and 50 outlets, which offer a limited range of banking services, and four other domestic banks (including Gута Bank, acquired in July 2004 as discussed below). The Group operates outside Russia through six bank subsidiaries of VTB, located in Armenia (acquired in April 2004), Austria, Cyprus, Georgia (acquired in January 2005), Switzerland and Ukraine (not yet fully operational), 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 Gута 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 Banks and Participations – Domestic Banks – Gута 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 thousand at the exchange rate of RUR 29.07 per U.S.\$1.00). At the time of the acquisition, the fair value of Guta Bank’s assets was U.S.\$666 million and the estimated fair value of its liabilities was U.S.\$747 million, resulting in negative equity of U.S.\$81 million. VTB recorded U.S.\$71 million of goodwill as a result of this acquisition (the U.S.\$81 million negative equity offset in part by the \$10 million in value attributed to the CBR deposit described above). As of the date of the acquisition, Guta Bank had a net loan exposure of approximately U.S.\$240 million to companies related to its former shareholders.

VTB began consolidating Guta Bank in the third quarter of 2004, from July 16, 2004, the date of acquisition. For a detailed breakdown of the fair value and carrying value of Guta’s assets and liabilities as of the date of the acquisition, see Note 19 to the Interim Financial Statements.

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 2004. As a result, securities declined to 25.9%, 21.8% and 18.3% of the Group’s total assets as of December 31, 2002 and 2003, and September 30, 2004, whereas net client loans and advances grew from 35.9% of the Group’s total assets as of December 31, 2001 to 41.5%, 42.7% and 54.5% as of December 31, 2002 and 2003, and September 30, 2004, 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, 31.8% in 2003 and 18.1% in the first nine months of 2004.

During the nine month periods ended September 30, 2003 and 2004, net gains from securities comprised 43.8% and 18.1% of operating income, respectively. The decrease of net gains from securities as a percentage of total operating income in the first nine months of 2004 was due to an increase in the proportional share of net interest income to total operating income and the overall decline in the prices of Russian equity and debt securities during the period. In 2004, the Russian debt and equity securities markets rose during the first quarter of 2004, reached their peak in April 2004, and declined through the rest of second quarter. However, the market prices of the Group’s Russian securities began to rise again in the third quarter of 2004 and remained relatively stable in the fourth quarter and early 2005. While securities decreased as a percentage of total assets, the Group’s 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.

The decline in the prices of Russian equity and debt securities in the second quarter of 2004 caused significant unrealised mark-to market losses, in the nine month period to September 30, 2004, primarily on investment securities available for sale. See “Risk Factors – Risks Relating to the Group’s Business and Industry – The Group’s income from proprietary securities and currency operations is volatile.” The U.S.\$52 million in net losses on investment securities available for sale in the nine month period ended September 30, 2004 was offset, in part, by a non-recurring reversal of an impairment allowance on certain equity 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 (U.S.\$76 million) in June 2004 on the basis of the continued improvement in the performance of the issuer of the securities.

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 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 (85.4% and 75.2% as of September 30, 2004 and December 31, 2003, respectively). As a result, the Group is substantially affected by Russian macro and microeconomic conditions. While 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 in the securities market and relatively high inflation as compared to inflation in developed countries.

The following table sets forth the leading Russian economic indicators for the nine months ended September 30, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001.

	For the nine months ended September 30,		For the year ended December 31,		
	2004	2003	2003	2002	2001
Gross domestic product (GDP) (billions of RUR).....	12,164	9,716	13,285	10,834	8,944
Surplus of Russian Federal budget (billions of RUR).....	588	127	180	112	267
Foreign currency reserves (millions of U.S. dollars).....	95,082	62,073	76,938	47,793	36,622
Inflation (CPI) (%)	8.0	8.6	12.0	15.1	18.9
Nominal (appreciation) depreciation of the RUR against the U.S. dollar (%)	0.9	4.6	(7.3)	5.4	7.0
Real appreciation of the RUR against the U.S. dollar (%)	5.6	11.3	18.9	9.2	11.0

Source: CBR, VTB's internal calculations.

In 2004, Russia enjoyed its fifth 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 three prior years declined significantly below hyperinflationary levels, 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 resulted in a declining net interest margin generated by many banks operating in the Russian financial markets, although VTB experienced an improvement in net interest margin in the first nine months of 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 nine months ended September 30, 2004 and 2003 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 nine months ended September 30, 2004	For the nine months ended September 30, 2003	For the year ended December 31, 2003 2002 2001		
				(%)	
Loans to corporate clients in U.S. dollars . .	8.6	9.7	9.5	10.5	11.7
Loans to corporate clients in RUR.	11.9	13.3	13.1	15.8	17.9
Deposits from corporate clients in U.S. dollars.	1.8	2.3	2.5	1.6	3.2
Deposits from corporate clients in RUR. . .	4.5	4.4	4.4	6.9	7.9
Deposits from retail clients in U.S. dollars .	2.8	3.1	2.8	3.2	3.0
Deposits from retail clients in RUR.	4.8	5.4	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, while 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 on the Russian market generally continued to decline in 2004. However, due to a variety of factors, the Group's net interest margin improved from 2.5% in the first nine months of 2003 to 2.9% in the first nine months of 2004. See "– Results of Operations for the Periods ended September 30, 2004 and 2003 – Interest Income, Interest Expense, Net Interest Income, and Provision for Loan Impairment – Net Interest Income Before Provision for Loan Impairment." The increasingly competitive market in which VTB operates, together with the weakening of the U.S. dollar against the rouble, could, however, result in downward pressure on VTB's interest margins in the future. 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 may be affected by declines in interest rates."

As at September 30, 2004 the assets of VTB's foreign subsidiary banks represented 14.6% of total Group assets (24.8% at December 31, 2003). These assets include significant proprietary securities portfolios (28.0% of the total securities held by the Group as of December 31, 2003 and 28.2% as of September 30, 2004). Due to the portfolios' asset composition, the profitability of foreign subsidiary banks, particularly Donau-Bank A.G. ("Donau-Bank") is extremely susceptible to market risks. 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, the foreign subsidiary banks' share in the Group's operating income declined to 6.6% for the first nine- months of 2004, compared to 29.8% in the first nine months of 2003. This was due to a significant share of Russian government securities in the portfolios of foreign subsidiary banks, particularly Donau-Bank, which either declined in value or did not perform as strongly as in 2003. Donau-Bank had a net loss (prior to intercompany eliminations) of U.S.\$2 million, primarily as a result of losses of U.S.\$21 million on trading securities and investment securities available for sale. See "– Principal Activities" and "– Results of Operations for the Periods Ended September 30, 2004 and 2003 – Non-Interest Income – Gains less issues from securities."

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

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.

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 various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks, including Guta Bank, experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. As noted above, on July 16, 2004, VTB acquired Guta Bank, one of the banks that experienced liquidity difficulties as a result of the banking sector turmoil.

Russian banks owned or controlled by the Government or the CBR, including VTB, as well as foreign-owned banks, generally were not adversely affected by the turmoil. 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 several steps to combat the crisis, including by reducing from 7% to 3.5% the rate of mandatory reserves that banks are required to deposit with the CBR. To implement these measures, the CBR permitted banks immediately to 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 – Economic Risks – Economic Instability in Russia could 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 the Group’s cash flows are primarily denominated in U.S. dollars and euro. From 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 September 30, 2004, the Group’s rouble-denominated monetary liabilities were U.S.\$3,832 million, amounting to 33.1% of the Group’s total liabilities. As of December 31, 2003, the Group’s rouble-denominated monetary liabilities were U.S.\$2,656 million, amounting to 30.4% of the Group’s total liabilities.

To reduce the currency exposure relating to depreciation of the U.S. dollar against the rouble in 2003 and 2004, 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.\$2,570 million as of September 30, 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 and 105.0% as of September 30, 2004.

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 Annual IFRS Financial Statements and Note 3 to the Interim 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. The International Accounting Standards Board introduced several new standards, and amended a number of existing standards, effective beginning on or after January 1, 2005. The Group is currently in the process of revising its accounting policies to be in compliance with changes in IFRS.

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 re-measured 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 September 30, 2004 and 2003, the principal rate of exchange used for translating balances in roubles to U.S. dollars was RUR29.22 per U.S.\$1.00 and RUR30.61 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 loss 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.

Results of Operations for the Periods ended September 30, 2004 and 2003

Summary

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

	For the nine month periods ended September 30,		Change from prior period
	2004 ⁽¹⁾	2003 ⁽¹⁾	
	(millions of U.S. dollars)		(%)
Net interest income.....	334	205	62.9
Provision for loan impairment	(92)	(78)	17.9
Gains less losses from securities.....	80	182	(56.0)
Gains less losses from dealing in foreign currencies...	14	14	0.0
Gains less losses from derivative financial instruments.....	2	7	(71.4)
Foreign exchange translation gains less losses.....	–	6	(100.0)
Fee and commission income (net)	74	47	57.4
Other operating income (net).....	30	33	(9.1)
Operating expenses.....	(340)	(252)	34.9
Profit before income taxes.....	102	164	(37.8)
Income taxes	(36)	(37)	(2.7)
Profit after income taxes	66	127	(48.0)
Minority interest	–	(13)	(100.0)
Share in profit of associated company.....	1	2	(50.0)
Net profit	67	116	(42.2)

(1) Unaudited

The Group's net profit was U.S.\$67 million for the first nine months of 2004, compared to U.S.\$116 million for the same period of 2003. The Group's profit before income taxes was U.S.\$102 million for the first nine months of 2004 compared to U.S.\$164 million for the same period of 2003.

The decrease in profit before taxes for the first nine months of 2004, compared to the same period of 2003, resulted primarily from a decrease in gains less losses arising from operations with securities, a continuing increase in operating expenses resulting from continued expansion of the Group's business and a larger provision for loan impairment resulting from the growth of the Group's loan portfolio. This decrease was partially offset by an increase in net interest income and fee and commission income.

During the first nine months of 2004, VTB's foreign subsidiary banks generated operating income of U.S.\$29 million, or 6.6% of the Group's operating income, for the first nine months of 2004, compared to U.S.\$124 million, or 29.8%, of the Group's operating income during the same period of 2003. These banks hold significant proprietary trading portfolios (28.2% of the total securities held by the Group as of September 30, 2004 compared to 28.0% at December 31, 2003) and as a result, their assets are extremely susceptible to market risks. In the first nine months of 2004, the securities in the portfolios of foreign subsidiary banks, particularly Donau-Bank, either declined in value or did not perform as strongly as in the same period of 2003. Donau-Bank had a net loss (prior to intercompany eliminations) of U.S.\$2 million, primarily due to losses of U.S.\$21 million on trading securities and investment securities available for sale. See "Risk Management – Market Risks." The Group's foreign subsidiary banks do not generate significant interest income and are thus less affected by interest rate fluctuations.

During the first nine months of 2004, the Group's return on average shareholders' equity was 2.8% compared to 5.4% in the same period of 2003. These figures were calculated by dividing the Group's

net income for the relevant period by its average shareholder equity for that period. The Group's average shareholders' equity was calculated as a simple average of its shareholders' equity as of September 30 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 nine month periods ended September 30,		Change from Prior Period
	2004⁽¹⁾	2003⁽¹⁾	
	<i>(millions of US dollars)</i>		<i>(%)</i>
Interest income			
Due from other banks	38	58	(34.5)
Loans and advances to clients.....	466	304	53.3
Securities.....	144	89	61.8
Total interest income	648	451	43.7
Interest expense			
Client accounts	(144)	(109)	32.1
Debt securities in issue.....	(134)	(86)	55.8
Due to banks and other borrowed funds	(36)	(51)	(29.4)
Total interest expense.....	(314)	(246)	27.6
Net interest income before provision for loan impairment.....	334	205	62.9
Provision for loan impairment	(92)	(78)	17.9
Net interest income after provision for loan impairment.....	242	127	90.6
Average interest-earning assets			
Due from other banks	2,761	2,116	30.5
Loans and advances to clients.....	6,699	4,053	65.3
Securities.....	2,228	1,899	17.3
Total	11,688	8,068	44.9
Average interest-bearing liabilities			
Due to banks and other borrowed funds	2,794	2,111	32.4
Client accounts	4,670	2,949	58.4
Debt securities in issue.....	2,476	917	170.0
Total	9,940	5,977	66.3

(1) Unaudited

Interest Income

Interest income increased by 43.7% to U.S.\$648 million for the nine month period ended September 30, 2004 from U.S.\$451 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 44.9% to U.S.\$11,688 million for the first nine- months of 2004 from U.S.\$8,068 million in the first nine months of 2003.

Interest income due from other banks decreased by 34.5% for the nine month period ended September 30, 2004 compared to the same period of 2003. The decrease was primarily due to a

liquidity crisis in the Russian interbank market in April through July 2004. During that time, VTB significantly reduced the amount of its interbank loans to Russian financial institutions. Instead, it placed additional funds with foreign banks that paid lower interest rates than Russian banks. In addition, VTB also made low-interest deposits with foreign banks in the course of financing export operations of Russian companies. See “Business – Banking Services and Activities – Corporate Banking – Services – Foreign Trade Transactions.”

Interest income on loans and advances to clients grew by 53.3% for the nine month period ended September 30, 2004 compared to the same period of 2003. The growth of interest income was caused by the increase in average loan balances, which was partially offset by the decline in average interest rates from 7.5% for the first nine months of 2003 to 7.0% for the same period of 2004. This was largely attributed to the general decline in interest rates caused by competition among domestic and foreign banks operating in Russia, as well as excess liquidity in Russian financial markets.

Interest income on securities grew by 61.8% for the nine month period ended September 30, 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 17.3% for the nine month period ended September 30, 2004, to U.S.\$2,228 million, from U.S.\$1,899 million in the same period of 2003, as well as a 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 27.6% to U.S.\$314 million for the nine month period ended September 30, 2004 from U.S.\$246 million for the same period of 2003. Average interest-bearing liabilities, primarily client accounts and debt securities in issue, grew by 66.3% to U.S.\$9,940 million during the first nine months of 2004 from U.S.\$5,977 million in the same period of 2003. The impact on interest expense of the growth in average interest-bearing liabilities was, however, partially offset by a switch in funding from the issuance of rouble-denominated domestic debt securities to the issuance of U.S. dollar-denominated debt securities in the international capital markets, which have lower interest rates.

Average interest-bearing client accounts, both corporate and retail, increased by 58.4% to U.S.\$4,670 million for the nine month period ended September 30, 2004 from U.S.\$2,949 million for the same period of 2003. The increase in average interest-bearing client accounts resulted in a corresponding increase of interest expense on client accounts from U.S.\$109 million for the period ended September 30, 2003 to U.S.\$144 million for the period ended September 30, 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 interest rates paid on interest-bearing client accounts for the periods ended September 30, 2003 and 2004 were 3.7% and 3.1%, respectively.

Interest expense on debt securities in issue increased by 55.8% to U.S.\$134 million for the nine month period ended September 30, 2004 from U.S.\$86 million for the same period of 2003. This increase was fully attributable to the growth of average balances of debt securities in issue from U.S.\$917 million to U.S.\$2,476 million during the respective periods. The impact of this growth was, however, partially offset by the aforementioned shift in funding from costly rouble-denominated domestic debt securities to the issuance of lower cost U.S. dollar-denominated debt securities in the international capital markets.

Interest expense due to banks and other borrowed funds for the nine month period ended September 30, 2004 decreased by 29.4% compared to the same period of 2003 due to a shift in the Group's operations from borrowings on the Russian interbank market to borrowings from foreign banks at lower rates and to the attraction of new lower cost long-term syndicated loans from foreign banks.

Net Interest Income Before Provision for Loan Impairment

For the first nine months of 2004 and 2003, net interest income before provision for loan impairment accounted for 76% and 49%, respectively, of operating income. Net interest income before provision for loan impairment was U.S.\$334 million for the first nine months of 2004, as compared to U.S.\$205 million for 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 the relevant period) was 2.9% for the nine month period ended September 30, 2004, compared to 2.5% for the same period of 2003. The increase in net interest margin was primarily attributable to a decrease in the cost of funding due to the switch from the issuance of rouble-denominated debt securities to the issuance of lower-cost U.S. dollar-denominated debt securities in the international capital markets, the continuing growth in the percentage of client loans and advances in the Group's total interest-earning assets, an increase in investments in high-yield corporate securities and a switch in interbank borrowings from Russian banks to foreign banks that charge lower interest rates.

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 nine month period ended September 30, 2004.

	<u>Loans and advances to customers</u>	<u>Due from other banks</u>	<u>Total</u>
	<i>(millions of U.S. dollars)</i>		
Allowance for loan impairment at December 31, 2003	<u>432</u>	<u>122</u>	<u>554</u>
Provision for loan impairment (unaudited)	87	5	92
Cash received for loans and advances to customers written off in prior periods (unaudited)	8	–	8
Loans and advances to customers written off during the period as uncollectible (unaudited)	(6)	–	(6)
Deconsolidation of subsidiary (unaudited)	<u>–</u>	<u>(22)</u>	<u>(22)</u>
Allowance for loan impairment at September 30, 2004 (unaudited)	<u>521</u>	<u>105</u>	<u>626</u>

As of September 30, 2004, the allowance for loan impairment as a percentage of total client loans and advances decreased to 6.4%, compared to 8.3% as of December 31, 2003, reflecting the improvement in quality of the Group's client loan portfolio and its continued diversification. For the nine month period ended September 30, 2004, the Group's provision for loans and advances to clients amounted to U.S.\$87 million, which was attributable to the growth in VTB's gross client loan portfolio. The Group's gross client loan portfolio grew by 56.3% during the first nine months of 2004. The allowance for loan impairment as a percentage of total amounts due from other banks decreased to 4.9% as of September 30, 2004 from 6.0% as of December 31, 2003, reflecting the deconsolidation of East-West United Bank S.A. ("EWUB"), which had substantial allowances against its placements with other banks. The Group's provision for loan impairment on due from other banks amounted to U.S.\$5 million for the first nine- months of 2004. This provision was attributable to a 6.0% growth amounts due to the Group from other banks.

Non-Interest Income

The following table sets out certain information regarding the Group's non-interest income for the nine month periods ended September 30, 2004 and 2003.

	For the nine month periods ended September 31,		Change from Prior Period
	2004⁽¹⁾	2003⁽¹⁾	
	<i>(millions of US dollars)</i>		<i>(%)</i>
Gains less losses from securities	80	182	(56.0)
Fee and commission income (net)	74	47	57.4
Gains less losses from dealing in foreign currencies ...	14	14	0.0
Gains less losses from derivative financial instruments	2	7	(71.4)
Foreign exchange translation gains (losses)	–	6	(100.0)
Other operating income (net)	30	33	(9.1)
Total non-interest income	200	289	(30.8)

(1) Unaudited

The Group's non-interest income has decreased by 30.8% to U.S.\$200 million for the first nine months of 2004 from U.S.\$289 million in the same period of 2003. The decrease was primarily due to the decline in gains from securities by 56.0% or U.S.\$102 million. See "– Gains Less Losses from Securities." The decrease was partially offset by the growth in fee and commission income by 57.4%, or U.S.\$27 million.

Gains Less Losses from Securities

During the nine month period ended September 30, 2004 net gains from securities decreased by 56.0% to U.S.\$80 million, as compared to U.S.\$182 million during the same period of 2003. During the second quarter of 2004, the Group recognised substantial losses on operations with securities due to the significant decline in the prices of Russian securities caused by a significant market reaction to the tax claims against Yukos and the arrest of Mikhail Khodorkovsky, and to the Russian banking sector turmoil. The price of corporate bonds and government securities fell by approximately 6% and 8%, respectively, during the second quarter of 2004. The decline in the carrying values of securities resulted in a loss from securities of U.S.\$56 million for the three-month period ended June 30, 2004. The market prices of the Group's Russian securities held in the Group's portfolio began to rise again in the third quarter of 2004 and remained relatively stable in the fourth quarter and early 2005.

The mark-to market losses relating to the decline in the carrying values of securities in the second quarter of 2004 were offset, in part, by a non-recurring reversal of an impairment allowance of U.S.\$76 million on certain equity 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 during the nine month period ended September 30, 2004 on the basis of the continued improvement in the performance of the issuer of the securities.

Net Fee and Commission Income

Net fee and commission income increased by 57.4% from U.S.\$47 million for the nine month period ended September 30, 2003 to U.S.\$74 million for the same period of 2004. The increase in 2004 is primarily attributable to the increase in the Group's customer base, which in turn, resulted in an increase in client account balances. The Group's average client account balances increased by 58.4% from U.S.\$2,949 million as of September 30, 2003 to U.S.\$4,670 million as of September 30, 2004, which led to a larger volume of client transactions, thus, larger commissions generated by the Group from those transactions. Net fee and commission income is currently a relatively minor revenue source for the Group, but it is expected to grow as the Group expands its retail and investment banking services.

In 2004, VTB started receiving commissions on origination of loans issued as part of its commercial activities. IFRS requires deferral of such fees and their amortisation over the life of the related loans, using the effective interest method. These fees also contributed to the increase in the Group's net fee and commission income.

Foreign Exchange Translation Gains Net of Losses

Gains and losses arising from the translation of the value 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 approximately nil for the nine month period ended September 30, 2004, reflect a 100% decrease from U.S.\$6 million for the nine month period ended September 30, 2003. This decrease is predominantly attributable to the fact that in the first nine months of 2003 the U.S. dollar depreciated against the rouble at a significantly higher pace than in the same period of 2004, resulting in the appreciation, in U.S. dollar terms, of the net balance sheet position of the group in roubles. As of September 30, 2003 and December 31, 2002, the principal rate of exchange used for translating balances in roubles to U.S. dollars was RUR30.61 per U.S.\$1.00 and RUR31.78 per U.S.\$1.00, respectively, whilst as of September 30, 2004 and December 31, 2003, the principal rate of exchange was RUR29.22 per U.S.\$1.00 and RUR29.45 per U.S.\$1.00, respectively.

The Group maintained a significant long position in roubles in both 2003 and 2004. Due to the substantial depreciation of the U.S. dollar against the rouble in the fourth quarter of 2004 (as of December 31, 2004, the principal rate of exchange was RUR27.75 per U.S.\$1.00), the Group expects to see a significant gain from foreign exchange translation in the same period.

Operating Expenses

Operating expenses increased by 34.9% to U.S.\$340 million for the nine month period ended September 30, 2004, from U.S.\$252 million for the same period in 2003. The following table shows the composition of the Group's non-interest expense for the nine month periods ended September 30, 2004 and 2003.

	For the nine month periods ended September 31,		Change from Prior Period
	2004⁽¹⁾	2003⁽¹⁾	2003
	<i>(millions of US dollars)</i>		<i>(%)</i>
Staff costs	176	113	55.8
Administrative expenses, depreciation and other expenses related to premises and equipment ⁽²⁾	59	38	55.3
Taxes other than income tax	23	27	(14.8)
Leasing and rent expenses	19	13	46.2
Professional fees	3	1	200.0
Amortisation of goodwill	4	1	300.0
Other	56	59	(-5.1)
Total operating expenses	340	252	34.9

(1) Unaudited

(2) Similar types of operating expenses relating to development of the Group's business

The significant increase in operating expenses in the first nine months of 2004 was mainly attributable to the expansion of VTB's activities in various areas, including the promotion of its retail and investment banking services and the opening of new branches. Driven by VTB's expansion, the Group's administrative expenses, depreciation and other expenses related to premises and equipment and staff costs grew by 55.3% and 55.8%, respectively, in the nine-month period ended September 30, 2004 compared to the same period in 2003.

Minority Interest

Minority interest declined from U.S.\$13 million for the nine month period ended September 30, 2003 to nil for the nine month period ended September 30, 2004. This reduction was primarily due to a decline in operating income generated by Donau-Bank in the first nine months of 2004 compared to the same period in 2003. As noted above, the decline was mainly attributable to losses from Russian

debt securities, which comprise a significant part of Donau-Bank's assets. See “– Results of Operations for the Periods Ended September 30, 2004 and 2003 – Summary.” 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 decreased by U.S.\$1 million for the nine month period ended September 30, 2004, compared with the nine month period ended September 30, 2003, reflecting the overall decline of the Group's pre-tax income during the periods under review. 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. The increase in effective income tax rate from 23% in the nine month period ended September 30, 2003 to 35% in the nine month period ended September 30, 2004 was mainly attributable to the change in the estimate of the deferred tax asset relating to loss carry-forwards caused by a reduction in operating income generated by Donau-Bank in the nine month period ended September 30, 2004. The deferred tax asset is subject to change based on the history of actual income generated by Donau-Bank. See “– Business – Other Group – Foreign Banks .”

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 nine months of 2003. See “– Results of Operations for the Years Ended December 31, 2003, 2002 and 2001 – Income Tax Benefit (Expense).”

Cash Flow

The following table sets out the Group's main sources of cash for the nine month periods ended September 30 2004 and 2003.

	For the three-month periods ended September 30,		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⁾	(2,062)	688	(399.7)
Net cash provided by (used in) investing activities ⁽³⁾	125	(441)	(128.3)
Net cash provided by (used in) financing activities ⁽⁴⁾	1,565	(258)	(706.6)
Effect of exchange rate changes on cash and cash equivalents.	1	2	(50.0)
Cash and cash equivalents at beginning of the year	929	487	90.8
Cash and cash equivalents at the end of the period	558	478	16.7

(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 nine months of 2004, the Group used net cash in the amount of U.S.\$2,062 million in its operating activities, while in the same period of 2003 it generated cash in the amount of U.S.\$688 million, from its operating activities. The net cash used in operating activities during the period ended September 30, 2004 was primarily due to a net increase in trading securities and loans and advances to clients, partially offset by a net increase in client accounts and promissory notes. See “– Financial Condition – Total Liabilities – Due to Other Banks,” “– Financial Condition – Total Liabilities – Client Accounts” and “– Financial Condition – Total Liabilities – Debt Securities in Issue.”

During the nine month periods ended September 30, 2004 and 2003, the Group generated U.S.\$125 million from, and used U.S.\$441 million in, its investing activities. The net cash provided by investing activities during the first nine months of 2004 was primarily due to net sales of investment securities available for sale, partially offset by acquisitions of premises and equipment. The net cash used in investment activities during the first nine months of 2003 was primarily due to net purchases of investment securities available for sale and acquisitions of premises and equipment.

During the nine month periods ended September 30, 2004 and 2003, the Group generated U.S.\$1,565 million from, and used U.S.\$258 million in, its financing activities. The net cash provided by financing activities in the first nine months of 2004 was primarily due to the issuance of Eurobonds and borrowings through syndicated loans, as well as to the receipt of a U.S.\$700 million deposit from the CBR in connection with the acquisition of Guta Bank. In the first nine months of 2003, net cash used in financing activities was primarily due to repayment of CBR deposits.

Financial Condition

The following discussion of the Group's assets and liabilities 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."

Total Assets

The following table sets out the Group's total assets as of September 30, 2004 and December 31, 2003.

	As of September 30, 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	679	1,030	(34.1)
Mandatory cash balances with local central banks	198	382	(48.2)
Term placements with other banks	2,139	2,017	6.0
Allowance for loan impairment	(105)	(122)	(13.9)
Total cash and due from other banks, net	2,911	3,307	(12.0)
Client loans and advances, net			
Loans and advances to clients	8,171	5,227	56.3
Allowance for loan impairment	(521)	(432)	20.6
Total client loans and advances, net	7,650	4,795	59.5
Securities			
Trading securities	1,559	1,270	22.8
Investment securities available for sale	925	1,133	(18.4)
Investment securities held to maturity	9	7	28.6
Investments in associated banks	81	41	97.6
Total securities	2,574	2,451	5.0
Premises and equipment	314	262	19.8
Other assets			
Accrued interest income	91	75	21.3
Other	493	338	45.9
Total other assets	584	413	41.4
Total assets	14,033	11,228	25.0

(1) Unaudited

As of September 30, 2004, the Group had total assets of U.S.\$14,033 million, compared to total assets of U.S.\$11,228 million as of December 31, 2003. The increase in total assets of 25.0% during the first nine months of 2004 was primarily due to a 59.5% increase in net loans and advances to clients of U.S.\$ 2,855 million, a 5.0% increase in securities of U.S.\$123 million, and a 41.4% increase in other assets of U.S.\$171 million. The increase was partially offset by a decrease in net cash and due from other banks of U.S.\$396 million.

Cash and Due from other Banks, net. Cash and due from other banks, net, comprised U.S.\$2,911 million as of September 30, 2004 compared to U.S.\$ 3,307 million as of December 31, 2003.

The decrease in cash and short-term funds by 34.1% to U.S.\$679 million as of September 30, 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 the CBR and correspondent accounts with Russian banks. During the nine month period ended September 30, 2004, the Group used these funds in interbank term placements, mainly with Western banks, and to fund loans and advances to clients.

Deposits required by local legislation to be placed with the CBR and the Central Bank of Austria decreased by U.S.\$184 million or 48.2% at September 30, 2004 compared with December 31, 2003, due to the July 2004 reduction from 7% to 3.5% in the rate of mandatory reserves that Russian banks are required to deposit with the CBR. This reduction was partially offset by the mandatory reserves rate of 2% applicable to funds attracted from foreign banks, which the CBR introduced in June 2004.

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 foreign banks as collateral for loans granted by such banks. Gross term placements with other banks increased by 6.0% to U.S.\$2,139 million as of September 30, 2004 from U.S.\$2,017 million as of December 31, 2003. This increase was due to the growth in VTB's interbank placements of U.S.\$94 million and the increase of interbank placements made by Armsberbank in the amount of U.S.\$36 million.

Client Loans and Advances, net. Client loans and advances, net, increased by 59.5% to U.S.\$7,650 million as of September 30, 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 54.5% as of September 30, 2004. The growth in client loans and advances, net, during the first nine months of 2004 was primarily due to an increase of loans and advances to clients made by VTB of U.S.\$2,729 million and impact of consolidating Guta Bank's loans and advances to clients of U.S.\$346 million.

This increase was partially offset by a decline in the loans and advances to clients made by RCB-Cyprus of U.S.\$227 million, due to the repayment of back to-back loans (where a client places funds on deposit with RCB-Cyprus and RCB-Cyprus lends these funds back to the client) amounting to U.S.\$347 million during the first half of 2004. This decline was partially offset by RCB-Cyprus entering into reverse repo transactions of U.S.\$120 million with clients, which comprised a part of the loan portfolio.

The following table sets out the composition of the Group's loan portfolio (excluding interbank loans) as of September 30, 2004 and December 31, 2003.

	As of September 30, 2004⁽¹⁾	As of December 31, 2003
	<i>(millions of U.S. dollars)</i>	
Current loans and advances	7,610	4,925
Purchased loans ⁽²⁾	160	–
Rescheduled loans and advances ⁽³⁾	102	100
Overdue loans and advances ⁽⁴⁾	299	202
Less: Allowance for loan impairment	(521)	(432)
Total loans and advances to clients	7,650	4,795

(1) Unaudited

(2) Loans purchased from other banks

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

(4) Loans and advances where repayment is overdue.

The following table sets out the composition of Group's loans to banks as of September 30, 2004 and December 31, 2003.

	As of September 30, 2004⁽¹⁾	As of December 31, 2003
	<i>(millions of U.S. dollars)</i>	
Current term placements with other banks	1,742	1,792
Reverse sale and repurchase agreements with other banks .	299	112
Overdue placements with other banks ⁽²⁾	98	113
Less: Allowance for loan impairment	(105)	(122)
Total due from other banks	2,034	1,895

(1) Unaudited

(2) Loans and advances where repayment is overdue.

As of 30 September 2004, the total amount of outstanding loans made by the Group to its 10 biggest borrowers was U.S.\$2,548 million, or 31% of the Group's gross loan portfolio. Included in loans and advances were loans to a large corporate customer totalling U.S.\$397 million (5% of the loan portfolio) with maturity dates from June 2005 to July 2009 and interest rates from 8.5% to 9.75% per annum. However, the Group's exposure to a single borrower has since increased. See "Risk Factors – Risks Related to the Group's Business and Industry – The Group may be unable to reduce industry and borrower concentrations in its loan portfolio."

As of 31 December 2003, the total amount of outstanding loans made by the Group to its 10 biggest borrowers was U.S.\$1,593 million, or 30% of the Group's gross loan portfolio. Included in loans and advances were loans to a large corporate customer totalling U.S.\$322 million (6% of the gross loan portfolio) with maturity dates from March 2005 to March 2006 and a fixed interest rate of 8.4% per annum.

Included in overdue loans is a deposit of U.S.\$100 million placed with a foreign bank for the purpose of financing Russian fishing enterprises. VTB 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. In December 2004, VTB entered into negotiations for repayment of these loans. If the negotiations are successful, the Group will recognise a benefit for this amount in its income statement.

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 September 30, 2004 and December 31, 2003.

	30 September 2004⁽¹⁾		31 December 2003	
	Amount	%	Amount	%
Manufacturing ⁽²⁾	2,418	30	1,958	37
Finance	1,127	14	530	10
Trade and commerce.....	998	12	764	15
Energy.....	574	7	506	10
Mining.....	523	6	185	4
Food and Agriculture.....	422	5	205	4
Government bodies.....	413	5	128	2
Transport.....	406	5	158	3
Telecommunications and media	321	4	161	3
Chemical	282	4	201	4
Construction.....	253	3	216	4
Fishing.....	107	1	109	2
Other.....	327	4	106	2
Total loans and advances to customers	8,171	100	5,227	100

(1) Unaudited

(2) The majority of the Group's 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 September 30, 2004 and December 31, 2003.

	As of September 30, 2004⁽¹⁾		As of 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.....	967	13	515	11
One to six months	2,497	32	1,393	29
Six to 12 months	1,891	25	1,200	25
More than one year	2,289	30	1,613	34
Overdue/no stated maturity	6	0	74	1
Total⁽²⁾	7,650	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 September 30, 2004 and December 31, 2003.

	As of September 30, 2004⁽¹⁾		As of December 31, 2003	
	<i>(millions of U.S. dollars)</i>	<i>(%)</i>	<i>(millions of U.S. dollars)</i>	<i>(%)</i>
U.S. dollars	4,009	52	2,925	61
RUR.....	3,443	45	1,697	35
Other currencies	198	3	173	4
Total loans and advances to clients, net⁽²⁾ ...	7,650	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 September 30, 2004 and December 31, 2003.

	As of September 30, 2004⁽¹⁾	As of December 31, 2003
Loans to clients ⁽²⁾ as % of total assets	54.5%	42.7%
Loans to clients ⁽²⁾ as % of client deposits	150.6%	112.6%
Loans to clients ⁽²⁾ as % of total equity	321.0%	202.1%

(1) Unaudited

(2) Net of allowances 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 September 30, 2004 and December 31, 2003.

	As of September 30, 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	7,610	4,925	54.5
Purchased loans	160	—	100.0
Rescheduled loans and advances	102	100	2.0
Overdue loans and advances	299	202	48.0
Total loans and advances to clients	8,171	5,227	56.3
Less: Allowance for loan impairment	(521)	(432)	20.6
Total	7,650	4,795	59.5
Allowance for loan impairment/Total client loans and advances	6.4%	8.3%	(23.2)
Allowance for loan impairment/Overdue and rescheduled client loans and advances	129.9%	143.0%	(9.1)
Overdue and rescheduled client loans/Total client loans and advances	4.9%	5.8%	(15.4)
Due from other banks			
Current term placements with other banks	1,742	1,792	(2.8)
Reverse sale and repurchase agreements with other banks	299	112	167.0
Overdue placements with other banks	98	113	(13.4)
Total due from other banks	2,139	2,017	6.0
Less: Allowance for loan impairment	(105)	(122)	(14.1)
Total	2,034	1,895	7.3
Allowance for loan impairment/Total term placements with other banks	4.9%	6.0%	(18.3)
Allowance for loan impairment/Overdue placements with other banks	107.1%	108.0%	(0.7)
Overdue placements with other banks/Total term placements with other banks	4.6%	5.6%	(18.3)

(1) Unaudited

As noted above, the allowance for loan impairment as a percentage of total client loans and advances decreased from 8.3% as of December 31, 2003 to 6.4% as of September 30, 2004, reflecting the overall improvement in the quality of the Group's loan portfolio. The allowance for loan impairment as a percentage of total amounts due from other banks has also decreased to 4.9% as of September 30,

2004 from 6.0% as of December 31, 2003, reflecting the deconsolidation of EWUB, which had substantial allowances against its placements with other banks.

Securities. The following table sets out information relating to the Group's securities portfolios as of September 30, 2004 and December 31, 2003.

	As of September 30, 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	234	9.8	500	21.1
Eurobonds of the Russian Federation	35	1.5	—	—
Russian corporate eurobonds	205	8.6	105	4.4
Bills of exchange and debentures	805	33.8	487	20.5
Federal loan bonds	100	4.2	92	3.9
Securities issued by foreign governments	3	0.1	3	0.1
Other	177	7.4	83	3.5
Total trading securities	1,559	65.4	1,270	53.5
Available for sale securities				
<i>Debt securities</i>				
Eurobonds of Russian Federation	338	14.2	483	20.4
MinFin bonds	59	2.5	100	4.2
Bills of exchange of Russian companies and banks	—	—	22	0.9
Bonds of Russian companies and banks	203	8.5	213	9.0
State bonds of foreign countries	41	1.7	122	5.1
Bonds of foreign companies and banks	63	2.6	58	2.4
Other	27	1.1	21	0.9
<i>Equity securities</i>				
Corporate shares	183	7.7	104	4.4
Other	11	0.5	10	0.5
Total available for sale securities	925	38.8	1,133	47.8
Investment securities held to maturity	9	0.4	7	0.3
Total securities portfolio	2,493	104.6	2,451	103.3

(1) Unaudited

Securities, including investments in associate banks, increased by 5.0% to U.S.\$2,574 million as of September 30, 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 18.3% and 21.8% of the total assets as of September 30, 2004 and December 31, 2003, respectively.

At September 30, 2004, Russian government debt securities, including eurobonds of the Russian Federation, MinFin bonds and Federal loan bonds, represented 29.8% 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 29.8% as of September 30, 2004, primarily due to the Group's purchase of U.S.\$318 million of bills of exchange and debentures, issued primarily by Russian banks, large Russian companies in the manufacturing, telecommunications and oil and gas sectors and local authorities in Russia, as well as its purchase of Russian corporate eurobonds of U.S.\$100 million. This reflects the continued diversification of the Group's securities portfolio. Rouble-denominated debt securities within trading securities grew from U.S.\$572 million as of December 31, 2003 to U.S.\$988 million as of September 30, 2004, 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.”

As noted above, in June 2004, VTB reversed an impairment allowance on certain equity securities available for sale in the amount of U.S.\$76 million. VTB held these securities at cost less an impairment allowance determined as of the date of their acquisition in 1999, but reversed a portion of the impairment allowance on the basis of the continued improvement in the performance of the underlying investee bringing its carrying value to the estimated fair value.

As of September 30, 2004, investments in associated banks increased to U.S.\$81 million from U.S.\$41 million as of December 31, 2003. This increase is resulted from EWUB ceasing to be a subsidiary of VTB and becoming its associate after VTB sold a 5% interest in EWUB in the second quarter of 2004.

Other Assets. Other assets increased by 41.4% or U.S.\$ 171 million to U.S.\$584 million as of September 30, 2004 from U.S.\$413 million as of December 31, 2003. Other assets include primarily accrued interest income, deferred tax assets, trade debts and prepayments, unsettled transactions, loans for sale, goodwill, and positive fair value balances arising from derivative financial instruments. The growth of other assets is primarily attributable to the U.S.\$71 million of goodwill arising from the acquisition of Guta Bank and an increase in trade debtors in OJSC Trading House VTB in the amount U.S.\$46 million.

Total Liabilities

The following table sets out the Group’s liabilities as of September 30, 2004 and December 31, 2003:

	As of September 30, 2004⁽¹⁾	As of December 31, 2003	Change
	<i>(millions of U.S. dollars)</i>		<i>(%)</i>
Due to other banks			
Correspondent accounts and overnight deposits	421	512	(17.8)
Sale and repurchase agreements with banks	156	503	(69.0)
Term loans and deposits	1,183	797	48.4
Total due to other banks	1,760	1,812	(2.9)
Client accounts			
State and public organisations	304	174	74.7
Other legal entities	3,022	3,106	(2.7)
Individuals	1,755	979	79.3
Total client accounts	5,081	4,259	19.3
Other borrowed funds			
CBR deposit	692	–	N/A
Syndicated loans	552	560	(1.4)
Revolving credit lines	66	147	(55.1)
Total other borrowed funds	1,310	707	85.3
Debt securities in issue			
Promissory notes	1,628	1,154	41.1
Eurobonds issued	1,165	298	290.9
Debentures and deposit certificates	471	286	64.7
Total debt securities in issue	3,214	1,738	84.9
Other liabilities			
Accrued interest payable and other liabilities	215	234	(8.1)
Total other liabilities	215	234	(8.1)
Total liabilities	11,580	8,750	32.3

(1) Unaudited

The Group’s liabilities grew from U.S.\$8,750 million to U.S.\$11,580 million, or by U.S.\$2,830 million (32.3%) during the nine-month period ended September 30, 2004. The increase in total liabilities was

primarily due to a 19.3% (or U.S.\$822 million) growth in client accounts, a 85.3% (or U.S.\$603 million) increase in other borrowed funds and a 84.9% (or U.S.\$1,476 million) increase in debt securities in issue.

Client Accounts. Client accounts increased by 19.3% or U.S.\$822 million to U.S.\$5,081 million as of September 30, 2004 from U.S.\$4,259 million as of December 31, 2003. This increase was primarily due to the growth in individual deposits of 79.3%, or U.S.\$776 million, for the first nine months of 2004, which occurred as a result of the Russian banking sector turmoil in the second and third quarters of 2004. Many individuals considered state-owned banks, such as VTB, more reliable compared to private banks and transferred their savings to such banks.

The following table sets out the Group's client accounts by maturity as of September 30, 2004 and December 31, 2003.

	As of September 30, 2004⁽¹⁾		As of 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⁾	2,646	52	2,830	66
One to six months ⁽³⁾	1,492	29	878	21
Six to 12 months ⁽³⁾	613	12	361	8
More than one year ⁽³⁾	330	7	190	5
Overdue/no stated maturity	— ⁽³⁾	—	— ⁽³⁾	—
Total	5,081	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.

(2) 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.

(3) 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 84.9% to U.S.\$3,214 million as of September 30, 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 U.S.\$867 million of Eurobonds under a medium term note programme, which accounted for 58.7% of the increase, and of U.S.\$474 million of promissory notes, which accounted for 32.1% of the increase. Funds from Eurobond issuances in the first nine months of 2004 were used primarily for loans to clients and on the securities and interbank markets. Promissory notes are highly liquid and are actively used by VTB's clients to execute various settlements as well as to generate stable interest income.

Other borrowed funds. Other borrowed funds increased by 85.3%, or U.S. \$603 million, as of September 30, 2004 in comparison with December 31, 2003. Other borrowed funds include opened credit lines, syndicated loans and funds placed by the CBR. The growth in the first nine months of 2004 year was attributable to the deposit of U.S.\$700 million placed by the CBR with VTB in connection with its acquisition of Guta Bank. This deposit was placed with VTB at a below market interest rate, and its fair value (amortised through period-end) was U.S.\$692 million as of September 30, 2004.

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									
<i>Interest earning assets</i>									
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%
<i>Non-interest earning assets</i>									
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									
<i>Interest bearing liabilities</i>									
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		
	<u>Volume</u>	<u>Rate</u>	<u>Net Change</u>	<u>Volume</u>	<u>Rate</u>	<u>Net Change</u>
	<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
	(millions of U.S. dollars)			(%)	
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	<u>1,013</u>	<u>496</u>	<u>342</u>	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	<u>1,101</u>	<u>1,406</u>	<u>1,779</u>	(21.7)	(21.0)
Total securities	<u>2,114</u>	<u>1,902</u>	<u>2,121</u>	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
	<i>(millions of U.S. dollars)</i>			<i>(%)</i>	
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	395	173	568
Provision for (reversal of) loan impairment	18	(54)	(36)
Write-offs	(51)	–	(51)
Allowance for loan impairment as of December 31, 2002	362	119	481
Provision for loan impairment	75	3	78
Write-offs	(5)	–	(5)
Allowance for loan impairment as of December 31, 2003	432	122	554

(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 is 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	<u>74</u>	<u>44</u>	<u>37</u>	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 . . .	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>	0.0	0.0
Net fee and commission income	<u>68</u>	<u>38</u>	<u>31</u>	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
	(millions of U.S. dollars)			(%)	
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:

	As of 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	<u>(122)</u>	<u>(119)</u>	<u>(173)</u>	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	<u>(432)</u>	<u>(362)</u>	<u>(395)</u>	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	<u>7</u>	<u>—⁽¹⁾</u>	<u>—</u>	N/A	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	<u>255</u>	<u>84</u>	<u>149</u>	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.

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⁾	<u>113</u>	<u>165</u>	<u>166</u>
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.

	As of December 31,			Change from Prior Year	
	2003	2002	2001	2003	2002
	<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	202	181	131	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 . . .	(432)	(362)	(395)	19.3	(8.4)
Total	4,795	3,016	2,198	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	113	165	166	(31.5)	(0.6)
Total due from other banks	2,017	1,365	747	47.8	82.7
Less: Allowance for loan impairment . . .	(122)	(119)	(173)	2.5	(31.2)
Total	1,895	1,246	574	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 September 30, 2004, December 31, 2003, 2002 and 2001:

		As of December 31,			Change from Prior Period		
	As of September 30, 2004 ⁽¹⁾	2003	2002	2001	Nine months of 2004	2003	2002
		(millions of U.S. dollars)				(%)	
Credit related commitments							
Undrawn credit lines	936	718	292	102	30.4	145.9	186.3
Guarantees issued ^{(2), (3)}	1,893	1,514	226	216	25.0	569.9	4.6
Import letters of credit ⁽⁴⁾	261	157	123	69	66.2	27.6	78.3
Commitments to extend credit ⁽⁵⁾	366	162	44	52	125.9	268.2	(15.4)
Other credit related commitments ⁽⁶⁾	502	500	— ⁽⁶⁾	—	0.4	N/A ⁽⁸⁾	N/A
Total credit related commitments	3,958	3,051	685	439	29.7	345.4	56.0
Less: Provision for losses on credit related commitments	(26)	(10)	(10)	(10)	160.0	0.0	0.0
Total	3,932	3,041	675	429	29.3	350.5	57.3
Derivative financial instruments							
Principal or agreed amount							
Deliverable forward contracts	—	1	27	804	(100.0)	(96.3)	(96.6)
Spot contracts	178	165	41	17	7.9	302.4	141.2
Option contracts	—	—	—	196	—	N/A	(100.0)
Term contracts	163	25	—	—	552.0	N/A	N/A
Swap contracts	515	680	331	143	(24.3)	105.4	131.5
Total	856	871	399	1,160	(1.7)	118.3	(65.6)

		<u>As of December 31,</u>			<u>Change from Prior Period</u>		
	<u>As of September 30, 2004⁽¹⁾</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>Nine 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	—	—	—	—	N/A	N/A	N/A
Option contracts	—	—	—	85	—	N/A	(100.0)
Swap contracts	3	24	7	1	(87.5)	242.9	600.0
Term contracts	<u>(1)</u>	<u>—</u>	<u>—</u>	<u>—</u>	N/A	N/A	N/A
Total.	<u>2</u>	<u>24</u>	<u>7</u>	<u>86</u>	<u>(91.7)</u>	<u>242.9</u>	<u>(91.9)</u>

(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 and Activities – Lending."
- (3) Guarantees issued in 2003 and the first three quarters of 2004 include guarantees issued for one Russian company from the military sector amounting to U.S.\$932 million, or 62% of guarantees issued in 2003 and U.S. \$1,063 million, or 56% of guarantees issued during the first three quarters of 2004. These guarantees are secured by promissory notes issued by VTB amounting to U.S.\$577 million 2003 and U.S. \$646 million as at September, 30 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 and Activities – 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 September 30, 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 the repayment of a loan issued to one Russian company in the amount of U.S.\$ 500 million, 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 increased by 29.3% or U.S.\$ 891 million to U.S.\$3,932 million as of September 30, 2004 from U.S.\$3,041 million as of December 31, 2003. The increase was primarily attributable to an increase in guarantees issued by U.S.\$ 379 million or 25.0%, undrawn credit lines by U.S.\$ 218 million or 30.4% and commitments to extend credit by U.S.\$ 204 million or 125.9%.

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.\$1,931 million as of September 30, 2004, 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 decreased by 1.7% to U.S.\$856 million as of September 30, 2004 from U.S.\$871 million as of December 31, 2003. For the first nine months of 2004, the Group had U.S.\$2 million of gains from derivative financial instruments. The decrease in the net gains from derivative financial instruments from 2003 was mainly 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 September 30, 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 September 30, 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) .	196	186	(69)	(352)
Goodwill	(86)	(20)	— ⁽²⁾	—
Total qualifying capital	2,297	2,353	2,118	1,835
Risk Weighted Assets	16,083	11,996	8,124	8,308
Risk Adjusted Capital Ratio ⁽³⁾	14.3%	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 November 2004 survey by *Kommersant: Money* magazine, a leading Russian business weekly, as of October 1, 2004 VTB was the second-largest commercial bank in Russia in terms of net assets, lending volume 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 10% market share measured by volume as of September 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 1 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 nine months ended September 30, 2004, the Group generated operating income (net interest income, after the provision for loan impairment, plus other income) of U.S.\$442 million and net profit of U.S.\$67 million. Of the Group's operating income in the first nine months of 2004, net interest income after the provision for loan impairment (U.S.\$92 million) accounted for U.S.\$242 million, or 55% of operating income, gains less losses arising from securities, derivatives and foreign currency activities accounted for U.S.\$96 million, or 22% of operating income, and net fee and commission income accounted for U.S.\$74 million, or 17% 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 Agency, holds 99.9% of VTB's shares and is its controlling shareholder. Of the nine seats on VTB's Supervisory Council, six are held by representatives of various Government ministries and agencies, and one is held by representatives of each of the CBR and the Russian President and by 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 "F3," a long-term foreign currency rating of "BBB-," an individual rating of "C/D" and a support rating of "2" from Fitch.

VTB's legal address is 16 Kuznetsky Most Street, Moscow 103031, Russian Federation and the Head Office is located at 6 Lesnaya Street, Moscow 125047, Russian Federation. In December 2004, VTB's shareholders approved the transfer of VTB's legal address to St. Petersburg. VTB expects that the transfer will take place in 2005.

The total value of the Group's premises and equipment was U.S.\$262 million as of December 31, 2003 and U.S.\$314 million as of September 31, 2004. VTB owns its Head Office building and leases the majority of the premises on which its branches and sub-branches are located.

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 corporate objective, as described in Article 3.1 of its charter, is to operate a banking business at a profit.

VTB's charter was registered with the CBR on October 17, 1990 and has been amended several times. VTB is registered in the Unified State Register of Legal Entities under number 1027739609391. 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 Russia and the Ministry of Foreign Economic Relations of Russia. 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 Agency.

Over the past decade, VTB has acquired shareholdings in Donau-Bank in Vienna, Austria, RCB-Cyprus in Limassol, Cyprus, EWUB in Luxembourg (an associate bank), Russische Kommerzial Bank AG ("RKB-Zurich") in Zurich, Switzerland, CJSC Armsavingsbank ("Armsavingsbank") in Yerevan, Armenia, United Georgian Bank ("UGB") in Tbilisi, Georgia (acquired in January 2005) and Ost-West Handelsbank ("OWH") in Frankfurt, Germany (an associate bank), and, in January 2005, registered Vneshtorgbank (Ukraine) ("VTB-Ukraine") in Kiev, Ukraine. 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 50 Russian regions. See "– VTB's Branch Network." On July 16, 2004 VTB acquired 85.8% of Guta Bank. See "– Other Group Banks – Domestic Banks and Participations – Domestic Banks – Guta 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 Guta Bank, by placing a U.S.\$700 million deposit with VTB. See "– Other Group Banks – Domestic Banks and Participations – Domestic Banks – Guta Bank." VTB believes that as long as the Government remains its controlling shareholder, 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 Agency, 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 December 1, 2004, 1,304 banks and other non-bank credit organisations that have banking licences were registered in Russia. An additional 227 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 October 1, 2004, it had, in Russia, an approximately 2.5% market share in retail deposits, an approximately 4.6% market share in deposits of legal entities and an approximately 6.2% market share in loans, all as measured by value, with its assets accounting for approximately 5.9% 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 Agency, 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 its 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 six 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 has recently begun to assist its clients in trading in the foreign currency and commodity derivatives markets and 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 16 additional branches and approximately 163 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 “– 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 that envisions transferring ownership of foreign banks outside the CIS to a single subsidiary bank. This bank will be the Group's primary foreign bank and will manage the operations of the Group's foreign banks outside the CIS. 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

Due partly 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 structure. On the basis of the joint declaration by the Government and the CBR entitled "The Strategy of the Development of the Banking Sector of Russia," 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 52 full-service branches, 92 sub-branches and 50 outlets that offer a limited range of banking services and four other domestic banks. The Group operates outside Russia through six bank subsidiaries of VTB, located in Armenia (acquired in April 2004), Austria, Cyprus, Georgia (acquired in January 2005), Switzerland and Ukraine (not yet fully operational), associate banks in Germany and Luxembourg and representative offices of VTB in Belarus, China, Italy and Ukraine. See "Business – Other Group Banks."

The organisational structure of the Group and VTB's shareholdings in some of its subsidiaries and associates are set out below:

JSC Vneshtorgbank (Russia)		
Donau-Bank AG (Austria)	85.0%	85.8%
Russian Commercial Bank (Cyprus) Limited (Cyprus)	100.0%	100.0%
CJSC Armsavingsbank (Armenia)	70.0%	50% plus one share
CSC Novosibirsk Vneshtorgbank (Russia)	97.5%	100%
JSB Zabaikalsky (Russia)	99.9%	60.4%
Ost-West Handelsbank (Germany, associate bank)	31.9%	34%
13 domestic and foreign non-bank subsidiaries (wholly or partially owned or controlled by VTB) ⁽¹⁾		
		CJSC Guta Bnk (Russia)
		Russische Kommerzial Bank AG (Switzerland)
		United Georgian Bank (Georgia)
		Vneshtorgbank (Ukraine) (Ukraine) (not yet fully operational)
		JSC Bank Povolzhsky (Russia)
		East-West United Bank (Luxembourg, associate bank)

- (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, Note 18 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 72,000 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 October 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. As of December 2004, strategic clients accounted for approximately 55% of the total volume of VTB's corporate banking products and services, compared to approximately 65% as of December 2003.

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 January 1, 2005, VTB had 99 strategic partnership agreements (including agreements with regional and city administrations).

VTB has business development programmes for particular industries and strategic clients that 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 to legal entities. In addition to ordinary debit cards, VTB issues and administers branded corporate debit cards. VTB also acts as a distributor for American ExpressTM charge cards for legal entities and individuals. As of December 1, 2004, VTB had issued 1,440 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 September 30, 2004, gross loans to public authorities totalled U.S.\$413 million, or 5% 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.” The revenues from these services 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 December 31, 2004, had 49 agreements with foreign banks and export credit agencies. For example, in 2004, VTB entered into a credit agreement with ING Bank N.V. for a total of €250 million to finance European imports into Russia, a credit agreement with the Agricultural Bank of China for a total of \$200 million to finance Chinese imports into Russia and a credit agreement with KfW-IPEX Bank for a total of €100 million to finance German 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 goods 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. 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.

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 lent approximately U.S.\$1.4 billion to medium clients and small businesses in 2004.

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 nine months of 2004, VTB purchased 17.5 metric tons of gold directly from producers, of which it exported 12 metric tons and resold the remainder in Russia, and provided U.S.\$180 million dollars in financing to gold producers. In respect of its precious metals operations, VTB's domestic clients include 70 gold producers, the CBR and commercial banks and its international clients are major banks such as JPMorgan Chase Bank and Commerzbank AG. As of September 30, 2004, the Group had U.S.\$239 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 October 1, 2004, VTB maintained accounts for 291 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 for non-governmental pension funds and mutual funds and agency and registry 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 October 1, 2004, VTB had approximately 3,201 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 Armsavingsbank 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 October 1, 2004, VTB held demand and term accounts for 720,000 individuals. In December 2004, VTB was accepted 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.\$3,551 at the exchange rate of RUR28.16 per U.S.\$1.00) per bank. See "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 December 1, 2004, VTB had 815 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 December 1, 2004, VTB had issued approximately 800,000 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 an apartment cannot serve as collateral for a 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. In 2003, the Group's income from proprietary activities was U.S.\$268 million (41% of operating income). In the first nine months of 2004, the Group's income from proprietary activities was U.S.\$96 million (22% of operating income). See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "– Strategy."

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 21% 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 September 30, 2004, the Group's securities portfolio (trading securities and investment securities available for sale) was U.S.\$2.5 billion, constituting 18% of the Group's total assets. As of that date, Russian government securities accounted for 31% 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 87% and rouble-denominated federal loan bonds accounting for 13% of the Group's portfolio of Russian government securities.

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 September 30, 2004, Russian corporate eurobonds accounted for 8%, various debt securities of Russian companies and banks accounted for 8%, bonds of foreign companies and banks for 3%, bills of exchange and debentures for 32% and various foreign government securities for 2% 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 September, 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. Prices of Russian securities declined significantly in the second quarter of 2004, negatively affecting the Group's revenues for that period, but rose again in the third quarter of 2004 and remained relatively stable in the fourth quarter of 2004 and early 2005. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Principal Activities" and "Management's Discussion and Analysis of Financial Condition

and Results of Operations – Results of Operations for the Periods ended September 30, 2004 and 2003 – Non-Interest Income – Gains less losses from securities.”

VTB's Branch Network

VTB's branch network includes 52 full-service branches, 92 sub-branches and 50 outlets, which offer a limited range of banking services, all of which were acquired or opened over the past decade. Of these, 30 sub-branches and 10 outlets are located in Moscow and the rest in 50 Russian regions. Typically, a region has one branch and one or more sub-branches and outlets supplement its operations. 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, Smolensk, Ryazan, Ulianovsk, Orenburg, Nalchik, Petropavlovsk-Kamchatsky and Barnaul and 13 sub-branches and 5 outlets throughout Russia.

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 spent approximately U.S.\$14 million in 2004 and is currently finalising the amount to be spent in 2005 on branch network enlargement and intends to open approximately 16 branches and approximately 163 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 six foreign subsidiary banks: Donau-Bank in Vienna, Austria, RCB-Cyprus in Limassol, Cyprus, RKB-Zurich in Zurich, Switzerland, Armsavingsbank in Yerevan, Armenia, UGB in Tbilisi, Georgia (acquired in January 2005), VTB-Ukraine in Kiev, Ukraine (not yet fully operational) 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 accounted for 25% of the total assets and 23% of the total liabilities of the Group (excluding Armsavingsbank which was purchased in April 2004 and VTB-Ukraine, which is not yet fully operational) and as of September 30, 2004 for 15% and 14% (excluding VTB-Ukraine), respectively.

VTB's External Relations and 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. Its registered office is located at Parkring 6, A-1010, 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, although in late 2004 the National Banking Council, a management body of the CBR, approved the sale of the CBR's interest to VTB. VTB expects that the sale will take place in the near future. A representative of VTB 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.

Donau-Bank provides products and services for large and medium-sized Russian and foreign companies engaged in international trade. It currently specialises in investment banking operations, credit and settlement services for transactions between Russian and CIS legal entities and counterparties in Western and Central Europe and transactions in promissory notes. 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 2004 were lending and investment operations and transactions in promissory notes. Donau-Bank 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. It also 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.

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 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. Its total assets were U.S.\$1.2 billion as of December 31, 2003. 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)." However, as of September 30, 2004, Donau-Bank's profit before taxation (prior to intercompany eliminations) was U.S.\$9 million, and its net loss (prior to intercompany eliminations) was U.S.\$2 million, compared to net profit of U.S.\$67 million for the Group as a whole. The net loss of U.S.\$2 million was due to realised and unrealised losses of U.S.\$21 million on trading securities and securities available for sale and to a deferred tax expense of U.S.\$8 million. Its total assets were U.S.\$1 billion as of September 30, 2004. Donau-Bank receives its funding primarily on the European and Russian interbank markets and from operations with promissory notes and other securities and repo transactions.

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.

RCB-Cyprus. RCB-Cyprus was formerly a branch of VEB and became a separate bank in 1995. Its registered office is located at 2 Amathoundos St., 3310 Limassol, Cyprus. 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 an 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 nine months of 2004, RCB-Cyprus had a profit before taxation (prior to intercompany eliminations) of U.S.\$4 million and a net income (prior to intercompany eliminations) of U.S.\$4 million. RCB-Cyprus had no income tax expense during this period due to tax losses carried forward. Its total assets were U.S.\$673 million as of September 30, 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 in 2005. 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.

RKB-Zurich. RKB-Zurich was incorporated in 1992. Its registered office is located at Hofackerstrasse 32, 8032, 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 nine months of 2004, RKB-Zurich generated profit before taxation (prior to intercompany eliminations) of U.S.\$4 million and had a net profit (prior to intercompany eliminations) of U.S.\$4 million. Its total assets were U.S.\$335 million as of September 30, 2004. At 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 from VTB, 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. Its registered office is located at 46 Nalbandian St., 375010, Yerevan, Armenia. 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. From the date of its acquisition to September 30, 2004, Armsavingsbank generated profit before taxation (prior to intercompany eliminations) of U.S.\$2 million and had a net profit (prior to intercompany eliminations) of U.S.\$1 million. Its total assets were U.S.\$64 million as of September 30, 2004.

UGB. On January 25, 2005, VTB acquired a 50% plus one share interest in UGB. UGB was established in 1995 and is located in Tbilisi, Georgia. The EBRD and Martin Bauer GmbH each own 18% of UGB and the remaining shares are held by individuals. VTB expects to appoint its representatives to UGB's four-member Supervisory Council in the near future.

In 2004, UGB's profit before taxation was GEL2.2 million (U.S.\$1 million at the exchange rate of GEL1.825 per U.S.\$1.00), and it had a net profit of U.S.\$1.9 million (U.S.\$1 million at the exchange rate of GEL1.825 per U.S.\$1.00). Its total assets were GEL90 million (U.S.\$1 million at the exchange rate of GEL1.825 per U.S.\$1.00). The Group will begin consolidating UGB into its IFRS financial statements as of the date of its acquisition.

UGB is the third-largest bank in Georgia. It provides a full range of banking services and has approximately 40 branches and sub-branches throughout Georgia. It serves both companies and individuals in major cities as well as more remote areas. UGB's principal activities include retail and commercial deposit taking, services relating to foreign trade and documentary and interbank operations. UGB plans to expand its services to provide a full range of banking services to Russian companies operating in Georgia and to service trade flows between Russia and Georgia. UGB receives its funding primarily from client deposits.

VTB-Ukraine. On January 4, 2005, the National Bank of Ukraine registered VTB-Ukraine, a wholly-owned subsidiary of VTB. VTB-Ukraine will begin operations in 2005 and will initially focus on providing international settlement services, loans and trade financing. Its initial share capital, contributed by VTB, is 80 million hryvnas (approximately U.S.\$15 million), that may be further increased to €40 million upon a decision of VTB's Management Board, once VTB-Ukraine becomes fully operational. It is expected that VTB-Ukraine will become fully operational by mid-2005.

EWUB. EWUB, an associate bank of the Group, was established in 1974. Its registered office is located at Villa Foch, 10 Boulevard Joseph II, L-1840, Luxembourg. VTB currently owns 34% of EWUB, AFK Sistema owns 49%, the CBR owns 15% and Banque Commerciale Pour Europe du Nord-Eurobank ("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. In December 2004, the National Banking Council approved the sale of its 15% interest in EWUB to VTB and VTB expects to purchase this interest in 2005.

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 expired in 2004 and its renewal is under consideration. Effective from June 26, 2004 VTB no longer consolidates EWUB in its financial statements and accounts 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 nine months of 2004, EWUB generated profit before taxation of U.S.\$4 million and had a net profit of U.S.\$3 million. Its total assets were U.S.\$336 million as of September 30, 2004. At present, EWUB receives its funding from client and proprietary operations. It has previously received funding from VTB, which it is currently repaying.

OWH. OWH, an associate bank of the Group, was established in 1971. Its registered office is located at Walter-Kolb-Strasse 13, D-60594 Frankfurt am Main, 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 December 2004, the National Banking Council approved the sale of the CBR's interest in OWH to VTB and VTB expects to purchase this interest in 2005. If this purchase is completed, VTB may also seek to acquire the interests of other minority shareholders in OWH. VTB has completed a valuation of OWH.

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 nine months of 2004, OWH generated profit before taxation of U.S.\$582,000 and had a net profit of U.S.\$582,000. Its total assets were U.S.\$869 million as of September 30, 2004. The decrease in OWH's assets was caused by a reduction of its activities in the Russian interbank market in the summer of 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. 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.

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 some of its foreign banks 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 its foreign banks located outside the CIS to one subsidiary bank, which will become the Group's primary foreign bank. Under the management of this bank, the Group's non-CIS 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 all or a portion of the CBR's 52% interest in OWH and becoming its major shareholder. In December 2004, the National Banking Council approved the sale of the CBR's interest in OWH to VTB and VTB expects to purchase this interest in 2005. VTB has completed a valuation of OWH. In accordance with Russian legislation, VTB's purchase of the CBR's shareholding will have to be approved by the CBR and the Government as well as by the German banking regulators. At the time of its purchase of the CBR's shareholding VTB may offer OWH's minority shareholders to purchase their shareholdings on the same terms.

In December 2004, the National Banking Council also approved the sale of two other banks in which it holds interests, London-based Moscow Narodny Bank ("MNB") and Paris-based BCEN-Eurobank,

to VTB. VTB expects to purchase these interests in 2005. VTB believes that Government approval as well as regulatory approvals in the United Kingdom and France will be required for these purchases.

In the first six months of 2004, MNB generated a profit before taxation of 8.4 million and had a net profit of 7.3 million (all as determined in accordance with United Kingdom generally accepted accounting principles ("UK GAAP")). Its total assets, as determined under UK GAAP, were 1 billion as of July 30, 2004. In 2003, BCEN-Eurobank generated operating income of €33 million, but had a nil net income (all as determined in accordance with French generally accepted accounting principles ("French GAAP")). Its total assets, as determined under French GAAP, were €897 million as of December 31, 2003.

In line with the Group's strategy of expansion in the CIS banking market, in April 2004, VTB acquired a controlling shareholding in Armsavingsbank and, in January 2005, in UGB. The acquisition of Armsavingsbank and UGB allows the Group to engage in a full range of banking activities in Armenia and Georgia, respectively, and to strengthen its position as the primary servicer of trade flows between Russia and Armenia and between Russia and Georgia, respectively. See "– Banking Services and Activities – Corporate Banking – Services – Foreign Trade Transactions."

VTB is currently negotiating an acquisition of a controlling interest in a bank in Moldova, for which it expects to spend approximately U.S.\$5 million. The Group is also planning 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 Property Agency 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.

At the time of the acquisition, the fair value of Guta Bank's assets was U.S.\$666 million and the estimated fair value of its liabilities was U.S.\$747 million, resulting in negative equity of U.S.\$81 million. VTB incurred U.S.\$71 million of goodwill as a result of this acquisition. As of the date of the acquisition, Guta Bank had a net loan exposure of approximately U.S.\$240 million to companies related to its former shareholders. VTB began consolidating Guta Bank into its financial statements in the third quarter of 2004, with consolidation beginning on July 16, 2004, the date of acquisition. For a detailed breakdown of the fair value and carrying value of Guta's assets and liabilities as of the date of the acquisition, see Note 19 to the Interim Financial Statements.

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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Principal Activities." 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 on substantially similar terms. 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.

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, where 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.

The registered office of Guta Bank is located at 5 Orlikov Lane, Building 3, Moscow 107078, Russian Federation.

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 September 30, 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.

Developments

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, 28 sub-branches and 2 outlets in St. Petersburg; 12 branches and four sub-branches in the Leningrad Region; a branch and a sub-branch in Moscow; and 23 branches, 8 sub-branches and 26 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 has received the approval of the Federal Anti-Monopoly Service and has applied for approval from the CBR for its acquisition of a 25% plus one share initial interest in ICB. VTB expects to receive the CBR approval in early 2005. VTB will purchase the 25% plus one share initial interest in ICB once the approvals are received. 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 this 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. In 2004, no disruptions took place.

Currently, the Head Office and the Moscow sub-branches are connected by fibre optic cables. 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 2005. 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, U.S.\$25 million in 2003 and U.S.\$35 million in 2004 on its IT infrastructure. VTB expects that the IT infrastructure expenditure will remain at similar levels between 2005 and 2007 and that part of these funds 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, 2004, 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 52% in the first nine months 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.

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, the Provisions Unit (which is in charge of calculating allowances for loan losses under RAR) and the Summary Analytics 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, the Treasury Department, the Capital Markets Department, Middle Office and Back Office 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.

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 – 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.\$1.79 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.\$160 million per branch and single borrower exposure limits ranging from U.S.\$0.5 million to U.S.\$5 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.\$7 million. For those branches that extend retail loans, the limits include overall limits ranging from U.S.\$200,000 to U.S.\$11.1 million per branch, limits on long-term (over five years) loans ranging from U.S.\$100,000 to U.S.\$9 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.\$10,000 to U.S.\$30,000 and U.S.\$20,000 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 four 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. More than a two-thirds majority of the CC must approve a loan. The current limits for CC approval include loans of approximately U.S.\$21 million or less with a term not exceeding 24 months and all loans of approximately U.S.\$5 million or less. The Management Board may approve loans that exceed these limits and loans that are not approved by more than a two-thirds majority of the CC. 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 CC 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 is 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 is 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 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. In order to calculate appropriate loan loss allowances, the RAD reviews, on a quarterly basis, the financial position of all of the legal entity borrowers other than banks whose loans exceed U.S.\$1.7 million, and on a monthly basis, the financial position of all bank borrowers. Loans under U.S.\$1.7 million are not monitored separately. Branches monitor loans that they originate.

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 September 30, 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 September 30, 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 to obtain, if possible, 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 of independent appraisers prepared by the Loan Administration Department, reviewed by the RAD and approved by the CC. The CC or the Management Board may request that the RAD conduct its own evaluation of collateral. 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 Procedures

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 minimize 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. There is no limit on loan amounts that can be approved by the Retail Credit Committee. 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." The Retail Credit Committee has also delegated retail loan approval authority, within set limits, to the Deputy Chairmen of the Management Board and to some of VTB's Vice Presidents and department heads, as well as to heads of branches. Loans approved by these officers 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. Approximately 3% of VTB's retail loans made as of December 30, 2003 and less than 1% of VTB's retail loans made as of September 30, 2004, were unsecured. 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 "Business – Banking Services and Activities – Retail Banking – Lending." The value of the collateral is determined

through an independent appraisal conducted by a third party appraiser selected from a list of independent appraisers prepared by the Loan Administration Department, reviewed by the RAD and approved by the CC. The CC or the Management Board may request that the RAD conduct its own evaluation of collateral.

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 Payments and Consumer Lending Departments begin 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 relevant 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 Payments and Consumer Lending Departments monitor 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 – 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, it evaluates all the information on the borrower available at VTB and attempts to determine the reasons for the default. Then, the Loan Recovery Department 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 September 30, 2003 and 2004.

	As of December 31, 2003	As of December 31, 2002	As of December 31, 2001	As of September 30, 2004 ⁽¹⁾	As of September 30, 2003 ⁽¹⁾
<i>(millions of U.S. dollars except percentages)</i>					
Loans made by Russian banks					
Current.....	4,099	2,315	1,782	7,067	3,682
Rescheduled	92	97	112	99	99
Overdue	195	173	129	288	159
Overdue as % of total ..	4.4	6.7	6.4	3.9	4.0
Total loans made by Russian banks	4,386	2,585	2,023	7,454	3,940
Loans made by foreign banks					
Current.....	826	782	562	703	780
Rescheduled	8	3	6	3	2
Overdue	7	8	2	11	6
Overdue as % of total ..	0.8	1.0	0.4	1.6	0.8
Total loans made by foreign banks	841	793	570	717	788
Total loans	5,227	3,378	2,593	8,171	4,728

(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.\$342 million as of September 30, 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.\$40 million for the nine months ended September 30, 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 the near future. VTB believes that at least a year will be required to compile the statistical information necessary to estimate probabilities of default for each group.

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 – 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

As of December 31, 2003

	<u>USD</u>	<u>RUR</u>	<u>Euro</u>	<u>Other currencies</u>	<u>Total</u>
	<i>(millions of U.S. dollars)</i>				
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	<u>5,097</u>	<u>2,656</u>	<u>871</u>	<u>126</u>	<u>8,750</u>
Net balance sheet position	<u>1,137</u>	<u>1,287</u>	<u>9</u>	<u>45</u>	<u>2,478</u>
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 nine months of 2004 was 3.4% (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 31% as of September 30, 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 – Mandatory Economic Ratios."

VTB is exposed to daily calls on available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, 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.

Operational Risk

Operational risk is the risk of loss resulting from inadequacy or failure of internal processes or systems or from external events. See “Risk Factors – Risks Relating to the Group’s Business and Industry – The Group’s banking business entails operational risks.” VTB’s operational risk management strategy, developed by the RAD and approved by the Management Board, provides for identification, assessment, monitoring and control of operational risks and allocates operational risk management responsibilities.

VTB manages its operational and legal risks through internal monitoring and compliance policies as well as through obtaining outside insurance. VTB’s Internal Control Department (“ICD”) and Legal Department monitor compliance with, and ensure the proper functioning of, internal policies and procedures designed to minimize operational and legal risks.

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 ICD 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. The Head of the ICD reports directly to VTB’s Chairman and Chief Executive Officer and the ICD’s representatives at VTB’s branches are independent of local management.

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 insurance policies include a financial institution’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, cash dispensers and currency exchange machines, with maximum coverage amount of approximately U.S.\$43 million (the amount increases periodically due to the expansion of VTB’s ATM network) and banking card 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.

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 “– Procedures for Prevention of Money Laundering and Terrorist Financing.”

Procedures for Prevention of Money Laundering and Terrorist Financing

VTB’s anti-money laundering measures are based on 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, 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 Customer Compliance Control Department is in charge of monitoring compliance with VTB's procedures relating to the prevention of money laundering and terrorist financing. It is headed by an AML/TF Reporting Officer who reports to VTB's Chairman and Chief Executive Officer.

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 and transactions 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;
- transactions involving persons or entities known to be involved in terrorist activities are suspended for two business days and, upon a decision by the Federal Service for Financial Monitoring, for five further business days (thereafter, the Federal Service for Financial Monitoring makes a final decision on the transaction); 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.

VTB's procedures relating to the prevention of money laundering and terrorist financing 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. VTB's "know-your-customer" procedures are designed to be consistent with sound business principles; help recognition of suspicious activity in a timely manner; minimize 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. See "Risk Factors – Risks Related to VTB's Business and Industry – VTB's measures to prevent money laundering and terrorist financing may not be completely effective."

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 2004, VTB reported 32,400 transactions, 1,289 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 External Relations and 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 to VTB's External Relations and Foreign Banking Subsidiaries Department, on a monthly basis, their credit exposure limits to Russian banks and to have their exposure limits for Russian banks and other Russian financial institutions approved by VTB's CC on a semi-annual or ad-hoc basis. Prior to their approval, these limits will be evaluated by VTB's External Relations and Foreign Banking Subsidiaries Department, VTB's Financial Institutions Department and the RAD. VTB's External Relations and Foreign Banking Subsidiaries Department will also provide other Group banks, upon their request, with information on their potential Russian counterparties that are banks or financial institutions.

All Group banks will also be required to report, to the extent permitted by applicable law, their credit exposures to Russian legal entities. The RAD will take this information into account in determining

consolidated exposures to single borrowers, groups of borrowers and borrowers in particular industry sectors and countries. The RAD will also monitor the 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 the new system to 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 RCB-Cyprus, credit risk is managed by a credit committee that includes its senior managers. The credit committee approves credit exposures, sets credit risk limits and monitors 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.

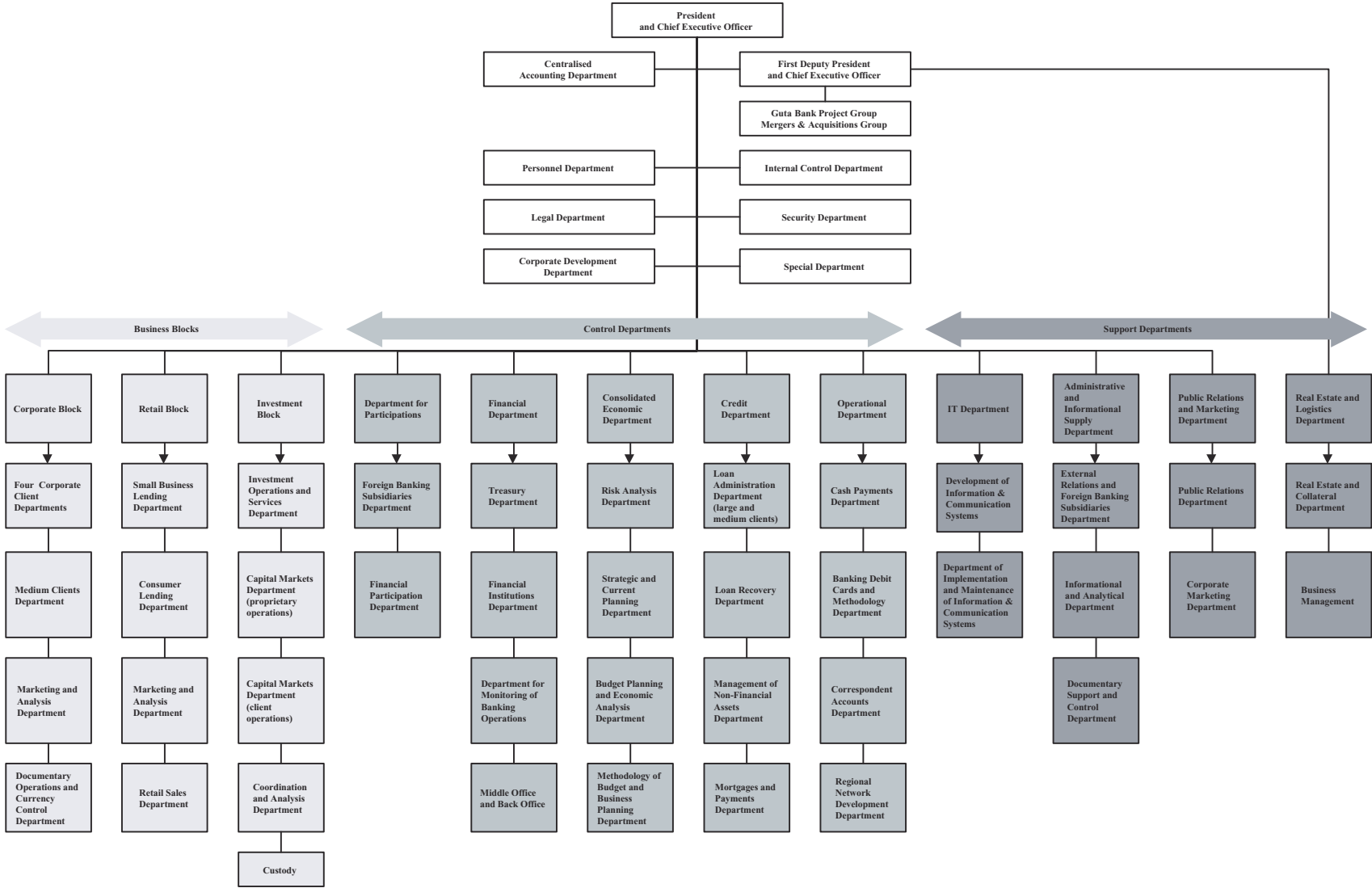
Armsavingsbank is currently developing its risk management procedures. These procedures will be based on the procedures currently used at VTB's branches and will comply with the relevant Armenian legislation. VTB plans to evaluate VGB's risk management procedures.

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.

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 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' meetings 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 an extraordinary meeting of its shareholders on December 15, 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 (44) has been the Chairman of the Supervisory Council since July 2, 2002.

Mr. Kudrin is the Minister of Finance of Russia. From July 1998 through January 1999 and from June 1999 through May 2000, he served as First Deputy Minister of Finance of Russia. 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.

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

Anton V. Drozdov (40) 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 Russia.

From July 1999 until July 2003, he headed the Financial Department in the Administration of the Government of Russia. Mr. Drozdov graduated from the Finance Academy of the Government of Russia in 1986 with a specialisation in Economics.

Arcady V. Dvorkovich (32) 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 Russia. Until April 2004, he was the Deputy Minister of Economic Development and Trade of Russia. 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 Russia. 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.

Andrei L. Kostin (48) 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 Russia. 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.

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

Sergei A. Storchak (50) has been the director of the Department of International Financial Relations, State Debt and State Financial Assets of the Ministry of Finance of Russia since September 2004. From April 1998 until September 2004, he was a Deputy Chairman of VEB. From August 1994 until April 1998, Mr. Storchak held various positions at the Ministry of Finance of Russia. Mr. Storchak graduated from the Moscow State Institute of International Relations. He has a Ph.D in Economics.

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

Alexei V. Ulyukaev (48) 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 Russia. 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.

The business address of each member of the Supervisory Council is 16 Kuznetsky Most Street, Moscow 103031, Russian Federation.

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 see “– Supervisory Council.”

Alexei I. Akinshin (45) has been the Deputy Chairman since October 21, 2004 and 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 Mezhnimuzmatika, 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.

Vadim O. Levin (41) 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.

Erkin R. Norov (50) 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 Russia 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.

Gennadiy V. Soldatenkov (52) 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 (44) 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.

Vasily N. Titov (44) has been a member of the Management Board since October 21, 2004. From 1998 until 2002, Mr. Titov was the Deputy Head of Administrative Department, Head of Information and External Communications Department and a member of the Management Board of VEB. Since 2002, he has been a Vice President and then a Senior Vice-President of VTB. Mr. Titov graduated from Leningrad State University in 1983 and from the Finance Academy of the Government of the Russian Federation in 2002.

The business address of each member of the Management Board is 16 Kuznetsky Most Street, Moscow 103031, Russian Federation.

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
Vladimir V. Lukov	Deputy Director of the Department of Financial Policy of the Ministry of Finance of Russia
Victor A. Rusakov	Deputy Head of the Section of Development of Financial Markets and Institutions of the Corporate Governance Department of the Ministry of Economic Development of Russia
Olga V. Avdeeva	Chief Accountant of VTB

The business address of each member of the Audit Commission is 16 Kuznetsky Most Street, Moscow 103031, Russian Federation.

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 September 30, 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 nine months 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.\$10.5 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 as of September 30, 2004.

SHAREHOLDING

VTB's Share Capital and Shareholders

As of September 30, 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 Agency, 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 Russia.

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. Effective on and after January 1, 2005, state-controlled entities are no longer exempt from disclosing transactions with other state-controlled entities.

	<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	–

Other than balances with EWUB and OWH amounting to U.S.\$13 million, the Group did not have material balances outstanding with related parties as of September 30, 2004. In connection with VTB's acquisition of Guta 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 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 – Domestic Banks – Guta 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 December 1, 2004, 1,304 banks and other non-bank credit organisations that have banking licences were registered in Russia. An additional 227 credit organisations had had their banking licences revoked by the CBR as of that date. A majority (672 as of December 1, 2004) of operating Russian credit organisations are located in Moscow and the Moscow region.

According to the CBR, as of November 1, 2004, the total assets of the Russian banking sector were valued at RUR6.6 trillion and the five largest banks accounted for 44.7% of all banking sector assets (under RAR) in Russia. *Expert* magazine identifies Sberbank, VTB, Gazprombank, Alfa-Bank and Bank of Moscow as the five largest banks (under RAR) by assets as of November 1, 2004, with Sberbank having the largest assets (RUR1.86 trillion compared with RUR6.6 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 Russia, of all bank assets in Russia.

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 December 1, 2004, 1,165 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.\$3,551 at the exchange rate of RUR28.16 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 licence 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 (the "Turmoil Legislation"). See "Risk Factors – 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 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 Russia.

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 liberalization 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 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 requires 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 organizations.

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 neutralize the currency rate swings and to secure a stable balance of payments of Russia. 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 (as amended in 2002) 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 RUR600,000 (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 (as amended) (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, entered 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 which 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 the 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 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). As of January 21, 2005 it comprised 624 members, including 505 credit organisations.

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 Russia 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 November 1, 2004, the CBR's assets amounted to approximately RUR3.64 trillion (U.S.\$129.3 billion at the exchange rate of RUR28.16 per U.S.\$1.00), and its gold and hard currency reserves, as of January 14, 2004, amounted to U.S.\$120 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 Russia 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 Russia. 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

Summary

Implementing the federal budget and debt service

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 Russia, maintains budget accounts and acts as an agent for servicing of Russia 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 – 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, licences 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:

Licensing

A CBR licence must be obtained for any "banking activity" as defined in the Banking Law. Applicants must be incorporated within Russia, 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.

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 that its regional units 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 Regulation No.112-I, which outlines the mandatory economic 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.

Capital Requirements

The CBR sets minimum equity (charter capital) requirements for banks. Under CBR Directive No. 1346-U of December 1, 2003, the minimum capital requirement is set at EUR5 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 CBR Directive No. 1260-U of March 24, 2003.

Subordinated Debt

The concept of subordinated debt is set out in the Bank Insolvency Law and Regulation No. 215-P. In accordance with Regulation No.215-P, which is largely based on the Basel Capital Accord Principles, subordinated loans are accounted for by Russian credit organisations as supplementary capital, which is included into the bank's capital base ("own funds"). The concept of Tier 1 capital and Tier 2 capital may be generally applied to the Russian banking regulatory requirements, though certain differences may exist in details of classification. The Russian "own funds" classification is own capital = core capital + supplementary capital. Supplementary capital cannot exceed 100% of core capital, subject to core capital not being negative. Subordinated loan is an element of supplementary capital and cannot exceed 50% of core capital.

Subordinated loans eligible for inclusion into own funds of the bank should satisfy the following criteria:

- their term should not be less than five years;
- they should include a provision prohibiting early termination (except if the parties agree on the lender's contribution into equity of the borrower in the amount not less than the amount of the loan);
- terms of the loan should not materially differ from the prevailing market terms of similar loans;
- the loan specifically provides for the lowest creditor priority ranking of the lender in the event of the bank's bankruptcy;
- the loan is unsecured;
- no individuals are party to the loan agreement; and
- the loan agreement makes it possible to revise the interest rate under the subordinated loan agreement without reference to material increase of average interest rates at the date of such revision.

Regulation No. 215-P provides for only two types of subordinated debt: subordinated loan and subordinated deposit. At the same time, the Bank Insolvency Law also refers to "subordinated notes."

Regulation No. 215-P envisages the possibility of the bank entering into agreements amending its subordinated loan. Such additional agreements should likewise be submitted to the CBR for review and approval. If the amendments introduced by such additional agreement do not comply with the above requirements for subordinated loans, such subordinated loan would not be treated as regulatory capital from the date of the additional agreement and the bank's own funds should be reduced accordingly.

Accounting Treatment

- *Capital Treatment:* Regulation No. 215-P provides that a subordinated loan is included into the calculation of the bank's capital only from the next reporting date (presumably, next month) following the confirmation by the local office of the CBR of the positive result of its legal due diligence exercise in respect of the loan documentation for compliance with regulatory subordinated loans criteria. Such review should be completed by the CBR within one month following the submission of the draft loan documentation by the bank (see "Approval of the CBR").

- *Amortisation:* Russian regulatory capital rules are based on Basel Capital Accord rules which prescribe that during the last five years to maturity of the subordinated debt a cumulative discount (or amortisation) of 20% per year will be applied to reflect the diminishing value of subordinated debt. According to Regulation No. 215-P, amortisation appears to be applied on a quarterly basis in accordance with the following formula:

$$O = \frac{C}{20} \times D, \text{ where}$$

O is the amortised value of the subordinated loan;

D is the full amount of the subordinated loan extended to the bank;

C is the number of complete quarters (January 1 - March 31, April 1 - June 30 etc.) remaining until the repayment of the subordinated loan ($C < 20$).

Insolvency Treatment

Whereas the Civil Code does not specifically recognize subordination, the Bank Insolvency Law recognises statutory subordination of creditors under subordinated debt arrangements in the event of a bank's insolvency. Pursuant to Article 50.36(6) of the Bank Insolvency Law, the claims of the subordinated creditors rank behind those of all unsubordinated creditors who are entered into the creditors' register.

Approval by the CBR

The procedure for obtaining the CBR's approval for the subordinated loan is outlined in Regulation No. 215-P. In accordance therewith, the CBR will not issue its final confirmation on the regulatory capital treatment of the loan agreement until the loan has been disbursed and received by the borrower.

Regulation No. 215-P allows the borrower to initiate the approval procedure before the funds are disbursed: it may submit a draft or an executed loan agreement for the CBR's consideration. Although this procedure is not reflected in Regulation No. 215-P, in practice, the CBR approval is likely to be a two-stage process involving two CBR agencies – a territorial agency and a local branch of the territorial agency. The documentation is to be reviewed by the territorial agency of the CBR (e.g. the Moscow Head Office) within a month of its submission. As a result of its review, the CBR territorial agency may come back with comments or may issue a letter confirming that the loan agreement complies with Regulation No. 215-P with a caveat that the final conclusion on the regulatory treatment of the subordinated loan may not be issued until the date of the actual disbursement of the loan. The final conclusion is usually issued within 30 days from the date of disbursement of funds and submission of the relevant documents.

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.

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 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 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 organisations 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.

Provisioning and Loss Allowances

The CBR put in place certain rules concerning creation of allowances for loan losses for loans extended by banks. Starting from August 1, 2004, Russian credit organisations have been 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 old set of rules and has introduced several new rules. In particular, it requires credit organisations to rank their loans into five categories instead of four, as prescribed by the old regulations: (I (top) quality category (standard loans) – the absence of credit risk; II quality category (non-standard loans) – moderate credit risk; III quality category (doubtful loans) – a considerable credit risk; IV quality category (problem loans) – a high credit risk; V (the lowest) quality category (bad loans); provided that the loans of quality categories II – V are regarded as devalued). The qualification of the loan into a particular group should be made on the basis of a professional judgment. 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. 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.

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.

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 CBR Directive 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*) that 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.

After 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 Organisations ("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, ARCO is to be liquidated.

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 characterized 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 various market rumors and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks, including Gута Bank, experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. As noted above, on July 16, 2004, VTB acquired Gута Bank, one of the banks that experienced liquidity difficulties as a result of the banking sector turmoil.

Russian banks owned or controlled by the Government or the CBR, including VTB, as well as foreign-owned banks, generally were not adversely affected by the turmoil. 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 several steps to combat the crisis, including by reducing from 7% to 3.5% the rate of mandatory reserves that banks are required to deposit with the CBR. To implement these measures, the CBR permitted banks immediately to reduce their mandatory reserves to the lower level. Accordingly, banks' borrowing costs have declined.

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.

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 Russia and the CBR issued a joint declaration entitled "The Strategy of the Development of the Banking Sector of Russia," 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, 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.

In December 2004, the Federal Law "On Credit Histories" was passed. This law provides for the establishment, for the first time in Russia's recent history, of "credit bureaus" that will maintain a database of borrowers' credit histories. The law requires all credit organisations, starting from September 1, 2005, to provide at least one credit bureau with the credit histories of all borrowers that have consented to the distribution of their credit histories. The borrower's credit history will consist both of public and confidential parts and must include, among other things, information on the borrower's outstanding debt and interest thereon, the terms of repayment and legal proceedings involving the borrower in respect of loans and credits. The Central Bank will supervise the credit bureaus and maintain a general catalogue of credit histories. The new law will become effective on June 1, 2005 and is expected to decrease credit risk to lenders.

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 came into effect on January 1, 2005 and cover securities issued before January 1, 2007. In December 2004, a number of federal laws related to mortgage lending were amended. These laws include, among others, amendments to the Civil Code, the Civil Procedure Code, and the Federal Laws "On Mortgage" and "On Mortgage-Backed Securities."

VTB's understanding is that Russian legislators intend to make mortgage lending attractive to banks and affordable to individuals by simplifying applicable procedures and making them more transparent and less costly. In addition, certain proposals aim to strengthen lenders' rights in case of default by simplifying foreclosure procedures on pledged housing. The new legislation also aims to improve 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 and have not been modified since such publication. 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:

- Rolf Caspers, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg;
- Tom Verheyden, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg; and
- 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.

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 December 31, 2004 (at the exchange rate of U.S.\$1.36400 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⁾	403,225,806
Series 2 U.S.\$325,000,000	238,269,795
Series 3 U.S.\$300,000,000	219,941,349
Series 4 U.S.\$450,000,000	329,912,023
Series 5 U.S.\$350,000,000	<u>256,598,240</u>
Total Capitalisation	<u>1,447,978,213</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 December 31, 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, and they are set forth beginning on page F-73 of this Offering Circular. 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 also be available from the Paying Agent in Luxembourg.

SUBORDINATED LOAN AGREEMENT

The following is substantially all of the text of the Subordinated Loan Agreement entered into between VTB and the Issuer.

This Subordinated Loan Agreement is made on 3 February 2005 between:

- (1) **JSC VNESHORBANK**, 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) **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 (the “**Lender**”).

Whereas:

- (A) The Lender has at the request of VTB agreed to make available to VTB a loan facility in the amount of U.S.\$750,000,000 (the “**Loan**”) on the terms and subject to the conditions of this Agreement.
- (B) It is intended that, concurrently with the extension of the Loan, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as the Loan.
- (C) The Lender and VTB have agreed that, in the event of the winding up or administration of VTB, the claims of the Lender in respect of the Loan shall be subordinated to the claims of Senior Creditors of VTB in the manner set out in this Agreement.
- (D) It has been agreed in the Trust Deed (as defined below) that if following the assignment by the Lender of its rights and obligations under this Agreement, the Trustee or any person receiving payments under the direction of the Trustee in accordance with Clause 2.8 of the 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 Lender shall use its best endeavours (using its powers under the 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.

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 the account in the name of the Lender with Citibank, N.A. London (account number 10861669).

“**Agency Agreement**” means the paying agency agreement dated 4 February 2005, as may be further amended or supplemented from time to time between the Lender, VTB, the Trustee and the agents named therein (the “**Agents**”).

“**Business Day**” means (save in relation to Clause 4) a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally, and foreign exchange transactions may be carried on in U.S. dollars, in New York and London.

“**Calculation Agent**” means Deutsche Bank Luxembourg S.A..

“**CBR**” means the Central Bank of the Russian Federation or such other governmental or other authority as shall from time to time carry out functions in relation to the supervision of banks in the Russian Federation as are, on the date hereof, carried out by the CBR.

“**Closing Date**” means 4 February 2005.

“**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.

“**Event of Default**” has the meaning assigned to such term in sub-Clause 11.3 hereof.

“**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 IFRS, 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).

“**Group**” means VTB and its Subsidiaries taken as a whole.

“**IFRS**” means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time).

“**Interest Payment Date**” means 4 February and 4 August in each year, starting from 4 August 2005.

“**Interest Period**” has the meaning assigned to such term in Clause 4.2.

“**Lead Manager(s)**” means Barclays Bank PLC, Deutsche Bank AG London, HSBC Bank plc and J.P. Morgan Securities Ltd.

“**Lender Agreements**” means this Agreement, the Trust Deed, the Agency Agreement, the Subscription Agreement.

“**Make Whole Premium**” means the excess, if any (as reported in writing to VTB and the Issuer by a reputable financial institution selected by VTB and approved in writing by the Issuer (the “**Financial Advisor**”) operating in the U.S. Treasury market in New York (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)), of (a) the

present value of the remaining scheduled payments of principal and interest on the Loan (assuming, for the purpose of such calculation that the scheduled maturity date is the Repayment Date, except with respect to a prepayment prior to the Reset Date pursuant to Clause 5.2(b), in which case the scheduled maturity date will be the Reset Date) discounted at 50 basis points above the relevant Treasury Rate over (b) the outstanding principal amount of the Loan.

“Margin” means 260 basis points.

“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 this Agreement or (c) the validity, legality or enforceability of this Agreement or the rights or remedies of the Lender under this 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 U.S.\$750,000,000 6.315 per cent Loan Participation Notes due 2015, with interest rate step-up in 2010, issued by the Lender.

“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.

“Rate of Interest” has the meaning assigned to such term in Clause 4.1.

“Repayment Date” means 4 February 2015.

“Reset Benchmark Treasury” means actively traded U.S. Treasury securities with maturity on or about the Repayment Date, as selected by the Calculation Agent.

“Reset Date” means 4 February 2010.

“Reset Rate” means the rate per annum (as reported in writing to the Lender and VTB by the Calculation Agent (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)) which is the aggregate of (a) 150 basis points above the Reset Treasury Rate and (b) the Margin.

“Reset Treasury Rate” means a rate equal to the yield, as published by the Board of Governors of the Federal Reserve System, on the Reset Benchmark Treasury. If there is no such publication of this yield during the week preceding the relevant calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary U.S. Treasury securities dealers in New York City selected by the Calculation Agent. The Reset Treasury Rate will be calculated on the third business day in New York (being a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in New York) preceding the Reset Date.

“Roubles” means the lawful currency of the Russian Federation.

“Same-Day Funds” means Dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in Dollars as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby.

“Senior Creditors” means creditors of VTB whose claims are admitted to proof in the winding up, or who are entitled to receive a distribution in the event of administration of VTB, and who are unsubordinated creditors of VTB in accordance with applicable Russian laws.

“Subscription Agreement” means the agreement dated 3 February 2005 between VTB, the Lender, the Joint Lead Managers and the other managers specified therein.

“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).

“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 a 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.

“Treasury Rate” means a rate equal to the yield, as published by the Board of Governors of the Federal Reserve System, on actively traded U.S. Treasury securities with a maturity comparable to the remaining life of the Loan, as selected by the Financial Advisor. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary U.S. Government securities dealers in New York City selected by the Financial Advisor. The Treasury Rate will be calculated on the third business day in New York preceding the prepayment date.

“Trust Deed” means the trust deed dated 4 February 2005 between the Lender and the Trustee, as may be amended or supplemented from time to time.

“Trustee” means Citicorp Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

“U.S. dollars”, “Dollars”, “USD”, “US\$” and “\$” denote the lawful currency of the United States of America.

“VTB Account” means the account in the name of VTB (account number 001-1-907557 in the name of VTB with JPMorgan Chase Bank, New York).

“VTB Agreements” means this Agreement, the Agency Agreement and the Subscription Agreement.

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 Trust Deed, the Notes, the Agency Agreement or the Subscription Agreement 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 this 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.

2 Loan and Drawdown

2.1 Loan

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to make available to VTB the Loan in the total aggregate amount of U.S.\$750,000,000.

2.2 Purpose

The proceeds of the Loan will be used for general corporate purposes, but the Lender shall not be concerned with the application thereof.

2.3 Drawdown

On the terms and subject to the conditions set forth herein, on the Closing Date the Lender shall make the Loan to VTB and VTB shall make a single drawing in the full amount of the Loan.

2.4 Loan Arrangement Fee

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, an arrangement fee as increased by the front-end fees, commissions and expenses incurred by the Lender in connection with financing the Loan, negotiation, preparation and execution of this Agreement and all related documents and other expenses connected with and necessary for the extension of the Loan, pursuant to an invoice submitted by the Lender to VTB in the total amount of U.S.\$3,539,063.43.

2.5 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Loan to the VTB Account.

2.6 Ongoing Fees and Expenses

In consideration of the Lender (i) making available the Loan to VTB and (ii) supporting such a continuing facility and managing the Account, VTB shall pay on demand to the Lender each year all ongoing fees as set forth to VTB in an invoice from the Lender.

3 Subordination of the Loan

3.1 Subordination

The claims of the Lender against VTB in respect of the principal of, and interest on, the Loan will be subordinated, in the event of the winding up of VTB or in the event of the administration of VTB where the administrator makes a distribution to creditors, to the claims of Senior Creditors in accordance with the Federal Law “On Insolvency (Bankruptcy) of Credit Organisations” No. 40-FZ dated 25 February 1999 (as amended), will rank at least *pari passu* with the claims of other subordinated creditors of VTB and will be senior to the claims of holders of VTB’s share capital.

3.2 Report

A report in writing as to the solvency of VTB by the liquidator or administrator of VTB shall, unless the contrary is proved, be treated and accepted by VTB and the Lender as correct and sufficient evidence thereof.

3.3 Set-Off

Subject to applicable law, the Lender shall not exercise or claim any right of set-off in respect of any amount owed to it arising under or in connection with this Agreement by VTB, and the Lender shall, by virtue of its execution of these presents, be deemed to have waived all such rights of set-off.

3.4 Reclassification

If, by the date falling three months after the date of this Agreement, the CBR has not finally and unconditionally approved this Agreement and the Loan as a subordinated loan eligible for inclusion into own funds (capital) (“**Own Funds**”) of VTB within the meaning of CBR Regulation No. 215-P dated 10 February 2003 “On the method of determination of own funds (capital) of credit organisations” (as amended, supplemented or replaced) (“**Regulation No. 215-P**”) the Loan shall be treated as senior in priority to any subordinated debt of VTB and Clause 3.1 shall be disregarded.

4 Interest

4.1 Rate of Interest

VTB will pay interest in Dollars to the Lender on the outstanding principal amount of the Loan from (and including) the Closing Date to (but excluding) the Reset Date at the rate of 6.315 per cent. per annum (the “**Initial Rate of Interest**”) and from (and including) the Reset Date (unless the Loan has been prepaid in accordance with Clause 5) at the Reset Rate and “**Rate of Interest**” means, in relation to any Interest Period, a) the Initial Rate of Interest in respect of any Interest Period which ends on or before the Reset Date or b) the Reset Rate in respect of any Interest Period which starts on or after the Reset Date.

4.2 Payment

Interest at the Initial Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date to (but excluding) the Reset Date and interest at the Reset Rate shall accrue from day to day, starting from (and including) the Reset Date to (but excluding) the Repayment Date and in each case interest shall be paid in arrear not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment thereof unless payment of principal due on such date is withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the relevant interest rate to, but excluding, the date on which payment in full of the principal thereof is made.

The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and

rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

“**Interest Period**” means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

4.3 Publication of Reset Rate

The Lender and VTB shall (unless the Loan has been prepaid in accordance with Clause 5) cause notice of the Reset Rate to be given to the Trustee, the Agents, the Luxembourg Stock Exchange and, in accordance with the conditions of the Notes, the Noteholders as soon as practicable after its determination but in any event not later than the Reset Date.

5 Repayment and Prepayment

5.1 Repayment, no Prepayment and no Termination

Except as otherwise provided herein:

5.1.1 VTB shall repay the Loan not later than 10.00 a.m. one Business Day prior to the Repayment Date or as contemplated in Clause 11;

5.1.2 VTB shall not prepay all or any part of the Loan; and

5.1.3 this Agreement may not be terminated earlier than the Reset Date.

5.2 Call Option

Notwithstanding the provisions of Clause 5.1 above, VTB may prepay the Loan either (a) subject to the prior consent of the CBR, on the Reset Date or (b) following the first unconditional approval by the CBR of this Agreement and the Loan as Own Funds and the receipt by VTB of the corresponding final conclusion (*zakluchenie*), on any Interest Payment Date, if, as a result of any amendment to or clarification of, or change in (including a change in interpretation or application of), CBR Regulation No. 215-P or other applicable requirements of the CBR, the Loan would cease to qualify as Own Funds. In either case the Loan shall be prepaid at the principal amount thereof in whole, but not in part together, in the event of a prepayment in accordance with Clause 5.2(b) only, with the Make Whole Premium, if any, provided that notice thereof, together, in the case of a prepayment in accordance with Clause 5.2(b) only, with an Officer's Certificate confirming the existence of the relevant circumstances permitting such a prepayment, shall be given to the Lender not less than 30 days prior to the last day of the relevant Interest Period. Upon the delivery of such notice and, if applicable, such Officer's Certificate, VTB shall be bound on the prepayment date to repay the Loan (in whole but not in part) at the principal amount thereof, together, in the event of a prepayment in accordance with Clause 5.2(b) only, with the Make Whole Premium, if any, as aforesaid.

5.3 Special Prepayment for Tax Reasons or Change in Circumstances

Notwithstanding the provisions of Clause 5.1 above, 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 the Trust Deed, VTB would thereby be required to make or increase any payment due pursuant to this 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 2 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), if it obtains the prior consent of the CBR, upon not less than 10 days' notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part) at the principal amount thereof at any time.

5.4 Illegality

Notwithstanding the provisions of Clause 5.1 above, if, at any time after the date of this Agreement, 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 Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, then upon notice by the Lender to VTB in writing (setting out in reasonable detail the nature and extent of the relevant circumstances and accompanied by the Opinion of Counsel referred to above), 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, subject to the consent of the CBR, prepay the Loan in whole (but not in part) at the principal amount thereof, 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.

5.5 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 or 5.4, 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 this Agreement.

6 Payments

6.1 Making of Payments

All payments of principal and interest to be made by VTB under this Agreement shall be made to the Lender not later than 10.00 a.m. one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the Account. The Lender agrees with VTB that it will not deposit any other monies into the Account and will not withdraw any amounts from the Account other than as provided for and in accordance with this Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by VTB under this 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 this Agreement for or on account of any Taxes, it shall increase any payment due under this Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in U.S. dollars 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 U.S. dollars 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 10.1.1 and 10.1.3. 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 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 has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of the Notes in circumstances where the Lender, subject to receipt of such amount, is required to pay additional amounts pursuant to Condition 8 of the Notes, VTB agrees to pay to the Lender, not later than 10:00am one Business Day prior to the date on which payment is due to the Noteholders in Same-Day Funds to the Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to Condition 8 provided, however, that the Lender shall procure that immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Noteholders as the case may be, are not entitled to such additional amounts pursuant to the Conditions of the 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 is entitled to such additional amount).

6.4 Reimbursement

To the extent that 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 obtains any reimbursement from the Trustee pursuant to the terms of the Trust Deed, the Lender shall pay to VTB so much of the benefit received as will leave the Lender 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 the Trust Deed; 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 Lender. The Lender shall use its best endeavours to obtain any credits or refunds available to the Lender but shall not be obliged to disclose to VTB any information regarding its tax affairs or computations.

If as a result of a failure to obtain relief from deduction or withholding of any tax imposed by the Russian Federation or Luxembourg (i) such tax is deducted or withheld by VTB and pursuant to this Clause 6 or the Conditions 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) 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, 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.

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 the Loan shall be subject to the receipt by the Lender on or prior to the 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 the Loan shall be subject to the further conditions precedent that as of the Closing Date (a) the Lender shall have received the full amount of the proceeds of the issue of the Notes pursuant to the Subscription Agreement and (b) the Lender shall have received in full the amount referred to in sub-Clauses 2.2 and 2.4, if due and payable.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of this 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 the Loan or any other amount payable under this 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 the Loan or any other amount payable under this 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 this Agreement or the Loan,
- and if as a result of any of the foregoing:
- (i) the cost to the Lender of making, funding or maintaining the Loan is increased; or
 - (ii) the amount of principal, interest or other amount payable to or received by the Lender under this 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 the 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 borrowers 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 this Agreement in the circumstances permitting the substitution of the Lender under the Conditions,

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 the Closing Date shall be deemed to, represent and warrant to the Lender as follows, to the intent that such shall form the basis of this 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 this Agreement and to borrow the Loan; VTB has taken all necessary corporate, legal and other action required to authorise the borrowing of the Loan on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms.
- 9.1.2** This Agreement 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 this Agreement 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 this Agreement have been obtained or effected and are in full force and effect (excluding, for the avoidance of doubt, the final conclusion (*zakluchenie*) of the CBR that the Loan is to be treated as Own Funds and any subsequent filings and/or submissions to be made by VTB with the CBR in connection therewith).
- 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 Loan.
- 9.1.6** Except as disclosed in the offering circular dated 3 February 2005 relating to the Notes (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 type referred to in Clause 10.1 of the Facility Agreement dated 2 July 2004 between VTB and Deutsche Bank Luxembourg S.A., 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 Loan will rank at least *pari passu* with the obligations of the Issuer in respect of claims expressed to rank *pari passu* with the Loan, senior in point of subordination to the obligations of VTB in respect of holders of VTB’s share capital and junior in point of subordination to the obligations of VTB in respect of Senior Creditors (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 31 December 2003 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 this 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 this 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 this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England pursuant to sub-Clause 14.10.4 in relation to this Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in the Russian Federation.
- 9.1.16** Subject to sub-Clause 10.1.1, 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 this 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 this Agreement 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 societe anonyme 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 the Russian Federation.
- 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 this Agreement:

10.1 Withholding Tax Exemption

- 10.1.1** The Lender shall use its best endeavours to provide VTB no later than 10 Business Days before the first Interest Payment Date (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.
- 10.1.2** 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 or the interpretation thereof by the relevant competent authority change then the procedure referred to in sub-Clause 10.1.1 will be deemed changed accordingly.
- 10.1.3** 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 10.1.3 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 10.1.3. 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 10.1.3. The Lender shall not be obligated to take any step under this sub-Clause 10.1.3 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).

10.2 Reports

- 10.2.1** VTB will furnish to the Lender commencing with the year ending 31 December 2004, 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.
- 10.2.2** 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.
- 10.2.3** 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, 14.10 and 14.12 of the Trust Deed).
- 10.2.4** VTB consents that any information provided to the Lender pursuant to this sub-Clause 10.2 and sub-Clause 5.4 may also be provided to the Trustee without violating any duty of confidentiality or secrecy that the Lender may owe to VTB under the laws of Luxembourg.
- 10.2.5** VTB will at the same time as delivering its audited annual financial statements pursuant to sub-Clause 10.1.1 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.
- 10.2.6** Promptly upon receipt by VTB of the CBR's final conclusion (*zakluchenie*) that the Loan is to be treated as Own Funds VTB shall deliver a copy of that final conclusion (*zakluchenie*) to the Lender.

10.3 Compliance with Terms of the Trust Deed

The Lender agrees that it will observe and comply with its obligations set out in the Trust Deed and will not agree to any amendment to the terms of the Trust Deed.

10.4 Capital Treatment

If the Loan is to be treated as Own Funds by VTB, VTB will use its best efforts to procure that the CBR issue a final conclusion (*zakluchenie*) for such treatment, and will provide all relevant information about the Loan to the CBR as may be necessary for the issuance of such final conclusion (*zakluchenie*).

11 Events of Default

11.1 Event of Default

If VTB fails to pay within five Business Days any amount payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified therein, the Lender may, at its discretion and without further notice, institute proceedings in the manner and to the extent contemplated by the applicable law for the winding up of VTB and/or to prove for its debt, and claim, in any liquidation of VTB.

11.2 Winding-up

On occurrence of any of the following events:

- 11.2.1** VTB 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;

- 11.2.2** the institution of the financial rehabilitation (*finansovoye ozdorovleniye*), pursuant to the request of the CBR, temporary administration (*vremennaya administratsiya*) or reorganisation (*reorganizatsiya*) with respect to VTB 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);
- 11.2.3** any judicial liquidation, dissolution, administration or winding-up in respect of VTB;
- 11.2.4** the shareholders of VTB approving any plan of dissolution, administration or winding-up of VTB; or
- 11.2.5** any event occurring which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraph,

the Lender may give notice to VTB that the Loan is, and it shall accordingly become, due and repayable (subject to and in accordance with the provisions of Clause 3.1 above) at the principal amount thereof together with any interest accrued to the date of repayment, and the Lender may prove for such debt, and claim, in the liquidation of VTB.

11.3 Notice of Default

VTB shall deliver to the Lender and the Trustee, within 30 days after becoming aware thereof, written notice of any event described in Clauses 11.1 and 11.2 (each an “**Event of Default**”), its status and what action VTB is taking or proposes to take with respect thereto.

11.4 Proceedings

In addition to its rights under Clauses 11.1 and 11.2, the Lender may institute such other proceedings against VTB as it may think fit to enforce any obligation, condition or provision binding on VTB under this Agreement (other than any obligation for payment of any principal or interest in respect of the Loan contemplated by Clause 11.1) provided that VTB shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing or measured by reference to principal or interest in respect of the Loan sooner than the same would otherwise have been payable by it or (ii) any damages.

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 Lender 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, or 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, and/or the issuance, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding 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. “**Liability**” means any loss, damage, claim, demand, judgment, 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 this Agreement or any other obligations of VTB and shall not affect, or be construed to affect, any other provision of this 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 this Agreement and the drawdown and repayment of the 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 2.4 hereof, pay the Lender front-end commissions, fees and expenses in U.S. dollars incurred and properly documented by the Lender in connection with the negotiation, preparation and execution of this Agreement and all related documents and other expenses connected with the extension of the Loan.

13.2 Payment of Ongoing Expenses

In addition, VTB hereby agrees to pay to the Lender on demand in U.S. dollars 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 for any indemnification or other payment obligations of the Lender under or in respect of the Agency Agreement and/or Trust Deed (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the Notes). Payments to the Lender referred to in this sub-Clause 13.2 shall be made by VTB at least one Business Day 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 2, 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 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 this 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.

14.2.2 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 this Agreement and any documents related thereto as well as the Notes 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 this 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 this 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 this Agreement shall be given or made in the English language by telex, Swift or courier, or (in the case of the Lender only) fax to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this 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:

VTB Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

Fax: +352 421 22 718

Attention: The Directors

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 This 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 this Agreement. Any reference in this 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 Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not 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 this Agreement except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits under this Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed.

14.6 Currency Indemnity

To the fullest extent permitted by law, the obligation of VTB in respect of any amount due in U.S. dollars under this 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 U.S. dollars 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 U.S. dollars 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 U.S. dollars. Any obligation of VTB not discharged by payment in U.S. dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided this Agreement, shall continue in full force and effect. If the amount in U.S. dollars 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 the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 11 of the Notes.

14.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

14.9 Choice of Law

This 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 this Agreement and that accordingly any suit, action or proceeding (collectively, “**Proceedings**”) arising out of or in connection with this 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 this 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 this 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 this 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 this 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

This 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 this Agreement is the English language.

14.13 Amendments

No variation of, or amendment to, this Agreement shall be of any effect unless:

14.13.1 it is in writing signed by the Lender and VTB;

14.13.2 an amendment agreement (or draft thereof) has been submitted to the CBR; and

14.13.3 approval from the CBR shall have been received in respect of the agreement referred to in sub-clause 14.13.2.

14.14 Loan not secured

The Loan is unsecured.

14.15 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of this 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.

TERMS AND CONDITIONS OF THE NOTES

The following is substantially all of the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Note representing the Notes. All capitalised terms that are not defined in these Terms and Conditions will have the meanings given to them in the Trust Deed.

The U.S.\$750,000,000 6.315 per cent. Loan Participation Notes due 2015 with interest rate step-up in 2010 (the “**Notes**”, which expression includes any further Notes issued pursuant to Condition 15 and forming a single series herewith), without coupons, of VTB Capital S.A. (the “**Issuer**”) are constituted by, are subject to, and have the benefit of, a trust deed dated 4 February 2005 (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, referred to as the “**Trust Deed**”) made between 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 Noteholders.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of making a subordinated loan (the “**Subordinated Loan**”) of U.S.\$750,000,000 to JSC Vneshtorgbank (“**VTB**”). The Issuer and VTB have recorded the terms of the Subordinated Loan in a subordinated loan agreement dated 3 February 2005 (such subordinated loan agreement, as may be amended, restated or supplemented from time to time, the “**Subordinated 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 Subordinated 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 lender under the Subordinated Loan Agreement and its rights, title and interest in all sums held on deposit in a certain account of the Issuer as security for its payment obligations in respect of the Notes and under the Trust Deed (the “**Charge**”) and (ii) has assigned absolutely to the Trustee certain other rights under the Subordinated Loan Agreement (in each case other than any rights and benefits constituting Reserved Rights (as defined in the Trust Deed)) (the “**Subordinated Loan Assignment**” and together with 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 VTB) pursuant to, a paying agency agreement dated 4 February 2005 (as may be amended, restated or supplemented from time to time, the “**Agency Agreement**”) and made between the Issuer, Citibank, N.A. London as principal paying agent, registrar and transfer agent (the “**Principal Paying Agent**” and the “**Registrar**”) and Deutsche Bank Luxembourg S.A. as the calculation agent, a paying agent and a transfer agent (the “**Calculation Agent**”, “**Paying Agent**” and, together with Citibank, N.A. London, each a “**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 Subordinated Loan Agreement and the Agency Agreement 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 Subordinated Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) 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 finance the Subordinated Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for making the Subordinated Loan 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 Subordinated Loan 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 Subordinated Loan Agreement will be made *pro rata* among all Noteholders and in the currency of, and subject to the conditions attaching to, the equivalent payments pursuant to the Subordinated Loan Agreement on the date for payment under the Subordinated Loan Agreement. 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 and the rights of Noteholders to receive payments in respect of the Notes are limited to the rights to receive monies received by the Issuer pursuant to the Subordinated Loan Agreement and no other assets of the Issuer will be available to Noteholders to meet such payments. 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 and VTB.

Noteholders have notice of, and have accepted, these Terms and Conditions, the contents of the Trust Deed and the Subordinated 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 VTB of its obligations under the Subordinated Loan Agreement, the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from VTB under the Subordinated Loan Agreement or the ability to institute proceedings under the Subordinated Loan Agreement in the manner and to the extent contemplated by the applicable law for the winding-up of VTB and/or to prove for any debt and claim, in any liquidation of VTB;
- 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 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 VTB under or in respect of the Subordinated 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 any 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 VTB of its obligations under the Subordinated Loan Agreement and its covenant to make payments under the Subordinated Loan Agreement and its credit and financial standing. VTB has represented and warranted to the Issuer that the Subordinated 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 Subordinated Loan Agreement) as to whether or not an Event of Default or Potential Event of Default (each as defined in the Subordinated Loan Agreement) has occurred and (ii) Officer's Certificates specifying the Principal Subsidiaries (as defined in the Subordinated Loan Agreement) of VTB and shall not otherwise be responsible for investigating any aspect of VTB's performance in relation thereto 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.

Any rights under the provisions of the Subordinated Loan Agreement against VTB in respect of the principal of, and interest on, the Subordinated Loan will be subordinated, in the event of the winding-up of VTB or in the event of the administration of VTB where the administrator makes a distribution to creditors, to the claims of Senior Creditors (as defined in the Subordinated Loan Agreement) in accordance with the Federal Law “On Insolvency (Bankruptcy) of Credit Organisations” No. 40-F2 dated 25 February 1999 (as amended), will rank at least *pari passu* with the claims of other subordinated creditors of VTB and will be senior to the claims of holders of VTB’s share capital.

In the event that the payments under the Subordinated Loan Agreement are made by VTB 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 Subordinated Loan Agreement or the Subordinated 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 Subordinated Loan Agreement or direct recourse to 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 the provisions of the Subordinated Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

2. Form and Denomination

The Notes will be issued in fully registered form, and in the denomination of U.S.\$100,000 or integral multiples of U.S.\$1,000 in excess thereof, without interest coupons.

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, without the prior written consent of the Trustee, agree to any amendments to or modification of (in each preceding case with the consent of the Central Bank of Russia) or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Subordinated Loan Agreement, except as otherwise expressly provided in the Subordinated 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 the Notes or any notes already issued or to be issued in the future under VTB’s U.S.\$3,000,000,000 programme (as increased from time to time) for the issuance of loan participation notes issued by, but with limited recourse to, the Issuer for the purpose of financing fiduciary deposits with Deutsche Bank Luxembourg S.A. for the purpose of financing loans to VTB (the “**Programme**”), engage in any other business (other than acquiring and holding the Security Interests in respect of Notes or any notes already issued or to be issued in the future under the Programme, making the Subordinated Loan to VTB pursuant to the Subordinated Loan Agreement or any fiduciary deposit under the Programme 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

On each Interest Payment Date, or as soon thereafter as the same are received, 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 pursuant to the Subordinated Loan Agreement, which interest under the Subordinated Loan is equal to 6.315 per cent. per annum from (and including) the Issue Date to (but excluding) the Reset Date and, provided that the Subordinated Loan is not prepaid at or before such time, thereafter, equal to the rate per annum equal to the Reset Rate. Interest shall continue to accrue on overdue interest at the same rate per annum up to the maximum extent permitted by applicable law.

If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

In these Conditions:

“**Interest Payment Date**” means 4 February and 4 August of each year, commencing on 4 August 2005;

“**Issue Date**” means 4 February 2005;

“**Margin**” means 260 basis points;

“**Repayment Date**” means 4 February 2015;

“**Reset Benchmark Treasury**” means actively traded U.S. Treasury securities with maturity on or about the Repayment Date, as selected by the Calculation Agent;

“**Reset Date**” means 4 February 2010;

“**Reset Rate**” means the rate per annum (as reported in writing to the Issuer and VTB by the Calculation Agent (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)) which is the aggregate of (a) 150 basis points above the Reset Treasury Rate and (b) the Margin; and

“**Reset Treasury Rate**” means a rate equal to the yield, as published by the Board of Governors of the Federal Reserve System, on the Reset Benchmark Treasury. If there is no such publication of this yield during the week preceding the relevant calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary U.S. Treasury securities dealers in New York City selected by the Calculation Agent. The Reset Treasury Rate will be calculated on the third business day in New York (being a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in New York) preceding the Reset Date.

6. Redemption and Purchase

- (a) **Final Redemption:** Unless the Subordinated Loan is previously prepaid or repaid pursuant to Clauses 5.2, 5.3 or 5.4 of the Subordinated Loan Agreement or otherwise, VTB will be required to repay the Subordinated Loan on the Repayment Date and, subject to such repayment, as set forth in the Subordinated Loan Agreement, all the Notes then remaining outstanding will on that date, or as soon thereafter as such repayment of the Subordinated Loan is actually received, be redeemed or repaid by the Issuer in the U.S. dollars on the Repayment Date at 100 per cent. of the principal amount thereof.
- (b) **Early Redemption:** If the Subordinated Loan should become repayable in full (and be repaid in full) pursuant to the terms and conditions of the Subordinated Loan Agreement prior to the Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at par together with interest accrued to the date of redemption and, in the circumstances where the prepayment is as a consequence of a prepayment of the Subordinated Loan Agreement pursuant to Clause 5.2(b) thereof, the Make Whole Premium (if any) 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.

The Trustee shall not be obliged to investigate whether any right of prepayment of the Subordinated Loan has arisen and shall have no liability for not doing so.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights) following acceleration of the Subordinated 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.

7. Payments and Agents

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 U.S. dollars by cheque drawn on a bank in New York 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 U.S. dollars maintained by the payee with a bank in New York 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 and where payment is to be made by transfer to an account maintained with a bank in U.S. dollars, on which foreign exchange transactions may be carried on in the U.S. dollars in New York.

The names of the initial Paying Agents and the Registrar and their initial specified offices are set out below. The Trust Deed and/or 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, any of the Paying Agents, the Registrar or any Transfer Agent and appoint additional or other paying agents, registrar or transfer agents provided that (i) so long as the Notes are listed on the Luxembourg Stock Exchange or any other 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 Luxembourg or such other place as may be required by the rules and regulations of the Luxembourg Stock Exchange or such other relevant stock exchange or relevant authority, (ii) there will be a Registrar and (iii) 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 European 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 Closing Date shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Subordinated 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 VTB to make all payments of principal and interest and additional amounts if any to be made pursuant to the Subordinated Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the “**Account**”). Under the Charge, the Issuer charges 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.

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 VTB under the Subordinated Loan Agreement. To the extent that the Issuer receives a lesser additional amount from VTB, 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 Subordinated Loan Agreement 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:

- 8.1** to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with the Russian Federation or Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;
- 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 Subordinated Loan Agreement first becomes due but (ii) if the full amount payable by VTB has not been received by, or for the account of, the Issuer pursuant to the Subordinated Loan Agreement 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 or of a Relevant Event, 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, take the action permitted to be taken by the Issuer as lender under the Subordinated Loan Agreement (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 Relevant Event). Upon the repayment of the Subordinated Loan or the receipt in full of all principal amount and interest accrued under the Subordinated Loan pursuant to a winding-up or liquidation of VTB 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.

In these Conditions, “**Relevant Event**” means the earlier of the failure by the Issuer to make any payment of principal or interest on the Notes when due or the Issuer becoming insolvent or bankrupt or unable to pay its debts, stopping or suspending payment of all or a material part (in the opinion of the Trustee) of its debts, proposing or making a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of or affecting all or (in the opinion of the Trustee) a material part of the debts of the Issuer or an order is made or an effective resolution is passed for the winding up or dissolution of the Issuer or the Issuer becomes subject to any insolvency, bankruptcy, *concordat préventif de faillite*, moratorium, controlled management (*gestion contrôlée*), general settlement with creditors, liquidation, reorganisation and any other similar legal proceedings affecting the Issuer or a *commissaire à la gestion contrôlée*, a *liquidateur*, a *commissaire*, a *curateur*, an *administrateur* or any similar officer is appointed as a consequence of the financial difficulties affecting the Issuer.

10. Meetings of Noteholders; Modification of Notes, Trust Deed and Subordinated 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 Subordinated 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 Subordinated 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 and the Subordinated 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 (save as specified in the Trust Deed) 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 or by VTB of the terms of the Subordinated Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Subordinated 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. 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 Subordinated Loan Agreement, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Subordinated Loan Agreement being charged and assigned to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes.

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 (a) in the case of the removal of a Trustee, at all times there remains a trustee in office after such removal and the trustee in respect of notes issued under the Programme (the “**Programme Trustee**” which includes any successor), (b) the same person shall at all times be the Trustee under the Trust Deed and the Programme Trustee unless the Programme Trustee agrees otherwise and (c) no person may be appointed to be Trustee unless he has agreed with the Programme Trustee (or each of them if more than one) for the benefit of the holders of notes issued under the Programme prior to the Closing Date (the “**Existing Programme Notes**”) that it will not take any action or bring any proceedings to challenge the validity, enforceability or effectiveness of (i) the Existing Programme Notes or the trust deeds constituting them insofar as the same relate to the security created for the Existing Programme Notes and releases all or any rights it may have to do so, and (ii) the provisions of the Notes and the Trust Deed which limit the rights of the Trustee and the Noteholders to the right to receive payment of any amount only insofar as the same are received from VTB pursuant to the Subordinated Loan Agreement. The Trustee has agreed in the Trust Deed, for the benefit of the Programme Trustee, similar restrictions. 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 5 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 and/or VTB and any entity related to the Issuer 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 Subordinated 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 or for the performance by VTB of its obligations under or in respect of the Subordinated 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 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, currently expected to be the

Luxemburger Wort. The selection of such daily newspaper in Luxembourg will be subject to the approval of the Trustee. 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 notes, (i) the Issuer will enter into a loan agreement supplemental to or amending the Subordinated Loan Agreement with VTB on substantially the same terms as the Subordinated Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Subordinated Loan) and (ii) 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 of its rights and interests under any further or amended Subordinated Loan Agreement and will assign absolutely certain of its rights under such further or amended Subordinated Loan Agreement 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 Notes will be represented by a Global Note that will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

The Global Note will become exchangeable in whole but not in part (free of charge to the holder), for individual definitive Notes if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, or (b) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (in respect of taxation or otherwise) of any jurisdiction referred to in Condition 8 that would not be suffered were the Notes in definitive form.

Whenever the Global Note is to be exchanged for individual definitive Notes, such individual definitive Notes will be issued in an aggregate principal amount equal to the principal amount of the Global Note following delivery by or on behalf of the registered holder of the Global Note, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as required to complete and deliver such individual definitive Notes (including, but without limitation to, the names and addresses of the persons in whose names the individual definitive Notes are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note at the Specified Office of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Global Note.

In addition, the Global Note will contain a provision that modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note. The following is a summary of this provision:

Notices: Notwithstanding Condition 14, so long as the Global Note is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System"), notices to Noteholders represented by the Global Note may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Deutsche Bank AG London, HSBC Bank plc, J.P. Morgan Securities Ltd., Alpha Bank A.E. and Joint-Stock Investment Commercial Bank “Novaya Moskva” (Private Limited Company) (each a “Manager” and collectively the “Managers”) have, in a subscription agreement dated February 3, 2005 (the “Subscription Agreement”) and made between the Issuer, VTB and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount. In connection with the offering of the Notes, the Managers are entitled to commissions of 0.4% of the principal amount of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

Selling Restrictions

United States

The Notes and the Subordinated Loan 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 Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time, 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 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.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

- 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);
- 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 Financial Services and Markets Act 2000 (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
- 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 Manager 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 Russia or to any person located within the territory of Russia 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 Russia or to any person located within the territory of Russia 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 Manager has represented, warranted and agreed that no public offerings or sales of the Notes will or may be made to the public in or from Luxembourg other than in compliance with the requirements of Luxembourg law concerning public offerings of securities in or from Luxembourg. A listing of the Notes on the Luxembourg Stock Exchange does not necessarily imply that a public offering in or from Luxembourg has been authorised.

Federal Republic of Germany

Each Manager has acknowledged that no sales prospectus (*Verkaufsprospekt*) under the German Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) has been, or will be, prepared by the Issuer or VTB in connection with the offering of the Notes. Each Manager has represented, warranted and undertaken that it has offered, sold, publicly promoted and advertised and will offer, sell, publicly promote and advertise the Notes only in full accordance with the German Securities Sales Prospectus Act.

Hong Kong

Each Manager has represented, warranted and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and (ii) it has not issued and will not issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

Italy

The offering of the Notes in Italy has not been registered with the Commissione Nazionale per le Società e la Borsa (“CONSOB”) pursuant to Italian securities legislation and, accordingly: (i) the Notes cannot be offered, sold or delivered in the Republic of Italy (“Italy”) nor any copy of the Offering Circular or any other document relating to the Notes may be distributed in Italy in a solicitation to the public at large (*sollecitazione all’investimento*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998 (the “Financial Services Act”), (ii) the Notes cannot be offered, sold and/or delivered, nor any copy of the Offering Circular or any other document relating to the Notes may be distributed, either in primary or in the secondary market, to individuals in Italy and (iii) sales of the Notes in Italy shall only be:

- negotiated with “Professional Investors” (*operatori qualificati*), as defined under Article 31, paragraph 2, of CONSOB Regulation no. 11522 of 1 July 1998, as amended (the “CONSOB Regulation No. 11522”);
- effected in compliance with Article 129 of the Legislative Decree no. 385 of 1 September 1993 (the “Italian Banking Act”) and the implementing instructions of the Bank of Italy, pursuant to

which the issue or the offer of securities in Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics;

- made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Banking Act, the Financial Services Act, CONSOB Regulation no. 11522 and all the other relevant provisions of Italian law; and
- effected in accordance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

The Netherlands

Each Manager has represented and agreed that this Offering Circular may not be distributed and the Notes (including rights representing an interest in the Global Note) may not be offered, sold, transferred or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who or which are established, domiciled or have their residence in The Netherlands (the “Dutch Residents”) other than to the following entities (collectively referred to as “Professional Market Parties” or “PMPs”) provided that they acquire the Notes for their own account and trade or invest in securities in the conduct of a business or profession:

- banks, insurance companies, securities firms, collective investment institutions or pension funds that are supervised or licensed under Dutch law;
- banks or securities firms licensed or supervised in a European Economic Area member state (other than The Netherlands) and registered with the Dutch Central Bank (*De Nederlandsche Bank N.V.*: “DNB”) or the Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*) acting through a branch office in The Netherlands;
- Netherlands collective investment institutions which offer their shares or participations exclusively to professional investors and are not required to be supervised or licensed under Dutch law;
- the Dutch government (*de Staat der Nederlanden*), DNB, Dutch regional, local or other decentralised governmental institutions, or any international treaty organizations and supranational organizations located in The Netherlands;
- Netherlands enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes;
- Netherlands enterprises, entities or individuals with net assets (*eigen vermogen*) of at least €10,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes and who or which have been active in the financial markets on average twice a month over a period of at least two consecutive years preceding such date;
- Netherlands subsidiaries of the entities referred to under (a) above provided such subsidiaries are subject to prudential supervision;
- Netherlands enterprises or entities that have a credit rating from an approved rating agency or whose securities have such a rating; and
- such other Netherlands entities designated by the competent Netherlands authorities after the date hereof by any amendment of the applicable regulations.

Each Note (whether or not offered to Dutch Residents) shall bear a legend to the following effect, and upon the initial purchase or any subsequent transfer of an interest in a Note in the Netherlands or to or for the account or benefit of a Dutch Resident, each purchaser will be deemed to have represented and agreed as set forth in the following legend:

“THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE SOLD, TRANSFERRED OR DELIVERED TO INDIVIDUALS OR LEGAL ENTITIES WHO ARE ESTABLISHED,

DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS (“DUTCH RESIDENTS”) OTHER THAN TO PROFESSIONAL MARKET PARTIES WITHIN THE MEANING OF THE EXEMPTION REGULATION UNDER THE DUTCH ACT ON THE SUPERVISION OF CREDIT INSTITUTIONS 1992 THAT ACQUIRE SUCH NOTES (OR ANY INTEREST HEREIN) FOR THEIR OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PROFESSIONAL MARKET PARTY AND THAT TRADE OR INVEST IN SECURITIES IN THE CONDUCT OF A BUSINESS OR PROFESSION (“PMPs”)

EACH DUTCH RESIDENT BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT IT IS SUCH A PMP AND IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP.

EACH HOLDER OF THIS NOTE (OR ANY INTEREST HEREIN), BY PURCHASING SUCH NOTE (OR ANY SUCH INTEREST), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT (1) SUCH NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO DUTCH RESIDENTS OTHER THAN TO A PMP ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP AND THAT (2) THE HOLDER WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE.”

Singapore

Each Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and agreed that it has not circulated or distributed nor will it circulate or distribute this Offering Circular and any other document or material in connection with the offer or sale or invitation for subscription or purchase, of any Notes, nor has it offered or sold or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “Securities and Futures Act”), (ii) to a sophisticated investor and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the Securities and Futures Act.

Switzerland

Each Manager has represented, warranted and undertaken that the Notes will not be offered, directly or indirectly, to the public in Switzerland and that this Offering Circular does not constitute a public offering prospectus as that term is understood pursuant to article 652a or art. 1156 of the Swiss Federal Code of Obligations. The Issuer has not applied for a listing of the Notes pursuant to this Offering Circular on the SWX Swiss Exchange or any other regulated securities market in Switzerland, and consequently, the information presented in this Offering Circular does not necessarily comply with the information standards set out in the listing rules of the SWX Swiss Exchange.

General

Each Manager 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 it offers, sells or delivers Notes or distributes 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 Managers 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 Manager 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.

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 the Notes. Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences of the purchase, ownership and disposition of the 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 the Notes.

Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as taxation of interest payments on the Subordinated 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 the 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 Noteholder (including individuals and legal entities) not qualifying as a non-resident Noteholder.

The Russian tax treatment of interest payments made by VTB to the Issuer or to the Trustee under the Subordinated Loan Agreement may affect the holders of the Notes. See “– Taxation of Interest on the Subordinated Loan.”

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 realized 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, 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

Russia has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. 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 Subordinated 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 Issuer on the Subordinated 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 such an exemption will be available.

If interest under the Subordinated 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 eligibility for treaty relief during tax audits.

If payments under the Subordinated Loan are subject to any withholding of Russian tax (as a result of which the Issuer would reduce payments under the Notes 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 Subordinated Loan Agreement. If VTB is obliged to increase payments, it may (without premium or penalty), subject to certain conditions, prepay the Subordinated Loan in full. In such case, all outstanding Notes would 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 the Subordinated 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.

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.

Each purchaser of Notes, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

- It is, or at the time the Notes are purchased will be, the beneficial owner of such 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, VTB or a person acting on behalf of such an affiliate.
- It understands that the 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.
- It understands that the Notes will be evidenced by the Global Note.
- It acknowledges that the Issuer, VTB, the Registrar, the Managers and their affiliates 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, VTB, and the Managers. If it is acquiring 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.

GENERAL INFORMATION

- (1) VTB and the Issuer have obtained all necessary consents, approvals and authorisations in Russia and Luxembourg in connection with the Subordinated Loan and the issue of the Notes, with the exception of the final and unconditional approval by the CBR of the (i) Subordinated Loan Agreement, and (ii) the Subordinated Loan as a subordinated loan, each pursuant to Regulation No. 215-P. If such approval is not obtained within three months of the date of the Subordinated Loan Agreement, the Subordinated Loan shall be treated as senior in priority to any subordinated debt of VTB. The issue of the Notes and the making of the Subordinated Loan was authorised by the Board of Directors of the Issuer on January 20 and February 2, 2005. The receipt of the Subordinated Loan was authorised by the Management Board of VTB on February 1, 2005.
- (2) In connection with the application to list the Notes 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 have been deposited prior to listing with the Register of Commerce and Companies in Luxembourg, where such documents may be examined and copies obtained upon request.
- (3) No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of Luxembourg for the maintenance of the Subordinated Loan and the issue and performance of the Notes.
- (4) 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 September 30, 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.
- (5) 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.
- (6) For so long as any of the 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 Note and in definitive form);
 - the Agency Agreement; and
 - the Subordinated Loan Agreement.

The Group and VTB do not prepare financial statements in accordance with U.S. GAAP.

- (7) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code of the Notes is 221192201, and the International Securities Identification Number (ISIN) of the Notes is XS0211922017.
- (8) 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.
- (9) 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, 2003, 2002 and 2001
(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 accompanying notes are an integral part of these consolidated financial statements.

Bank for Foreign Trade**Consolidated Statements of Income for the years ended December 31, 2003, 2002, 2001***(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 accompanying notes are 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 Russia funding		—	1,096	1,014
Decrease in Central Bank of Russia 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 accompanying notes are 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)*

	Share capital	Share premium	Retained earnings (Accumulated deficit)	Total shareholders' equity
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 accompanying notes are an integral part of these consolidated financial statements.

Bank for Foreign Trade

Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001 (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 Russia to carry on banking activities and has operated under a full banking licence 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 Russia (“CBRF”) transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of Russia. 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 Russia. While there have been improvements in recent years in the economic situation in Russia, the economy of Russia 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 Russia, and relatively high inflation.

In addition, the banking sector in Russia 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 Russia. 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 Russia 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 Russia, 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.

Bank for Foreign Trade

Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001
(expressed in millions of US dollars)

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 recognized 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

Bank for Foreign Trade

Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001 (expressed in millions of US dollars)

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.

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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

Bank for Foreign Trade

Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001
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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.

Bank for Foreign Trade

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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 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

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.

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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)**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

MinFin bonds (OVGVZ) are interest bearing securities denominated in USD, which carry the guarantee of the Ministry of Finance of Russia. 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 Russia. 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)**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.

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

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

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.

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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

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).

9. Investment Securities Available for Sale

	31 December 2003	31 December 2002	31 December 2001
Debt securities			
Eurobonds of Russia	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 Russia are US dollar denominated securities issued by the Ministry of Finance of Russia, 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 Russia 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 Russia 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 seven 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 Russia 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 Russia. 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).

Bank for Foreign Trade

Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001
(expressed in millions of US dollars)

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 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 for the Years ended December 31, 2003, 2002 and 2001**
(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
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

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

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

	31 December 2003	31 December 2002	31 December 2001
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).

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

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

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).

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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

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 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).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)**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.

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 authorized 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 Russia. In March 2004 the Ministry of Property Relations was abolished and succeeded by the Federal Service for the Management of Federal Property.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)**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

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

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)**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	–
Amortization 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

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 utilized	(14)	(26)	(15)
– Translation effect	(33)	–	–
– Effect of unrecognized deferred tax assets	(99)	–	(31)
Income tax expense (benefit) for the year	(17)	106	170

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

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 recognized the probable portion 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)**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.

	<u>Russia</u>	<u>Europe</u>	<u>Total</u>
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:

	<u>Commercial banking</u>
Operating income	661
Segment assets	11,228
Credit related commitments	3,041
Capital expenditure	112

Segment information for the year ended 31 December 2002 is set out below:

	<u>Russia</u>	<u>Europe</u>	<u>Total</u>
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

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
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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 minimize operational and legal risks.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
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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.

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

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

	USD	RR	Euro	Other currencies	Total
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

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	–

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
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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.

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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.

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	–

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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	–

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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 judgment of business activities, Management’s judgment 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

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 (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).

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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

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:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
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.

The table below includes contracts outstanding at 31 December 2003.

	<u>Domestic</u>			<u>Foreign</u>		
	<u>Principal or agreed amount</u>	<u>Negative fair value</u>	<u>Positive fair value</u>	<u>Principal or agreed amount</u>	<u>Negative fair value</u>	<u>Positive fair value</u>
<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 for the Years ended December 31, 2003, 2002 and 2001**
(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 Russia). The Bank entered a 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements for the Years ended December 31, 2003, 2002 and 2001**
(expressed in millions of US dollars)

OVGZ 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 Russia	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, judgment is necessarily required to interpret market data to determine the estimated fair value. Russia 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 for the Years ended December 31, 2003, 2002 and 2001**
(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 Russia; prior to October 2002: the CBRF) are as stated in the table below:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
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:

	<u>31 December 2001</u>
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 for the Years ended December 31, 2003, 2002 and 2001**
(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.

Independent Accountants' Review Report

To the Board of Directors and Shareholders of the Bank for Foreign Trade:

We have reviewed the accompanying consolidated balance sheet of the Bank for Foreign Trade ("the Bank") and its subsidiaries (together "the Group") as of 30 September 2004, and the related consolidated statements of income, cash flows, and changes in shareholders' equity for the nine-month period then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of the Group's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the aforementioned financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the aforementioned consolidated financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

We have previously audited, in accordance with International Standards on Auditing, the consolidated balance sheet of the Bank for Foreign Trade and its subsidiaries at 31 December 2003, and the related consolidated statements of income, cash flows, and changes in shareholders' equity for the year then ended (not presented herein), and in our report dated 7 May 2004 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet at 31 December 2003 is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived. We have not performed any auditing procedures since 31 December 2003.

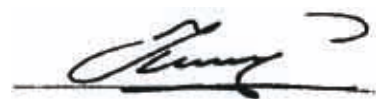
Ernst + Young (CIS) Limited

14 January 2005

Bank for Foreign Trade
Consolidated Balance Sheets
(expressed in millions of US dollars)

	Note	30 September 2004 (unaudited)	31 December 2003
Assets			
Cash and short-term funds	4	679	1,030
Mandatory cash balances with local central banks		198	382
Trading securities	5	1,559	1,270
Due from other banks	6	2,034	1,895
Loans and advances to customers, net	7	7,650	4,795
Investment securities available for sale	8	925	1,133
Investments in associated banks	9	81	41
Investment securities held to maturity		9	7
Accrued interest receivable and other assets		584	413
Premises and equipment		314	262
Total assets		14,033	11,228
Liabilities			
Due to other banks	10	1,760	1,812
Customer accounts	11	5,081	4,259
Other borrowed funds	12	1,310	707
Debt securities issued	13	3,214	1,738
Accrued interest payable and other liabilities		215	234
Total liabilities		11,580	8,750
Minority interest		70	105
Shareholders' equity			
Share capital		2,153	2,153
Share premium		34	34
Retained earnings		196	186
Total shareholders' equity		2,383	2,373
Total liabilities, minority interest and shareholders' equity		14,033	11,228

Approved for issue by the Management Board and signed on its behalf on January 14, 2005.



A.L. Kostin
Chairman and Chief Executive Officer



O.A. Avdeeva
Chief Accountant

The accompanying notes are an integral part of these consolidated financial statements.

Bank for Foreign Trade
Consolidated Statements of Income
(expressed in millions of US dollars)

		For the three-month periods ended 30 September (unaudited)		For the nine-month periods ended 30 September (unaudited)	
	Note	2004	2003	2004	2003
Interest income	14	248	157	648	451
Interest expense	14	(115)	(90)	(314)	(246)
Net interest income		133	67	334	205
Provision for loan impairment	6,7	(14)	(3)	(92)	(78)
Net interest income after provision for loan impairment		119	64	242	127
Gains less losses arising from trading securities ..		17	(27)	56	57
Gains less losses arising from investment securities available for sale	8	39	25	24	125
Gains less losses arising from dealing in foreign currencies		12	6	14	14
Gains less losses from derivative financial instruments	17	(1)	(4)	2	7
Gains less losses from foreign exchange translation		(9)	(9)	–	6
Fee and commission income		31	19	80	51
Fee and commission expense		(3)	(2)	(6)	(4)
Other operating income		7	12	30	33
Operating income		212	84	442	416
Operating expenses	15	(133)	(89)	(340)	(252)
Profit (loss) before taxation		79	(5)	102	164
Income tax (expense) benefit		(29)	6	(36)	(37)
Profit (loss) after taxation		50	1	66	127
Minority interest		(2)	(4)	–	(13)
Share in profit of associated company		1	–	1	2
Net profit (loss)		49	(3)	67	116

The accompanying notes are an integral part of these consolidated financial statements.

Bank for Foreign Trade
Consolidated Statements of Cash Flows
(expressed in millions of US dollars)

		For the nine month periods ended 30 September (unaudited)	
	Note	2004	2003
Cash flows from operating activities			
Interest received		632	463
Interest paid		(283)	(240)
Income received on operations with securities		7	198
Income received on dealing in foreign currency		14	14
Fees and commissions received		80	51
Fees and commissions paid		(6)	(4)
Other operating income received		29	32
Operating expenses paid		(302)	(228)
Income tax paid		(78)	(67)
Operating profit before changes in operating assets and liabilities		93	219
Net cash decrease (increase) in operating assets			
Net decrease (increase) in mandatory cash balances with local central banks		203	(140)
Net (increase) decrease in restricted cash		(19)	53
Net (increase) decrease in trading securities		(363)	2
Net increase in due from banks		(158)	(462)
Net increase in loans and advances to customers		(2,386)	(1,350)
Net increase in other assets		(32)	(107)
Net cash (decrease) increase in operating liabilities			
Net (decrease) increase in due to banks		(114)	536
Net increase in customer accounts		485	1,024
Net increase in promissory notes and certificates of deposits issued		261	845
Net (decrease) increase in other liabilities		(32)	68
Net cash (used in) provided by operating activities		(2,062)	688
Cash flows from investing activities			
Proceeds from sales or maturities of investment securities available for sale		1,116	167
Purchases of investment securities available for sale		(913)	(467)
Purchase of subsidiary, net of cash acquired		35	(40)
Disposal of subsidiary, net of cash disposed		(42)	–
Cash inflow from dividends		1	1
Purchases of investment securities held to maturity		(5)	(5)
Purchases of premises and equipment		(67)	(97)
Net cash provided by (used in) investing activities		125	(441)
Cash flows from financing activities			
Increase in Central Bank of the Russian Federation funding		700	–
Decrease in Central Bank of the Russian Federation funding		–	(270)
Proceeds from other borrowed funds		30	43
Repayment of other borrowed funds		(111)	(54)
Cash proceeds from issue of debentures		176	66
Cash paid in redemption of debentures		(33)	–
Dividends paid		(55)	(53)
Proceeds from issuance of Eurobonds		866	–
Proceeds from syndicated loan		275	10
Repayment of syndicated loan		(283)	–
Net cash provided by (used in) financing activities		1,565	(258)
Effect of exchange rate changes on cash and cash equivalents			
		1	2
Net decrease in cash and cash equivalents		(371)	(9)
Cash and cash equivalents at beginning of the year	4	929	487
Cash and cash equivalents at the end of the period	4	558	478

The accompanying notes are an integral part of these consolidated financial statements.

Bank for Foreign Trade
Consolidated Statements of Changes in Shareholder's Equity
(expressed in millions of US dollars)

	Share capital	Share premium	Retained earnings (accumulated deficit)	Total shareholders' equity
Balance at 31 December 2002	2,153	34	(69)	2,118
Net profit for the period (unaudited).....	—	—	116	116
Dividends declared and paid (unaudited).....	—	—	(52)	(52)
Other movements (unaudited)	—	—	11	11
Balance at 30 September 2003 (unaudited)	2,153	34	6	2,193
Balance at 31 December 2003	2,153	34	186	2,373
Net profit for the period (unaudited).....	—	—	67	67
Dividends declared and paid (unaudited).....	—	—	(55)	(55)
Other movements (unaudited)	—	—	(2)	(2)
Balance at 30 September 2004 (unaudited)	2,153	34	196	2,383

The accompanying notes are an integral part of these consolidated financial statements.

1. Principal Activities

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

The Bank for Foreign Trade, more commonly known as Vneshtorgbank (the “Bank”, “Vneshtorgbank”, or “VTB”), is an open 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’s registered office is located at the following address: 16 Kuznetsky Most, Moscow 103031, Russian Federation.

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

The Group operates in the commercial banking sector. This includes deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients’ export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group’s operations are conducted in both Russian and international markets. VTB conducts its banking business in Russia through its network of 48 branches, located in Moscow and all major Russian regions.

Russian Federation Government is main the shareholder of the Group and owns through the Federal Service for the Management of Federal Property 99.9% of registered share capital of the Bank.

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 nine-month period ended 30 September 2004 are not necessarily indicative of the results that may be expected for the year ending 31 December 2004.

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

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

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

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

International Accounting Standards Board (the “IASB”) has developed several new International Financial Reporting Standards (“IFRSs”) and revised certain international accounting standards (“IASs”). Effective 1 April 2004, the IASB enacted IFRS 3 Business Combinations, which replaced IAS 22 Business Combinations and SIC-9, SIC-22 and SIC-28. IFRS 3 Business Combinations was consistently applied for all acquisitions that took place after 1 April 2004 (Guta Bank and Armsberbank).

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

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 September 2004***(expressed in millions of US dollars)***4. Cash and Short-Term Funds**

	30 September 2004 (unaudited)	31 December 2003
Cash on hand	178	165
Cash balances with local central banks (other than mandatory reserve deposits)	127	408
Correspondent accounts with other banks		
– Russian Federation	130	195
– Other countries	244	262
Total cash and short-term funds	679	1,030
Less: restricted cash	(121)	(101)
Total cash and cash equivalents	558	929

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 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 69 million (31 December 2003: USD 49 million). For the purposes of the consolidated statement of cash flows, restricted cash is not considered to be cash and cash equivalents.

5. Trading Securities

	30 September 2004 (unaudited)	31 December 2003
USD denominated securities		
MinFin bonds (OVLGVZ)	234	500
Eurobonds of the Russian Federation	35	–
Russian corporate Eurobonds	199	90
Bills of exchange	–	63
Other	84	12
RR denominated securities		
Bills of exchange and debentures	805	424
Federal loan bonds (OFZ)	100	92
Other	83	56
Securities denominated in other currencies		
Securities issued by foreign governments	3	3
Russian corporate Eurobonds	6	15
Other	10	15
Total trading securities	1,559	1,270

MinFin bonds (OVLGVZ) 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 2007 to May 2011 (31 December 2003: from November 2007 to May 2011) and yields to maturity ranging from 4% to 7% (31 December 2003: from 5% to 7%).

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

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 September 2004***(expressed in millions of US dollars)*

Eurobonds as of 30 September 2004 consists of 1 tranche of securities with maturity of June 2028 (31 December 2003: 8 tranches with maturity dates from March 2004 to March 2030). The annual coupon rates on these bonds is 13% p.a. (31 December 2003: from 5% to 13% p.a.) and interest is payable semi-annually.

Russian corporate Eurobonds are interest bearing securities issued by major Russian corporates, which are freely tradable internationally. The bonds have maturities ranging from October 2005 to April 2014 (31 December 2003: from April 2004 to March 2013) and coupon ranging from 8% to 13% (31 December 2003: 8% to 13%).

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

Bills of exchange and debentures represent securities denominated in Russian roubles and USD and issued primarily by Russian banks, large manufacturing, telecom and oil and gas companies, and local authorities. The debentures have maturities ranging from October 2004 to March 2010 (31 December 2003: from January 2004 to February 2009) and coupon ranging from 7% to 18% (31 December 2003: from 6% to 20%).

Federal loan bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These OFZ bonds are issued at a discount to their nominal value, have maturity dates ranging from April 2005 to August 2018 (31 December 2003: January 2004 to August 2012), coupon rates ranging from 6% to 12% (31 December 2003: from 8% to 12%).

At 30 September 2004 included in line “other” of RR denominated securities are corporate shares of Russian “blue chip” companies involved in banking, telecommunication and energy sectors with fair value of USD 56 million, USD 10 million, USD 17 million, respectively (at 31 December 2003: USD 33 million, USD 4 million, USD 11 million, respectively).

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

6. Due from Other Banks

	30 September 2004 (unaudited)	31 December 2003
Current term placements with other banks	1,742	1,792
Reverse sale and repurchase agreements with other banks	299	112
Overdue placements with other banks	98	113
Less: Allowance for loan impairment	(105)	(122)
Total due from other banks	2,034	1,895

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

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 September 2004***(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	122	119
Provision for loan impairment during the period (unaudited)....	5	3
Deconsolidation of subsidiary (unaudited)	(22)	–
Allowance for loan impairment at 30 September (unaudited)	105	122

At 30 September 2004, the estimated fair value of due from other banks was USD 2,034 million (31 December 2003: USD 1,895 million).

7. Loans and Advances to Customers

	30 September 2004 (unaudited)	31 December 2003
Current loans and advances	7,610	4,925
Purchased loans	160	–
Rescheduled loans and advances.....	102	100
Overdue loans and advances	299	202
Less: Allowance for loan impairment.....	(521)	(432)
Total loans and advances to customers	7,650	4,795

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 (unaudited)....	87	76
Cash received for loans and advances to customers written off in previous periods (unaudited)	8	
Loans and advances to customers written off during the period as uncollectable (unaudited).....	(6)	(1)
Allowance for loan impairment at 30 September (unaudited)	521	437

Included in overdue loans is a deposit of USD 100 million placed with a foreign bank for the purpose of financing Russian fishing enterprises. The Group has treated this amount as loans to customers and created a 100% allowance for loan impairment against these loans. The loans were originally financed by deposits from a state-owned Russian bank, which are included in due to other banks. In December 2004 the Group entered into negotiations to repay these overdue loans. Should the outcome of these negotiations be in favor of VTB the Group will recognize a benefit for this amount in its income statement.

Bank for Foreign Trade
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(expressed in millions of US dollars)

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

	30 September 2004 (unaudited)		31 December 2003	
	Amount	%	Amount	%
Manufacturing	2,418	30	1,958	37
Finance	1,127	14	530	10
Trade and commerce	998	12	764	15
Energy	574	7	506	10
Mining	523	6	185	4
Food and Agriculture	422	5	205	4
Government bodies	413	5	128	2
Transport	406	5	158	3
Telecommunications and media	321	4	161	3
Chemical	282	4	201	4
Construction	253	3	216	4
Fishing	107	1	109	2
Other	327	4	106	2
Total loans and advances to customers	8,171	100	5,227	100

At 30 September 2004, total amount of outstanding loans issued to 10 biggest borrowers by the Group comprise USD 2,548 million or 31% of the gross loan portfolio. Included in loans and advances were loans to a large corporate customer totalling USD 397 million (5% of the loan portfolio) with maturity dates from June 2005 to July 2009 and interest rates from 8.5% to 9.75% per annum.

At 31 December 2003, total amount of outstanding loans issued to 10 biggest borrowers by the Group comprise USD 1,593 million or 30% 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 30 September 2004, the total gross amount of impaired loans, on which interest was not accrued, was USD 342 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 40 million for the nine-month period ended 30 September 2004 (31 December 2003: USD 69 million).

At 30 September 2004, the estimated fair value of loans and advances to customers was USD 7,650 million (31 December 2003: USD 4,795 million).

8. Investment Securities Available for Sale

	30 September 2004 (unaudited)	31 December 2003
Debt securities		
Eurobonds of the Russian Federation	338	483
MinFin bonds (OVGVZ)	59	100
Bills of exchange of Russian companies and banks	–	22
Bonds of Russian companies and banks	203	213
State bonds of foreign countries	41	122
Bonds of foreign companies and banks	63	58
Other	27	21
Equity securities		
Corporate shares	183	104
Other	11	10
Total investment securities available for sale	925	1,133

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

MinFin bonds (OVGVZ) are interest bearing securities denominated in USD, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%. The bonds have maturity dates ranging from May 2006 to May 2011 (31 December 2003: November 2007 to May 2011) and yields to maturity ranging from 4% to 7% (31 December 2003: from 5% to 7%).

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

Included in state bonds of foreign countries are bonds of Germany with fair value of USD 23 million (31 December 2003: USD 20 million) and bonds of Ecuador with fair value of USD 18 million (31 December 2003: nil). At 31 December 2003 state bonds of foreign countries also included bonds of Austria with fair value of USD 63 million (nil at 30 September 2004).

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

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

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Included in investment securities available for sale are securities with fair value at 30 September 2004 of USD 136 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 76 million (31 December 2003: USD 56 million) have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds. At 30 September 2004 investment securities available for sale included Russian Eurobonds with fair value of USD 98 million borrowed from other bank.

9. Investments in Associated Banks

Included in investments in associates at September 30, 2004 is investment in Ost-West Handelsbank of USD 44 million (31 December 2003: USD 41 million) representing 31.9% of the net assets of this bank. This associate is accounted for in these consolidated financial statements using the equity method.

At 23 June 2004, the Bank sold 5% of East-West United Bank shares. As a result of this transaction, the Bank's participation in East-West United Bank decreased from 53% to 48% effective 23 June 2004. Since no circumstances exist to claim Bank's control over East-West United Bank, its financial statements are accounted for in the consolidated financial statements of the Group at 30 September 2004 using the equity method in the amount of USD 37 million.

10. Due to Other Banks

	30 September 2004 (unaudited)	31 December 2003
Correspondent accounts and overnight deposits of other banks . .	421	512
Sale and repurchase agreements with other banks	156	503
Term loans and deposits	1,183	797
Total due to other banks	1,760	1,812

At 30 September 2004 securities pledged against sale and repurchase agreements are trading and available for sale securities with a fair value of USD 20 million and USD 136 million, respectively (31 December 2003: nil and USD 503 million, respectively). The repurchase agreements bear interest rates ranging from 2.27% to 7% and mature from October 2004 to March 2005.

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

At 30 September 2004, the estimated fair value of due to other banks was USD 1,760 million (31 December 2003: USD 1,812 million).

11. Customer Accounts

	30 September 2004 (unaudited)	31 December 2003
State and public organizations		
Current/settlement accounts	251	167
Term deposits	53	7
Other legal entities		
Current/settlement accounts	1,753	1,441
Term deposits	1,269	1,665
Individuals		
Current/settlement accounts	290	169
Term deposits	1,465	810
Total customer accounts	5,081	4,259

Included in customer accounts are:

- Restricted deposits amounting to USD 52 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.

At 30 September 2004, the estimated fair value of customer accounts was USD 5,081 million (31 December 2003: USD 4,259 million).

12. Other Borrowed Funds

	30 September 2004 (unaudited)	31 December 2003
CBR deposit	692	–
Syndicated loans	552	560
Revolving credit lines	66	147
Total other borrowed funds	1,310	707

Bank for Foreign Trade
Notes to the Consolidated Financial Statements – 30 September 2004
(expressed in millions of US dollars)

Syndicated loans at 30 September 2004 comprise the following:

(unaudited)

	<u>Interest rate</u>	<u>Maturity</u>	<u>Amount outstanding</u>	<u>Total amount of loan facility available</u>
Syndicated unsecured loan arranged by Citibank, N.A., London and Deutsche Bank AG, London – 1 tranche	LIBOR plus 1.5 – 2.5 %	December 2004	270	270
JPY-denominated syndicated unsecured loan arranged by Japan Bank for International Cooperation jointly with three Japanese banks	From 2.54% to 2.93%	From February 2006 to February 2008	7	10
Syndicated unsecured loan arranged by Citibank, N.A. London and HSBC Bank Plc	LIBOR plus 1.4%	June 2005	275	275
Total syndicated loans			552	555

Syndicated loans at 31 December 2003 comprise the following:

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

Bank for Foreign Trade
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(expressed in millions of US dollars)

Revolving credit lines at 30 September 2004 comprise the following:

(unaudited)

	<u>Interest rate</u>	<u>Maturity</u>	<u>Amount outstanding</u>	<u>Total amount of loan facility available</u>
Revolving unsecured credit line from EBRD	LIBOR plus 1.0 – 2.5%.	From October 2004 to October 2005	66	66

Revolving credit lines at 31 December 2003 comprise the following:

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

In connection with the acquisition of Guta Bank, the CBR placed a USD 700 million special purpose deposit with VTB at rate of 2.33% for the term of one year, maturing July 2005. 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. The Group has recognised the CBR deposit at its fair value, calculated based on market rates for similar deposits. Initial gains arising from this calculation is reflected in the goodwill associated with the Guta Bank acquisition.

Syndicated loans and revolving credit lines have certain covenants. The Bank was in compliance with such covenants as of September 30, 2004.

13. Debt Securities Issued

	<u>30 September 2004 (unaudited)</u>	<u>31 December 2003</u>
Promissory notes	1,628	1,154
Eurobonds	1,165	298
Debentures and deposit certificates	421	286
Total debt securities issued	3,214	1,738

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

(unaudited)

	<u>Interest rate</u>	<u>Maturity</u>	<u>Face value</u>	<u>Carrying value</u>	<u>Market price</u>
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	541	540	101.3%
Series 2 issued in April 2004	LIBOR plus 2% payable quarterly	April 2005	325	325	100.5%
Series 3 issued in July 2004	LIBOR plus 2.9% payable quarterly	July 2007	300	300	101.7%
Total Eurobonds				1,165	

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 September 2004***(expressed in millions of US dollars)*

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

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

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

(unaudited)

Description	Interest rate	Maturity	Face value	Carrying value	Market price
3 rd tranche of Russian Rouble denominated debentures	From 14% to 15.5%	February 2006	68	68	108%
4 th tranche of Russian Rouble denominated debentures	5.43%	March 2009	171	171	99%
Deposit certificates	From 0% to 16.5%	On demand/ till December 2007	182	182	N/A
Total debentures and deposit certificates				421	

Debentures and deposit certificates issued comprise the following as of 31 December 2003:

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

Promissory notes issued include both discount and interest bearing promissory notes denominated mostly in US Dollars and maturing on demand and up to December 2012 (31 December 2003: the same). Effective interest rates range between 0% and 17% (31 December 2003: from 0% to 16%).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 September 2004***(expressed in millions of US dollars)***14. Interest Income and Expense**

	For the three months ended 30 September 2004 (unaudited)	For the three months ended 30 September 2003 (unaudited)	For the nine months ended 30 September 2004 (unaudited)	For the nine months ended 30 September 2003 (unaudited)
Interest income				
Loans and advances to customers	191	106	466	304
Securities	50	31	144	89
Due from other banks	7	20	38	58
Total interest income	248	157	648	451
Interest expense				
Customer accounts	(53)	(35)	(144)	(109)
Debt securities issued	(47)	(30)	(134)	(86)
Due to banks and other borrowed funds	(15)	(25)	(36)	(51)
Total interest expense	(115)	(90)	(314)	(246)
Net interest income	133	67	334	205

15. Operating Expenses

	For the three months ended 30 September 2004 (unaudited)	For the three months ended 30 September 2003 (unaudited)	For the nine months ended 30 September 2004 (unaudited)	For the nine months ended 30 September 2003 (unaudited)
Staff costs	71	41	176	113
Administrative expenses, depreciation and other expenses related to premises and equipment .	23	12	59	38
Taxes other than on income	10	7	23	27
Leasing and rent expenses	7	4	19	13
Security expenses	4	3	9	7
Professional services	2	–	3	1
Advertising expenses	2	2	6	4
Telecommunication and post expenses	3	1	6	4
Charity	–	3	8	4
Amortization of goodwill	2	–	4	1
Other	9	16	27	40
Total operating expenses	133	89	340	252

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 September 2004***(expressed in millions of US dollars)***16. Analysis by Segment**

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

(unaudited)

	Russia	Europe	Total
Operating income	413	29	442
Segment results	95	7	102
Taxation			(36)
Profit after taxation			66
Minority interest			1
Net profit			67
Segment assets as of 30 September 2004	11,981	2,052	14,033
Segment liabilities as of 30 September 2004	10,308	1,272	11,580

Segment information for the two main reportable geographical segments of the Group, Russia and Europe, is set out below for the nine months ended 30 September 2003:

	Russia	Europe	Total
Operating income	292	124	416
Segment results	64	100	164
Taxation			(37)
Profit after taxation			127
Minority interest			(13)
Share in profit of associates			2
Net profit			116
Segment assets as of 31 December 2003	8,441	2,787	11,228
Segment liabilities as of 31 December 2003	6,768	1,982	8,750

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

17. Contingencies, Commitments, and Derivative Financial Instruments

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

Tax legislation. Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, Management’s judgment 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.

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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.

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees, or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

Outstanding credit related commitments are as follows:

	30 September 2004 (unaudited)	31 December 2003
Guarantees issued	1,893	1,514
Undrawn credit lines	936	718
Import letters of credit	261	157
Commitments to extend credit.....	366	162
Other credit related commitments.....	502	500
Less: allowance for losses on credit related commitments	(26)	(10)
Total credit related commitments	3,932	3,041

The Bank has also received export letters of credit for further advising to its customers. Total amount outstanding as of 30 September 2004 and 31 December 2003 was USD 1,931 and 1,345 million, respectively. Commitments under import letters of credit are secured by customer deposits of USD 42 million (31 December 2003: USD 60 million).

At 30 September 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 September 2004***(expressed in millions of US dollars)*

At 30 September 2004, included in guarantees issued above are guarantees issued for one Russian company of USD 1,063 million (56% of the guarantees issued) (31 December 2003: USD 932 million, 62% of the guarantees issued). These guaranties were secured by promissory notes issued by VTB with total nominal amount of USD 646 million (31 December 2003: USD 577 million). Movements in the allowance for losses on credit related commitments are as follows:

	2004 (unaudited)	2003
Allowance for losses on credit related commitments at		
1 January	10	10
Purchase of subsidiary (unaudited)	13	–
Provision for losses on credit related commitments during the period (unaudited)	3	–
Allowance for losses on credit related commitments at		
30 September (unaudited)	26	10

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

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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

Bank for Foreign Trade
Notes to the Consolidated Financial Statements – 30 September 2004
(expressed in millions of US dollars)

The table below includes contracts outstanding at 30 September 2004.

(unaudited)

	Domestic			Foreign		
	Notional amount	Negative fair value	Positive fair value	Notional amount	Negative fair value	Positive fair value
Spot						
– sale of foreign currency	37	–	–	6	–	–
– purchase of foreign currency	71	–	–	29	–	–
– sale of securities	3	–	–	10	–	–
– purchase of securities	8	–	–	14	–	–
Term						
– sale of foreign currency	2	–	–	16		–
– purchase of foreign currency		–	–	81	(1)	–
– sale of precious metals	–	–	–	14	–	–
– purchase of precious metals	–	–	–	9	–	–
– sale of securities	4	–	–	–	–	–
– purchase of securities	–	–	–	37	–	–
Swap						
– sale of foreign currency	114	–	–	12	–	–
– purchase of foreign currency	96	–	–	293	–	3
Total	335	–	–	521	(1)	3

The table below includes contracts outstanding at 31 December 2003.

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

Purchase commitments. As of 30 September 2004 the Group had a USD 239 million outstanding commitments for purchase of precious metals (31 December 2003: USD 119 million).

Assets pledged. At 30 September 2004, the Group had USD 76 million (31 December 2003: USD 56 million) of securities pledged as collateral. At 30 September 2004, the Bank also pledged

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 September 2004***(expressed in millions of US dollars)*

securities with the fair value of USD 156 million (31 December 2003: of USD 503 million) under sale and repurchase agreements with other banks. All of these operations were performed by the Bank in the normal course of business.

18. Consolidated Subsidiaries and Associates

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

			Equity controlled	
Name	Activity	Country of registration	30 September 2004	31 December 2003
			(unaudited)	
Subsidiaries				
Donau-bank.	Banking	Austria	85.0%	85.0%
Russian Commercial Bank	Banking	Cyprus	100.0%	100.0%
Russian Commercial Bank	Banking	Switzerland	100.0%	100.0%
ArmSberbank	Banking	Armenia	70.0%	—
Guta Bank	Banking	Russia	85.8%	—
Bank “Zabaikalsky”	Banking	Russia	99.9%	99.9%
Novosibirskvneshtorgbank	Banking	Russia	97.5%	97.5%
Ulyanovskvneshtorgbank	Banking	Russia	60.4%	60.4%
Multicarta Ltd.	Plastic cards	Russia	100.0%	100.0%
Euroleasing, GMBH	Leasing	Germany	60.0%	60.0%
Rafinco Co., NY	Trading	USA	100.0%	100.0%
ITC Consultants	Finance	Cyprus	100.0%	100.0%
VB Service.	Commerce	Russia	100.0%	100.0%
Trading House VTB.	Commerce	Russia	100.0%	100.0%
Vympel-B Ltd.	Security	Russia	100.0%	100.0%
Non-state Pension Fund of				
Vneshtorgbank	Finance	Russia	100.0%	100.0%
ZAO Konobeevo	Recreation	Russia	89.9%	89.9%
Insurance capital Ltd.	Insurance	Russia	69.8%	69.8%
ZAO “Binex”	Oil	Russia	51.0%	51.0%
ZAO “Almaz Press”	Publishing	Russia	100.0%	100.0%
OAO “VTB-Leasing”	Leasing	Russia	100.0%	100.0%
Associates				
East-West United Bank.	Banking	Luxembourg	48.0%	53.0%
Ost-West Handelsbank	Banking	Germany	31.9%	31.9%

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

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

19. Business Combinations**Acquisition of Guta Bank**

In July 2004, VTB purchased 85.8% ordinary voting shares in Guta Bank for a cash payment of approximately RUR 1 million (USD 34 thousand at the exchange rate of RUR 29.077 per USD 1). In connection with the acquisition of Guta Bank, the CBR placed a USD 700 million special purpose deposit with VTB at the LIBOR rate for one year. The deposit is available to maintain Guta Bank's liquidity and for the use in the Bank's operations. The term of the deposit may be prolonged with the agreement of VTB and the CBR. VTB has extended a credit line to Guta Bank of RUR 10,000 million (USD 344 million at the exchange rate of RUR 29.077 per USD 1) maturing in one year and bearing interest rate of 6% p.a. with interest payment at maturity, which is secured by Guta Bank's loan portfolio. As of 30 September 2004, the amount drawn down by Guta Bank under this credit line was RUR 6,400 million (USD 219 million at the exchange rate of RUR 29.2171 per USD 1). As of the date of its acquisition by VTB, Guta Bank had a net loan exposure of approximately USD 240 million to companies related to its former shareholders.

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

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

From the date of acquisition to 30 September 2004, Guta Bank incurred USD 8 million net loss, which was included in the Group's consolidated income statement for nine-month period ended 30 September 2004. If the acquisition had taken place at the beginning of the year, the net profit of the Group would have been USD 69 million and operating income would have been USD 475 million.

20. Subsequent Events

On 6 September 2004, VTB and Industry and Construction Bank (ICB), a large commercial bank located in St. Petersburg, signed a non-binding memorandum of understanding providing for VTB's purchase of a 25% plus one share initial interest in ICB. VTB and ICB are currently negotiating the purchase price for the initial interest. The purchase is expected to occur in the beginning of 2005.

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

On 29 October 2004, VTB paid USD 15 million as a contribution to share capital of newly founded Vneshtorgbank (Ukraine). This payment accounts for 99.999% of share capital of the bank. Vneshtorgbank (Ukraine) has received statutory registration from the National Bank of Ukraine on 4 January 2005. VTB expects to open a subsidiary bank in Ukraine in the first quarter of 2005.

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

On 20 November 2004, the Group entered into an agreement with AFK Sistema to sell within optional agreement additional 14% of share capital of East-West United Bank, Luxembourg ("EWUB") for consideration of approximately USD 5 million, reducing its participation from 48% to 34%. The cash payment was received on 26 November 2004.

On 22 December 2004, the Group issued under that Euro Medium Term Program Series 5 USD denominated Eurobonds bearing interest rate of LIBOR plus 1.35% with face value of USD 350 million maturing in December 2006 and increased the limit of this Program from USD 2 billion to USD 3 billion.

On 24 December 2004, VTB signed a loan facility agreement with ABN Amro Bank N.V., Citibank N.A. London, ING Bank N.V. in the amount of USD 300 million with 3 months maturity at LIBOR plus 1.0%. It was fully drawn down on December 29, 2004.

VTB Capital S.A.

Annual Accounts
As of June 30, 2004
Together with Independent Auditor's Report

Independent Auditor's Report

To the Shareholders of VTB Capital S.A.,

Following our appointment, we have audited the accompanying balance sheet of VTB Capital S.A. (the "Company") as of June 30, 2004 and the related statement of profit and loss for the period from November 12, 2003 ("date of incorporation") to June 30, 2004. These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements give, in conformity with Luxembourg legal and regulatory requirements, a true and fair view of the financial position of VTB Capital S.A. as at June 30, 2004 and of the result of its operations for the period from November 12, 2003 ("date of incorporation") to June 30, 2004.

ERNST & YOUNG
Société Anonyme
Réviseur d'entreprises



Michael Hornsby

Luxembourg, September 15, 2004

VTB Capital S.A.
Balance Sheet
(expressed in EUR)

	As of June 30, 2004
<u>Assets</u>	
Fixed assets	
Long-term loans receivable (Note 3).....	722,006,766
	<u>722,006,766</u>
Current assets	
Other debtors.....	104,433
Accrued interest receivable (Note 3).....	3,110,800
Cash at bank	34,785
	<u>3,250,018</u>
Total assets	<u>725,256,784</u>
 <u>Shareholders' Equity and Liabilities</u>	
Shareholders' equity (Note 4)	
Issued share capital.....	31,000
Result for the period	<u>—</u>
Total shareholders' equity	31,000
 Long-term loans payable (Note 5)	<u>722,006,766</u>
	722,006,766
 Current liabilities	
Payable towards related parties	84,477
Accrued interest payable (Note 5).....	3,110,800
Other payables.....	23,741
	<u>3,219,018</u>
Total liabilities	<u>725,225,784</u>
 Total shareholders' equity and liabilities.....	<u>725,256,784</u>

The accompanying notes are an integral part of these financial statements.

VTB Capital S.A.
Statement of Profit and Loss
(expressed in EUR)

For the period from November 12, 2003 ("date of incorporation") to June 30, 2004:

Income	
Other operating income (Notes 6)	247,162
Interest and similar income (Note 7)	<u>24,440,240</u>
	24,687,402
Expenses	
General and administrative expenses	(225,754)
Interest and similar expenses (Note 8)	(24,440,240)
Foreign exchange losses (net)	—
Tax expenses (Note 9)	<u>(21,408)</u>
	<u>(24,687,402)</u>
Result for the period	<u>—</u>

The accompanying notes are an integral part of these financial statements.

1. Organization and Object of the Company

VTB Capital S.A. (the “Company”) is a Luxembourg company, which was established on November 12, 2003 (“date of incorporation”) under the laws of Luxembourg as a “Société Anonyme”. The registered address of the Company is 2, Boulevard Konrad Adenauer, L-1115 Luxembourg. The Company is registered at the Trade Register in Luxembourg under the number B 97.053.

The object of the Company is:

- the issue of notes and or other debt securities under a program for the issuance of loan participation notes for the purpose of financing loans to Open Joint Stock Company Vneshtorgbank (“JSC Vneshtorgbank”) a company incorporated under the laws of Russia;
- 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 interest over its assets to a trustee in relation to the issuance of the loan participation notes;
- the making of deposits at banks or with other depositaries.

The Company 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 the Company may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

2. Summary of Significant Accounting Policies

The Company maintains its books and records in Euro (“EUR”) and presents its financial statements in accordance with generally accepted accounting principles in Luxembourg, which include the following significant accounting policies:

Loans and Receivables

Loans and receivables are stated at their nominal value less provision for write-down. Write-downs are recorded if, in the opinion of the management, there is a permanent impairment in value which has occurred.

Foreign Currency Translation

Assets and liabilities stated in currencies other than EUR are translated at the exchange rate prevailing on balance sheet date. Income and expenses denominated in currencies other than EUR are translated at the rate prevailing on the date of the transaction. Realized exchange gains and losses and unrealized losses are recorded in the statement of profit and loss. Unrealized exchange gains are not recognized.

Long-Term Loans Payable

The long-term loans payable is composed of long-term participation notes issued by the Company on the Luxembourg Stock Exchange.

Any issue discount or premium is amortized over the life-length of the long-term participation notes. Series 1 and Series 2 Loans Participation Notes (Note 7) were issued at par. Series 1.1 Loans Participation Notes (Note 7) were issued at a premium. In accordance with the long-term loan receivable agreement with JSC Vneshtorgbank dated March 9, 2004, the Company used the premium to pay financing costs to JSC Vneshtorgbank. These financing costs are expensed and as a result the corresponding the premium has been fully amortized during the period.

The net proceeds for the long-term participation notes issued up to date are equal to the repayable amount.

Financing Expenses and Income

The financing costs incurred in the context of the issue of the long-term participation notes are recorded in the caption Interest and similar expenses. In accordance with loan agreements with JSC Vneshtorgbank, the Company recharges these costs to JSC Vneshtorgbank. The recharge of costs is recorded in the caption Interest and similar income.

Interest Income and Expenses

Interest income and expenses are recorded on accrual basis.

3. Long-Term Loans Receivable

As of June 30, 2004, VTB Capital S.A. granted 3 long-term loans through Deutsche Bank, a fiduciary agent, to JSC Vneshtorgbank for a total amount of 722.006.766 (USD 875.000.000).

The long-term loans are as follows:

<u>Date of agreement</u>	<u>Principal in USD</u>	<u>Principal in EUR</u>	<u>Maturity</u>
12/11/2003	300.000.000	247.545.177	12/11/2008 ⁽¹⁾
03/12/2004	250.000.000	206.287.647	12/11/2008 ⁽¹⁾
04/28/2004	325.000.000	268.173.942	28/04/2005 ⁽²⁾
Total	875.000.000	722.006.766	

(1) Those loans bear interest of 6,875% p.a.

(2) This loan bears interest of 3 months Libor plus 200 basis points.

The long-term loans are redeemable in full at maturity.

The total interest income incurred for the period ending June 30, 2004 amounts to 18.669.656 (USD 22.679.229) and is recorded in the statement of profit and loss in Interest and similar income. As of June 30, 2004, an amount of 3.110.800 (USD 3.769.978) remains unpaid and is classified in Accrued interest receivable.

4. Shareholders' Equity

Issued Share Capital

On November 12, 2003, the Company was incorporated with a subscribed and fully paid-in share capital amounting to 31.000 divided into 310 shares with a nominal value of 100 each.

Legal Reserve

From the annual net profits of the Company, 5% must be allocated to the reserve required by law. This allocation shall cease to be required as soon and as long such reserve amounts to 10% of the subscribed capital of the Company.

5. Long-Term Loans Payable

During the period ending June 30, 2004, the Company issued 3 long-term participation notes (the "Loans Participation Notes") on the Luxembourg Stock Exchange for a total amount of 722.006.766 (USD 875.000.000). The Loans Participation Notes are part of a USD 2 billion programme for the issuance of long-term participation notes.

The Loans Participation Notes are detailed as follows:

	<u>Date of issue</u>	<u>Principal in USD</u>	<u>Principal in EUR</u>	<u>Maturity</u>
Series 1	12/11/2003	300.000.000	247.545.177	12/11/2008 ⁽¹⁾
Series 1.1	03/12/2004	250.000.000	206.287.647	12/11/2008 ⁽¹⁾
Series 2	04/28/2004	325.000.000	268.173.942	28/04/2005 ⁽²⁾
Total		875.000.000	722.006.766	

(1) Those Notes bear interest of 6,875% p.a.

(2) This note bears interest of 3 months Libor plus 200 basis points.

The Loans Participation Notes are fully subscribed and paid in. They are redeemable in full at maturity.

The total interest expense incurred for the period ending June 30, 2004 amounts to 18.669.656 (USD 22.679.229) and is recorded in Interest and similar expenses. As of June 30, 2004, an amount of 3.110.800 (USD 3.769.978) remains unpaid and is classified in Accrued interest payable.

6. Other Operating Income

The Company recharged foreign exchange losses, tax expenses and some other general and administrative expenses to JSC Vneshtorgbank. The total amount recharged for the period amount to 247.162.

7. Interest and Similar Income

The Interest and similar income is detailed as follows:

- Interest income recognized in the context of long-term loans granted to JSC Vneshtorgbank for an amount of 18.669.656 (USD 22.679.229) (Note 3);
- The recharge to JSC Vneshtorgbank of the financing costs incurred by the Company for an amount of 2.632.364 (USD 3.200.069);
- The amortization of the premium received at the issuance of Loans Participation Notes for an amount of 3.138.220 (USD 3.843.691).

8. Interest and Similar Expenses

The Interest and similar expenses are detailed as follow:

- Interest expenses incurred in the context of the Loans Participation Notes for an amount of 18.669.656 (USD 22.679.229) (Note 7);
- Costs incurred in the context of the issuance of the Loans Participation Notes for an amount of 5.770.584 (USD 3.843.691.043.760). This amount includes financing costs incurred by the Company towards JSC Vneshtorgbank for an amount of 3.138.220 (USD 3.843.691).

9. Tax Expenses

The Company is subject to the general tax regulations to all commercial companies in Luxembourg.

10. Commitments

The Company, with full title guarantee and as continuing security for the payment of all sums due in relation with the Loans Participation Notes (Note 7), hereby charges, in favor of Citicorp Trustee Company Limited, by way of first fixed charge:

- all principal, interest and other amounts now or hereafter payable by Deutsche Bank to the Company under the Fiduciary Deposit Agreement;
- the right to receive all sums which may be or become payable by the Deutsche Bank under any claim, award or judgment relating to the Fiduciary Deposit Agreement; and
- all the rights, title and interest in and to all sums of money now or in the future deposited in one of the hand accounts owned by the Company and the debts represented thereby, including interest from time to time earned on this bank account.

The Company, with full title guarantee, hereby assigns absolutely to Citicorp Trustee Company Limited, for the benefit of itself and the holders of the Loans Participation Notes, most of the rights, title, interests and benefits, both present and future, which have accrued or may accrue to the Company as depositor under or pursuant to the Fiduciary Deposit Agreement and the rights, interests and benefits which may accrue in the future in respect of the long-term loans receivable (Note 3).

11. Subsequent Events

On July 27 2004, the Company issued long-term participation notes on the Luxembourg Stock Exchange for a total amount of USD 300.000.000.

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