



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

Programme for the Issuance of Loan Participation Notes

to be issued by, but with limited recourse to,

VTB Capital S.A.

for the purpose of financing fiduciary deposits with

Deutsche Bank Luxembourg S.A.

for the purpose of financing loans to

JSC Vneshtorgbank

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

Notes will be issued in Series (as defined in "Summary of the Programme") and the sole purpose of issuing each Series will be to finance a fiduciary deposit (each a "Deposit") with Deutsche Bank Luxembourg S.A. (the "Fiduciary") on the terms of a deposit agreement between the Issuer and the Fiduciary dated December 8, 2003 (the "Deposit Agreement"), as amended and supplemented by a fiduciary deposit supplement to be entered into in respect of each Deposit on each Issue Date (each a "Fiduciary Deposit Supplement" and, together with the Deposit Agreement, the "Fiduciary Deposit Agreement") between the Issuer and the Fiduciary. The sole purpose of making each Deposit will be to finance a loan (each a "Loan") to JSC Vneshtorgbank ("VTB") as borrower, on the terms of a facility agreement between the Fiduciary and VTB dated December 8, 2003 (the "Facility Agreement"), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on each Issue Date (each a "Loan Supplement" and, together with the Facility Agreement, the "Loan Agreement") between the Fiduciary and VTB. Subject as provided in the Trust Deed (as defined herein) the Issuer will (a) charge, in favour of Citicorp Trustee Company Limited as trustee (the "Trustee"), by way of a first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed, certain of its rights and interests under the relevant Fiduciary Deposit Agreement and the relevant Account (as defined in the relevant Fiduciary Deposit Supplement), and (b) assign, in favour of the Trustee, certain of its other rights under the Fiduciary Deposit Agreement including rights in respect of any Loan Assignment (as defined below) but excluding any Issuer Reserved Rights (as defined in the Trust Deed), in each case for the benefit of the holders of the corresponding Series of Notes (the "Noteholders"), all as more fully described under "Summary of the Programme". Under the terms of the relevant Fiduciary Deposit Agreement, the Fiduciary will agree that upon the occurrence of an Event of Default (as defined in the relevant Loan Agreement) or a Fiduciary Relevant Event (as defined in the Fiduciary Deposit Agreement) it will assign all of its rights (except for any Fiduciary Reserved Rights (as defined in the Fiduciary Deposit Agreement)) under the relevant Loan Agreement to the Issuer (a "Loan Assignment").

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

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

The Notes and the corresponding Deposits and Loans (together, the "Securities") have not been, and will not be, registered under the U.S. Securities Act of 1933 (the "Securities Act"), as amended. The Notes are being offered and sold outside of the United States in accordance with Regulation S under the Securities Act, and may not be offered or sold within the United States to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Application has been made to list the Notes issued under the Programme on the Luxembourg Stock Exchange. However, unlisted Notes may also be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Luxembourg Stock Exchange (or any other stock exchange).

Notes of each Series will initially be represented by interests in a global Note in registered form (each a "Global Note"), without interest coupons, which will be deposited with a common nominee for, and registered in the name of a common nominee of, Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on its Issue Date. Beneficial interests in a Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. See "Clearing and Settlement". Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

Arrangers and Permanent Dealers

Deutsche Bank

UBS Investment Bank

Permanent Dealers

ABN AMRO

BNP Paribas

Citigroup

Dresdner Kleinwort Wasserstein

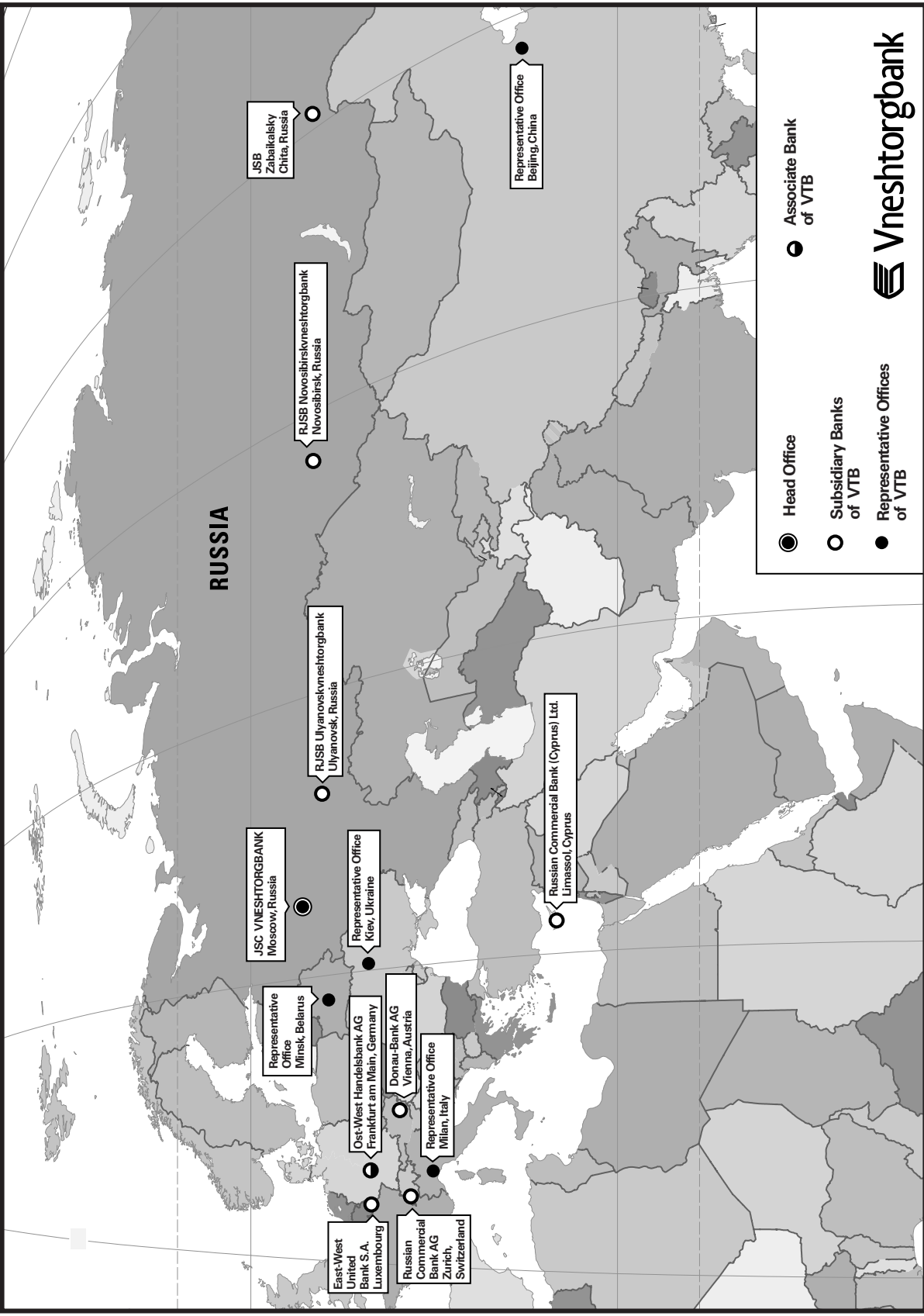
HSBC

HVB Corporates & Markets

ING

JPMorgan

The date of this Offering Circular is December 8, 2003



VTB, having made all reasonable enquiries, confirms that: (i) this Offering Circular contains all information with respect to VTB, the Deposits, the Loans and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Offering Circular relating to VTB 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 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 Deposits, the Loans or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable 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. Each of the Issuer and the Fiduciary accepts responsibility for all information with respect to itself.

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

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

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

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

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

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

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE DEALERS OR THE ARRANGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT, AND NOTHING CONTAINED IN THIS DOCUMENT IS, OR

SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE DEALERS OR THE ARRANGERS ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR THE COMPLETENESS OF THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR.

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

ENFORCEABILITY OF JUDGMENTS

VTB is an open joint stock company incorporated under the laws of the Russian Federation and most of its assets and the assets of its subsidiaries and associates are currently located outside the United Kingdom. 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 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 the Russian Federation are likely to be recognised by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered. No such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments.

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

SUPPLEMENTAL OFFERING CIRCULAR

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

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

VTB's financial information set forth herein has, unless otherwise indicated, been derived from its audited consolidated financial statements (the "IFRS Financial Statements") as set forth on pages F-2 through F-72 of this document as of and for the years ended December 31, 2002 and 2001, and the six-month periods ended June 30, 2003 and 2002, in each case prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (the "IFRS"). The U.S. dollar is the measurement currency for the IFRS Financial Statements.

Currency

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

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

References to VTB

In this Offering Circular, the term "VTB" refers to JSC Vneshtorgbank and its domestic and foreign subsidiaries and associates, unless the context otherwise requires.

VTB's Market Share Information

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

Rounding

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

Auditors

VTB's IFRS financial statements as at and for the six-month period ended June 30, 2003, included in this document 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. The address of Ernst & Young (CIS) Limited is Sadovnicheskaya Naberezhnaya 77, building 1, Moscow 115035, Russian Federation. VTB's IFRS financial statements as at and for the years ended December 31, 2002 and 2001 and as at and for the six-month period ended June 30, 2002 were audited by ZAO PricewaterhouseCoopers Audit, independent auditors who expressed unqualified opinions on those statements. 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 are “forward-looking”. This document contains certain forward-looking statements in various sections including, without limitation, under the headings “Summary”, “Risk Factors”, and “Business”. VTB 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 plans, objectives or goals, including those related to products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by VTB 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.

Words such as “believes”, “anticipates”, “expects”, “estimates”, “intends”, “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

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;
- 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 government of the Russian Federation (the “Government”) and the CBR;
- the effects of competition in the geographic and business areas in which VTB conducts operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- VTB’s ability to increase market share for its products and services and control expenses;
- acquisitions or divestitures;
- technological changes; and
- VTB’s success at managing the risks of 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 operates. 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 does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. VTB does 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.

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SUMMARY

Overview

VTB is Russia's second-largest commercial bank, offering a full range of banking services and conducting operations across Russia and Europe. According to recent surveys by *The Banker* and *Expert* magazines, VTB is the second-largest commercial bank in Russia in terms of assets, profits and tier one capital, and the fourth-largest in terms of lending volume and retail deposits (all as calculated under Russian accounting regulations applicable to banks ("RAR")). VTB is Russia's leading bank for foreign trade settlement, with an 11.3% market share measured by volume as of June 30, 2003. *The Banker* has stated that VTB is the second-largest bank in Central and Eastern Europe (including Russia) in terms of tier one capital.

VTB's primary operations include: taking deposits; lending; trading and investing in securities; providing payment and account services; conducting foreign exchange and foreign trade transactions; and providing cash handling and custody services.

In the year ended December 31, 2002, VTB generated operating income of U.S.\$647 million and had a net profit of U.S.\$261 million. Of VTB's operating income in 2002, net interest income after release of allowance for loan impairment accounted for U.S.\$384 million (59% of operating income), gains less losses arising from securities, derivatives and foreign currency activities accounted for U.S.\$228 million (35% of operating income) and net fee and commission income accounted for U.S.\$38 million (6% of operating income). In the six months ended June 30, 2003, VTB generated operating income of U.S.\$334 million and had a net profit of U.S.\$119 million. Of VTB's operating income in the first six months of 2003, VTB's net interest income after provision for loan impairment accounted for U.S.\$63 million (19% of operating income), gains less losses arising from securities, derivatives and foreign currency activities accounted for U.S.\$203 million (61% of operating income) and net fee and commission income accounted for U.S.\$30 million (9% of operating income).

As of December 31, 2002, VTB's total assets were U.S.\$7,272 million and its total shareholders' equity was U.S.\$2,118 million. In 2002, VTB's return on average shareholders' equity was 13% and its return on average assets was 4%. As of June 30, 2003, VTB's total assets were U.S.\$8,805 million and its total shareholders' equity was U.S.\$2,215 million. In the first six months of 2003, VTB's annualised return on average shareholders' equity was 11% and its annualised return on average assets was 3%.

The Ministry of Property Relations of the Russian Federation (the "Ministry of Property Relations") holds 99.9% of VTB's shares and is the controlling shareholder. VTB's other shareholders include OJSC Sberbank ("Sberbank"), LLC Gazexport, CJSC Energomashexport, OJSC Ingosstrakh, the Chamber of Commerce and Industry of the Russian Federation as well as other legal entities and individuals. Of the nine seats on VTB's Supervisory Council, six are held by representatives of various Government ministries and the three other seats are held by a representative of the Central Bank of Russia, a representative of the Russian President and by VTB's President and Chairman of the Management Board.

VTB conducts its banking business in Russia through its network of 42 branches and 72 sub-branches (which offer a limited range of banking services) and through three domestic subsidiary banks. VTB conducts operations outside Russia through four subsidiary banks, located in Austria, Cyprus, Luxembourg and Switzerland, an affiliate bank in Germany and representative offices in Belarus, China, Italy and Ukraine. VTB's legal address is 16 Kuznetsky Most Street, Moscow 103031, Russian Federation and VTB's head office (the "Head Office") is located at 6 Lesnaya Street, Moscow 125047, Russian Federation.

VTB has a bank deposits rating of "Ba1/NP" and a bank financial strength rating of "D-" from Moody's Investor Services, Inc. ("Moody's") and a short-term foreign currency rating of "B", a long-term foreign currency rating of "BB+", an individual rating of "C/D" and a support rating of "3" from Fitch Ratings Ltd. ("Fitch").

Market Position and Competitive Advantages

According to the CBR, as of September 1, 2003, 1,707 banks and non-banking credit organisations were registered in Russia. Most large Russian banks are concentrated in Moscow; large regional banks conduct most of their business in the central city of their region.

According to VTB's calculations, as of June 1, 2003, it had in Russia a 1.7% market share in retail deposits, a 4.5% market share in deposits of legal entities and a 3.9% market share in corporate loans, all as measured by value, with its assets accounting for 4.6% of the assets of the Russian banking sector and its capital accounting for 7.6% of the capital of the Russian banking sector (under RAR).

VTB believes that it enjoys a strong position in the Russian banking market and has a number of competitive advantages over other banks operating in Russia, in particular its independence from Russian financial-industrial groups, international experience and reputation, established relationships with leading Russian companies, strong capital position and experienced management.

- *Independence from Russian Financial-Industrial Groups.* 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 primarily service their groups. VTB's clients value its independence. Since becoming VTB's 99.9% shareholder in October 2002, the Ministry of Property Relations has not asserted control over the day-to-day decision-making or operations of VTB 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 a number of international financial institutions. VTB also has an international reputation as a stable and reliable bank. In the aftermath of Russia's 1998 financial crisis, VTB settled all of its obligations on outstanding forward contracts and fully repaid all of its other obligations as they became due.
- *Established Relationships with Leading Russian Companies.* VTB has a history of cooperation and good continuing relationships with leading Russian companies operating in various sectors of the Russian economy.
- *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 multiple clients in the oil and gas industry.
- *Experienced Management.* VTB's senior management team has substantial experience in the banking business. VTB's President and Chief Executive Officer, Andrei L. Kostin, was previously the President of Vnesheconombank, where he oversaw significant commercial banking operations and operations relating to foreign trade. VTB's other senior managers have previously held senior positions at, among other banks, Vnesheconombank and Sberbank.

Strategy

VTB's new management team has developed a new strategy for VTB going forward. VTB's Supervisory Council and its shareholders fully support this new strategy. While VTB's management is still finalising some details with respect to the implementation of this strategy, a number of strategic objectives are already being implemented, with several programmes being designed and launched.

VTB's overall strategic goal is to strengthen its position as a pan-European bank 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.

To achieve this strategic goal, VTB is expanding the range and volume of commercial banking services that it provides to clients, enlarging its branch network, developing its investment banking business, diversifying its shareholder base and improving its governance and management systems.

Expansion of Services to Corporate Clients. VTB plans to expand the range and volume of its services to corporate clients through:

- Continuing to enter into strategic partnership agreements with large corporate clients, whereby VTB provides a full range of banking services to such clients.
- Diversifying its portfolio of loans to large corporate clients. VTB will offer its corporate clients loans tailored to their needs and will focus on providing a greater volume of lending services to large corporations operating in industry segments that it views as having significant economic potential but limited funding opportunities, such as metallurgy, information technology, food production, retail and wholesale trade, transportation and communications, while maintaining its market share in lending services to corporate clients in the oil and gas, energy and transport engineering (in particular, aeronautical and automotive) sectors.
- Developing investment financing. VTB believes that the need for investment financing to finance new projects in the Russian economy is significant. The federal Government's "Energy-Effective Economy" programme envisions U.S.\$15-17 billion annually in investment financing for the Russian energy sector alone for the next seven years and the situation in a number of other economic sectors, both domestic and export-oriented, is similar. VTB's investment financing is expected to initially take the form of syndicated loans and project financing.
- Creating credit products for small and medium-sized enterprises ("SMEs"). The federal Government has stated, on a number of occasions, that development of SMEs in Russia should be encouraged. VTB plans to focus on working with SMEs in ways that will expand the volume of loans to SMEs while, at the same time, minimise VTB's credit risk. VTB will initially focus on lending to SMEs engaged in retail and wholesale trade and SMEs that it views as having high economic potential. VTB also plans to actively participate in SME support programmes operated by international financial organisations such as the International Finance Corporation ("IFC") and the European Bank for Reconstruction and Development ("EBRD").
- Maintaining and strengthening VTB's leading position in servicing foreign trade operations. VTB plans to provide Russian corporate clients and foreign corporate clients that have business interests in or export their products to Russia with the most efficient banking support for their foreign trade operations, using, among other things, the resources of VTB's foreign subsidiary banks and financial instruments offered by foreign export credit agencies and export-import banks.
- Offering specialised services to particular clients. VTB plans to position itself as a bank where Russian and foreign corporate clients can obtain services that are tailored to their business needs. For example, VTB intends to introduce international settlement schemes that are tailored to the needs of particular Russian and international corporate clients. Such settlement schemes may include, among other things, several forms of settlement in relation to one contract. VTB also plans to widen the scope of consulting services that it provides to Russian and international corporate clients.
- Developing and improving cross-sale arrangements for banking and related products, such as leasing, insurance and non-governmental pension fund services.

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

- Raising the volume of retail deposits. In order to increase the volume of its retail deposits and attract more retail clients, VTB intends to offer individuals cost-effective long-term retail deposit products, pursue flexible interest rate policies, improve payment systems and broaden the range of transactions offered to individual clients.
- Introducing long-term retail loans. VTB intends to offer individual loans for periods of up to ten years, which may be denominated in roubles or in certain foreign currencies. The loans will include consumer loans, mortgages, loans secured by VTB's debt securities and overdraft loans to debit card

holders. VTB plans to offer retail loans through its branches and other distribution channels such as realtors and developers in the case of mortgages and retailers in the case of consumer loans.

- Increasing its presence in the debit card market. VTB plans to widen its selection of issued and serviced debit cards, implement new debit card products, develop microchip-based bank cards and increase the number of its automatic teller machines (“ATMs”).
- Attracting clients through marketing campaigns. VTB has begun and will continue local and national marketing campaigns aimed at attracting banking business of medium and high-income individuals in Moscow and regional industrial centres.

Enlarging the Branch Network. VTB plans to open branches in a number of regions of Russia, thus further increasing its regional presence and diversifying its client and funding base. New branches will primarily be located in Moscow, regional industrial centres and rapidly developing cities in the regions, and will serve corporate clients with developed regional operations, regional clients engaged in export activities, SMEs and retail clients. As part of its expansion programme, VTB is actively considering the purchase of regional banks with branch networks, for example in the North West and the Far East of Russia and in Siberia.

Developing Investment Banking. Russian banks currently offer only a small range and volume of investment banking services. Partly due to inquiries by potential clients and given the current shortage of domestic investment banking services in Russia, VTB believes that substantial business opportunities exist in this area and that its reputation for independence will help it gain investment banking clients. VTB recently hired an experienced investment banking team from another bank, and it is developing its investment banking business gradually, starting with underwriting domestic and international securities offerings, providing brokerage services, and entering into strategic equity investments and investment projects where VTB shares the risks of a particular investment with other investors. VTB is also putting in place flexible asset management arrangements, including those targeting conservative long-term investors such as insurance companies and pension funds. On October 23, 2003, VTB signed a cooperation agreement with Taylor-DeJongh, Inc. (“Taylor-DeJongh”), a U.S. investment bank, which provides, among other things, for VTB and Taylor-DeJongh to jointly offer investment banking projects to companies operating in the oil and gas, energy, metallurgy and other industries.

Diversifying Shareholder Base. VTB believes that diversifying its shareholder base will allow it greater access to funding, increase its existing client business, facilitate establishing relationships with new clients and enhance its competitiveness and transparency. To that effect, VTB plans to bring in two strategic investors, the EBRD and the IFC, in the near future. VTB is currently negotiating with the EBRD and the IFC the manner in which they may acquire interests in VTB. VTB’s strategic plan envisions the government further reducing its equity stake within five to seven years.

Improving Governance and Management Systems. VTB is currently improving its governance and internal management systems with the implementation of following policies:

- Reviewing and enhancing the disclosure about its activities and procedures for communication with its shareholders. VTB is putting in place a code of corporate conduct based on current Russian and international standards.
- Implementing mechanisms for comprehensive profitability monitoring and other steps to improve its strategic and current planning and putting in place an automated information processing system that is expected to reduce labour costs. VTB developed these mechanisms in-house on the basis of international best practice, and internationally recognised consulting firms have reviewed them and are overseeing their implementation. The procedures that will be applied are based on techniques such as profit centre allocation, activity-based costing, fund transfer pricing and capital-at-risk.
- Completing implementation of a risk management system that fully complies with practices and standards of leading European banks.
- Strengthening internal control procedures, including monitoring and control of expenses.

SUMMARY OF THE PROGRAMME

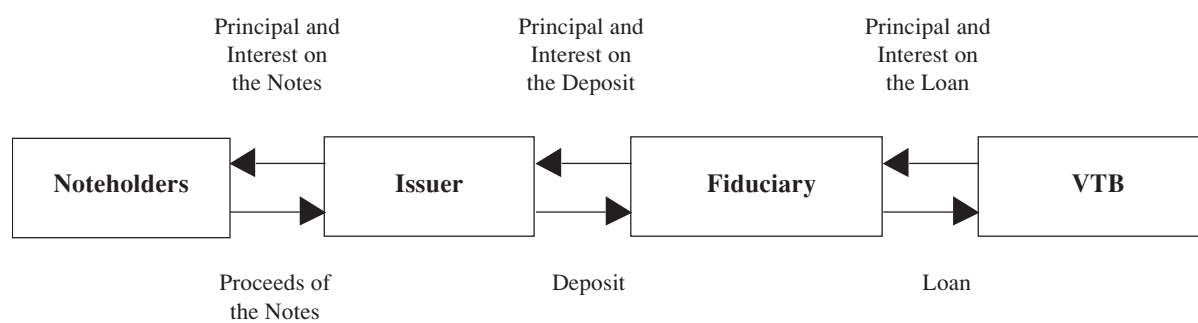
The following summary contains basic information about the Notes, Deposits and Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms and Conditions of the Notes”, “Deposit Agreement”, and “Facility Agreement” appearing elsewhere in this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

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

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

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

Set out below is a diagrammatic representation of the structure:



Notes to be issued under the Programme

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

	<p>“Paying Agents” are to Citibank N.A., London Branch, Deutsche Bank Luxembourg S.A. or such alternative paying agent, as the case may be.</p>
Transfer Agents	<p>Citibank N.A., London Branch and Deutsche Bank Luxembourg S.A., unless it is specified in the relevant Pricing Supplement relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Offering Circular to “Transfer Agent” are to Citibank N.A., London Branch, Deutsche Bank Luxembourg S.A. or such alternative transfer agent, as the case may be.</p>
Calculation Agent	<p>Deutsche Bank Luxembourg S.A. unless it is specified in the relevant Pricing Supplement relating to a Series of Notes that another calculation agent is appointed in respect of that Series. References in this Offering Circular to “Calculation Agent” are to Deutsche Bank Luxembourg S.A. or such alternative calculation agent, as the case may be.</p>
Method of Issue	<p>The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be set out in a pricing supplement to this Offering Circular (each a “Pricing Supplement”) which shall supplement the Terms and Conditions of the Notes.</p>
Issue Price of Notes	<p>Notes may be issued at their principal amount or at a discount or premium to their principal amount.</p>
Status	<p>Each Series of Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Deposit and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to such Deposit or, in the event of a Loan Assignment, the corresponding Loan, all as more fully described in “Terms and Conditions of the Notes – 1. Status”. Each Deposit will constitute the obligation of the Fiduciary to apply a sum equivalent to the Deposit solely for financing the corresponding Loan and to account to the Issuer for amounts equivalent to sums of principal, interest and additional amounts (if any) together with any fees payable thereunder actually received by or for the account of the Fiduciary pursuant to such Loan, all as more fully described in “Deposit Agreement”.</p>
Security	<p>The Issuer’s payment obligations in respect of each Series of Notes will be secured by a first fixed charge on:</p> <ul style="list-style-type: none"> ● all of the Issuer’s rights to principal, interest and other amounts paid and payable under the relevant Fiduciary Deposit Agreement and its right to receive all sums paid and payable under any claim, award or judgment relating to such Fiduciary Deposit Agreement; and ● all the rights, title and interest in and to all sums of money held from time to time in an account specified in the

relevant Pricing Supplement, together with the debt represented thereby (including interest from time to time) pursuant to the Trust Deed.

Assignment of Rights

Under the terms of the relevant Fiduciary Deposit Agreement, the Fiduciary will agree that upon the occurrence of an Event of Default (as defined in the relevant Loan Agreement) or a Fiduciary Relevant Event (as defined in the relevant Fiduciary Deposit Agreement), it will enter into a Loan Assignment in favour of the Issuer. The Issuer will assign its rights under the Loan Assignment and will also assign its administrative rights under the relevant Fiduciary Deposit Agreement (save for any Issuer Reserved Rights and those rights charged above), including rights in respect of a Loan Assignment, to the Trustee upon the closing of the offering of the corresponding Series of Notes.

Form

The Notes will be issued in registered form. Each Series of Notes will be represented by a global Note (each a “Global Note”) in each case without interest coupons. A Global Note will be exchangeable for Notes in definitive form in the limited circumstances specified in the Global Note.

Clearing Systems

Euroclear and Clearstream, Luxembourg and such other clearing system as may be agreed between the Issuer, VTB, the Paying Agents, the Trustee and the relevant Dealer.

Initial Delivery of Notes

On or before the issue date for each Series, the Global Note shall be deposited with Citibank N.A., London Branch, as a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, VTB, the Paying Agents, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Fiduciary, VTB and the relevant Dealers.

Issues of Notes denominated in Swiss francs or carrying a Swiss franc related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of November 8, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of March 24, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Corporation on Stock Exchanges and Securities Trading of December 2, 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue the lead manager (the “Swiss Dealer”), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland or a securities dealer duly licensed by the Swiss Federal Banking Commission as per the Federal Law on Stock Exchanges and Securities Trading of March 24, 1995). The

	<p>Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the relevant issue date for such a transaction.</p>
Maturities	<p>Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Fiduciary, VTB and the relevant Dealers.</p>
Denomination	<p>Notes will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).</p>
Rate of Interest	<p>The Notes may be issued on a fixed rate or floating rate basis.</p>
Fixed Rate Notes	<p>Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.</p>
Floating Rate Notes	<p>Floating Rate Notes will bear interest determined separately for each Series and corresponding Deposit and Loan as follows:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin.
Interest Periods and Interest Rates	<p>The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.</p>
Redemption	<p>The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).</p>
Issuer's Restrictions and Covenants	<p>So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, <i>inter alia</i>, incur any other indebtedness for borrowed moneys, or enter into other transactions or engage in any business (other than transactions contemplated by this Offering Circular), declare any dividends or have any subsidiaries. See "Terms and Conditions of the Notes – 4. Restrictive Covenants". Furthermore, the Issuer will agree in the</p>

	<p>Trust Deed not to make or consent to any amendment or modification or waiver of, or authorise any breach or proposed breach of the terms of any Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the corresponding Loan Agreement unless the Trustee has given consent.</p>
Redemption by the Issuer at the Option of VTB	<p>The Issuer and the Fiduciary will redeem the Notes and repay the Deposit (respectively) in whole, but not in part, at 100% of their aggregate principal amount plus accrued and unpaid interest and all additional amounts, if any, if VTB elects to repay any Loan in the event it is required to pay additional amounts on account of Russian or Luxembourg withholding taxes in respect of certain payments under the corresponding Loan, certain payments under the corresponding Deposit or payments under the corresponding Notes or in the event that VTB is required to pay additional amounts on account of certain costs incurred by the Fiduciary pursuant to the relevant Loan Agreement.</p>
Optional Redemption by the Noteholders upon a Change of Control	<p>Upon the occurrence of a Change of Control (as defined in “Terms and Conditions of the Notes – 6. Redemption and Purchase”) the Notes may be redeemed at the option of a Noteholder at their principal amount together with accrued interest, if any, all as more fully described in the “Terms and Conditions of the Notes”.</p>
Mandatory Redemption	<p>In limited circumstances as more fully described in the relevant Loan Agreement, the Notes may be redeemed by the Issuer in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Notes or, at any time, in the case of Fixed Rate Notes, upon giving notice to the Trustee, at the principal amount thereof, together with accrued and unpaid interest and all additional amounts, if any, to the date of redemption in the event that it becomes unlawful for (i) the Issuer to fund the relevant Deposit or allow the relevant Deposit to remain outstanding under the relevant Fiduciary Deposit Agreement or allow the relevant Notes to remain outstanding or (ii) the Fiduciary to allow the relevant Loan to remain outstanding under the Loan Agreement or allow the Deposit to remain outstanding. In either case, the Deposit and the Loan would be repaid in full.</p>
Relevant Events	<p>In the case of an Issuer Relevant Event (as defined in the Trust Deed) or a Fiduciary Relevant Event, the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.</p>
Withholding Tax	<p>All payments of principal and interest in respect of each Series of Notes will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes, which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Luxembourg, or any taxing authority thereof or therein, other than as required by law. If any such taxes, duties and other charges are payable, the sum payable by VTB to the Fiduciary for onward payment under the Deposit to the Issuer or, in the event of a Loan Assignment, directly to the Issuer will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made.</p>

	<p>The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Fiduciary or, in the event of a Loan Assignment, VTB and the sole obligation of the Fiduciary in such respect will be to pay to the Issuer sums equivalent to the sums received from VTB.</p>
Further Issues	<p>The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series. In the event of such further issuance, the relevant Deposit and Loan will be correspondingly increased.</p>
Listing	<p>Application will be made, where specified in the relevant Pricing Supplement, for a Series of Notes to be listed on the Luxembourg Stock Exchange or such other stock exchange as shall be specified in the relevant Pricing Supplement or the Series of Notes will remain unlisted.</p>
Rating	<p>The Programme has been given a rating of “BB+” by Fitch. Series of Notes issued under this Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme.</p> <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 or VTB could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.</p>
Governing Law	<p>The Notes will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded.</p>
Selling Restrictions	<p>United Kingdom, United States, Luxembourg, Russian Federation and any other jurisdiction relevant to any Series. See “Subscription and Sale”.</p>
The Deposit corresponding to each Series of Notes	
Depositor	<p>The Issuer.</p>
Recipient Bank	<p>The Fiduciary.</p>
Security and Ranking	<p>None of the Deposits will be secured by any collateral. Each Deposit and the claims deriving from any Loan made with a particular Deposit will, by virtue of the Luxembourg Law of July 27, 2003 on Trust and on Fiduciary Agreements, become the legal property of the Fiduciary. Each Deposit and the claims deriving from any Loan made with a particular Deposit will be kept in the books of the Fiduciary separate from any and all of its other assets,</p>

	<p>including other Deposits and the claims deriving from any other Loan, and cannot be seized by the ordinary creditors of the Fiduciary, but only by those creditors whose rights arose in relation to a particular fiduciary transaction.</p>
Interest Basis Dates	<p>Interest will be payable on a fixed or floating rate basis as specified in the relevant Fiduciary Deposit Supplement.</p>
Redemption by the Fiduciary at the Option of VTB	<p>Each Deposit will be prepaid by the Fiduciary in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Loans or, at any time, in the case of Fixed Rate Loans at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment, if VTB under the corresponding Loan elects to prepay such Loan for certain tax reasons or by reason of certain increased costs of the Fiduciary.</p>
Mandatory Repayments	<p>In the event that it becomes unlawful for the Issuer or the Fiduciary to fund any Loan or Deposit (as the case may be) or allow such Loan or Deposit to remain outstanding under the relevant Loan Agreement or the relevant Fiduciary Deposit Agreement or allow the corresponding Series of Notes to remain outstanding, VTB may be required to repay the corresponding Loan in full and the Fiduciary will repay such Deposit in full.</p>
Redemption upon a Change of Control	<p>Each Deposit will be repaid in whole or in part by the Fiduciary as a consequence of the repayment of the corresponding Loan, in whole or in part, by VTB upon the exercise of the Put Option upon a Change of Control (as defined in the Facility Agreement) by any holder of Notes at the principal amount of the Notes so tendered, together with accrued and unpaid interest and additional amounts, if any.</p>
Certain Restrictions and Covenants	<p>The Issuer will have the benefit of certain covenants made by the Fiduciary all as more fully described in the relevant Fiduciary Deposit Agreement.</p>
Events of Default	<p>In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Fiduciary, or in the event of a Loan Assignment, the Issuer, to declare all amounts payable under the relevant Loan Agreement to be due and payable.</p>
Use of Proceeds of the Notes and the Deposits	<p>The Issuer will apply the gross proceeds of the offering of each Series of Notes to make the corresponding Deposit with the Fiduciary. The Fiduciary will use the full amount of such Deposit to fund the corresponding Loan to VTB. In connection with the receipt of such Loan, VTB will pay an arrangement fee, as reflected in the relevant Pricing Supplement.</p>
Withholding Tax	<p>All payments of principal and interest under each Deposit will be made in full without set-off or counterclaim and free and clear and without deduction for or on account of all taxes which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Luxembourg, other than as required by law. If any such taxes, duties or other charges are payable, the sum payable by VTB under the corresponding Loan will (subject to certain conditions) be required to be increased to the extent necessary to ensure that the Fiduciary or, in the event of a Loan</p>

Assignment, the Issuer receives the net sum which it would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. Prior to a Loan Assignment, the sole obligation of the Fiduciary in this respect will be to pay to the Issuer sums equivalent to the sums received by it from VTB.

Governing Law

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

The Loan corresponding to each Series of Notes and each Deposit

Lender

The Fiduciary.

Borrower

VTB.

Security and Ranking

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

Interest Basis Dates

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

Redemption at the Option of VTB

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

Mandatory Repayments

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

Redemption upon a Change of Control

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

Certain Restrictions and Covenants

The Fiduciary will have the benefit of certain covenants made by VTB, including a negative pledge and restrictions on disposals, all as fully described in the relevant Loan Agreement.

Events of Default

In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Fiduciary or, in the event of a Loan Assignment, the Issuer to declare all amounts payable under the relevant Loan Agreement by VTB to be due and payable.

Use of Proceeds of the Notes and the Deposit

The Issuer will apply the gross proceeds of the offering of each Series of Notes to make the corresponding Deposit with the Fiduciary. The Fiduciary will use the full amount of such Deposit

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

Withholding Tax

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

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should consider carefully, among 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 VTB'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 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 VTB faces. VTB has described only the risks it considers to be material. However, there may be additional risks that VTB currently considers immaterial or of which it is currently unaware, and any of these risks could have the effect set forth above.

Risks Related to VTB's Business and Industry

VTB faces competition for client business in a number of areas.

The Russian market for financial and banking services is highly competitive. According to the CBR, as of September 1, 2003, 1,707 banks and non-banking credit organisations were registered in Russia.

Due to the number of Russian banks and the differences in their business focuses, VTB faces competition from different banks in various areas of its banking business. In the corporate banking area, VTB's primary competitors are Sberbank, OJSC Alfa-Bank ("Alfa-Bank"), OJSC Bank of Moscow, OJSC MDM-Bank ("MDM-Bank"), OJSC Moscow International Bank and OJSC Rosbank ("Rosbank"). In the retail banking area, VTB's primary competitors are Sberbank, Alfa Bank, OJSC Mezhprombank ("Mezhprombank"), OJSC Gazprombank, OJSC Avtobank and Rosbank. In the commercial lending area, VTB's primary competitors are Sberbank, Alfa-Bank, Mezhprombank, OJSC Menatep-SpB, OJSC Petrocommertz and OJSC Uralsib. The majority of these banks are based in Moscow, although a few have regional banking networks and Sberbank has a national one. In the Russian regions, VTB competes with a number of regional banks. These banks 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 comprehensive and competitive banking services to all of its clients. In addition, 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 other banks, 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 Ministry of Property Relations holds 99.9% of VTB's shares and is the controlling shareholder. Of the nine seats on VTB's Supervisory Council, six are held by representatives of various Government ministries and the three other seats are held by a representative of the Central Bank of Russia, a representative of the Russian President and by VTB's President and Chairman of the Management Board. Since its inception in 1990, VTB has not experienced any administrative pressure from its controlling shareholders to extend loans or to provide preferential interest rates or prices to particular clients, or to set particular pricing or interest rate policies.

VTB's privatisation has been and continues to be the subject of much domestic and international press speculation. Strategic foreign investors have expressed interests in obtaining stakes in VTB. VTB is currently negotiating with the EBRD and the IFC the terms on which they may become minority shareholders. See "Business – Strategy – Diversifying Shareholder Base".

The Government has stated that it intends to retain a stake in VTB, and VTB does not expect full privatisation to take place in the near future. However, no assurance can be given that VTB will not be completely privatised.

The interests of the Ministry of Property Relations or VTB's future shareholders may, in some circumstances, conflict with the interests of the Noteholders and they may require VTB to take actions that may adversely affect the Noteholders' investment.

Fluctuations in global markets for oil, gas, minerals and precious metals may negatively impact VTB.

Many of VTB's large corporate clients engage in production and/or export of oil, gas, iron ore and precious metals. The financial condition of each such corporate 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 conditions of each such corporate client and may result, among other things, in a decrease of funds that such clients hold on deposit with VTB, reduction of the volume of foreign currency and/or foreign trade operations in which these clients engage through VTB, or default, or a need for increased provisions, on their obligations to VTB. Any of these occurrences may have a material adverse effect on VTB's business, financial condition, results of operations or prospects.

Some transactions between VTB and interested parties or affiliated companies require the approval of disinterested directors or disinterested shareholders and VTB's failure to obtain such approvals may cause its business to suffer.

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 CEO 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.

A transaction between VTB and a subsidiary may be considered an interested party transaction as VTB is an affiliate of its major shareholder and owns more than 20% of its subsidiaries.

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

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

VTB's loan portfolio has relatively high industry concentrations. As of June 30, 2003, the manufacturing, energy, financial, and trade and commerce sectors accounted for 31%, 15%, 13% and 7%, respectively, of VTB's loan portfolio (excluding loans to banks). Furthermore, as of that date, total loans to VTB's 16 largest borrowers amounted to U.S.\$1,694 million, representing 40% of VTB's loan portfolio (excluding loans to banks). Therefore, VTB's financial condition is sensitive to downturns in these sectors and the

consequent inability of clients operating in these industry sectors to meet their obligations to VTB, as well as to declines in the economic condition of large borrowers.

In order to minimise portfolio concentration risks, VTB continues to take measures to diversify its loan portfolio, such as lending to companies in industry sectors that it views as having significant economic potential but limited funding opportunities and to SMEs and individuals. Partly as a result of these measures, VTB has reduced its loan exposure to the energy sector, which accounted for 36% of VTB's loan portfolio as of December 31, 2002. However, there is no assurance that VTB 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 VTB's business, financial condition, results of operations and prospects.

An increasing share of loans to medium and small corporate clients in VTB's loan portfolio may have a negative effect on its credit quality.

In order to tap a market segment where there is currently a funding shortage and to further diversify its loan portfolio, VTB is increasing lending to SMEs. See "Business – Corporate Banking – Services – Lending".

Although VTB's increasing lending to SMEs may expand and diversify its loan portfolio and increase its profitability due to higher interest rates being charged on such loans, it may, at the same time, increase VTB's credit risk exposure. SMEs usually have less capital and business experience than large companies and are more sensitive to economic downturns. Thus, they are more likely to default on their loans, necessitating higher loan impairment provisions. In addition, SME lending requires application of credit policies and provisioning procedures different from those for large corporate borrowers, which VTB is continuing to develop.

VTB's ability to expand its client base and loan portfolio through SME lending without increasing its credit risk level will depend on its ability to implement and apply appropriate credit policies and provisioning procedures. There is no guarantee that VTB will be able to do so successfully.

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

An accurate assessment of default risk on loans and other instruments is difficult for VTB due to the unpredictability of economic conditions in Russia and abroad. Financial statements of most of VTB's corporate clients are not prepared in accordance with United States generally accepted accounting principles ("GAAP") or IFRS and are not audited in accordance with United States Generally Accepted Auditing Standards or International Standards on Auditing. Even though VTB requires regular disclosure of clients' financial information, such financial information may not always present a complete and comparable picture of each such client's financial condition. Furthermore, few SMEs or retail customers have credit histories. Therefore, in spite of the credit risk determination procedures that VTB has in place, it may be unable to evaluate correctly the current economic condition of each prospective borrower and to determine their long-term economic outlook. If VTB fails to assess correctly the credit risk of potential borrowers, this may have a material adverse effect on VTB's business, financial condition, results of operations and prospects.

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 "Business – Asset, Liability and Risk Management – Lending Policies and Procedures". Under Russian law, security (which includes pledge and mortgage) and guarantee (other than a bank guarantee) 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. Such 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.

VTB may face liquidity risks and may fail to mitigate these risks.

Russian companies may face significant liquidity problems due to a limited supply of domestic long-term bank funding and few foreign sources of funds. As a result, Russian companies often are not in a position to place funds with VTB on a long-term basis. VTB may also be exposed to maturity mismatches between its assets and liabilities, which may lead to lack of liquidity at certain times. See “Business – Asset, Liability and Risk Management – Risk Management – Liquidity Risk”.

VTB obtains a portion of its funding in the domestic and international interbank, syndicated loan and special-purpose financing (such as bankers’ acceptances and bilateral credit facilities) markets. See “Business – Asset, Liability and Risk Management – Funding”. VTB’s ability to continue to access these markets in amounts sufficient to meet its funding needs could be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian financial system.

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 unexpected withdrawals of deposits by VTB’s retail clients will not result in liquidity gaps that VTB will have to cover.

VTB believes that its level of access to international interbank, syndicated loan 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 interbank, syndicated loan and special-purpose financing markets, and maturity mismatches between VTB’s assets and liabilities may, together or separately, have a material adverse effect on its business, financial condition, results of operations and prospects. See “Business – Asset, Liability and Risk Management – Risk Management – Liquidity Risk”.

VTB remains subject to market risks.

Like other commercial banks in Russia and elsewhere, VTB is exposed to market risks, including securities portfolio, interest rate and currency risks.

VTB generates much of its operating income through investment and trading activities in securities and thus is subject to securities portfolio risk. The main source of this risk is VTB’s portfolio of Russian government debt securities. VTB has in place portfolio limits 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, price fluctuations may adversely affect the value of VTB’s securities portfolio. See “Business – Asset, Liability and Risk Management – Risk Management – Market Risks – Securities Portfolio Risk”.

VTB is also exposed to risks resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. While 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, interest rate movements may adversely affect VTB’s financial position. See “Business – Asset, Liability and Risk Management – Risk Management – Market Risks – Interest Rate Risk”.

VTB 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 VTB has in place limits aimed at reducing currency risk, currency exchange rates and the volatility of the rouble may adversely affect VTB. “Business – Asset, Liability and Risk Management – Risk Management – Market Risks – Currency Risk”.

If VTB’s risk management procedures do not minimise the impact of securities portfolio, interest rate and currency risks on VTB, its business, financial condition, results of operations and prospects may be adversely affected.

VTB may fail to manage its growth properly.

VTB plans to expand its branch and subsidiary network. See “Business – Strategy” and “Business – Banking Network”. Expansion of VTB’s banking network may entail significant investment, as well as

increased operating costs. There is no guarantee that VTB will achieve a positive return on the investment that it makes in the development of its banking network.

Overall growth in VTB's business requires greater allocation of management resources away from daily operations, continued development of VTB's financial and information management control system, continued training of management and other personnel, adequate supervision and maintenance of consistency of client services. If VTB fails to manage its growth while 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.

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. In order 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 VTB's business, financial condition, results of operations or prospects.

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

While VTB has been actively developing its IT systems, they are currently significantly less developed in certain respects than those of banks in more developed countries. In addition, VTB may encounter difficulties in the ongoing process of developing and implementing modern IT systems. See "Business – IT Infrastructure". VTB's inability to maintain IT systems sufficient to support its operations may have a material adverse effect on its business, financial conditions, results of operations or prospects.

If VTB fails to receive a licence from the CBR when needed, or if an existing licence is revoked, VTB will be adversely affected.

All banking and various related operations in Russia require licences, and certain capital transactions with foreign currencies require transaction-specific currency licences, from the CBR. VTB has obtained such licences in connection with its banking operations and for banking operations involving foreign currencies. Although VTB has been successful in obtaining CBR licences, there is no assurance that it will be able to obtain such licences in the future. Applying for a CBR licence is a burdensome and time-consuming process. The CBR may, in its discretion, impose additional requirements or deny VTB's request for licences, which would harm its business and results of operations. The loss of a CBR licence, a breach of the terms of a CBR licence by VTB or its failure to obtain CBR licences in the future would result in cash flow difficulties and penalties such as fines imposed by the CBR on VTB, which would, in turn, affect its ability to fulfil payment obligations and would have a material adverse effect on VTB's business, financial condition, results of operations or prospects. If VTB loses its general banking licence, it will be unable to perform any banking operations.

Risks Relating to the Russian Federation

VTB is a Russian bank. 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 to a pluralist democracy with a market-oriented economy. 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. Six different prime ministers, for example, headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin unexpectedly resigned and Vladimir Putin, prime minister at the time, became the acting president and was subsequently

elected president on March 26, 2000. While President Putin has maintained governmental stability and policies generally oriented towards the continuation of economic reform, no assurance can be given that such conditions will continue after the State Duma elections to be held at the end of 2003, and presidential elections in 2004. The value of investments in Russia, including the Notes, could be reduced and VTB's prospects could be harmed if governmental instability recurs or if reform policies are reversed.

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

The Russian Federation consists of eighty-nine sub-federal political units, some of which exercise considerable autonomy in their internal affairs pursuant to agreements with the federal authorities. In practice, the division of authority between federal and regional governmental authorities remains uncertain and contested. Lack of consensus between local and regional authorities and the Russian government often results in enactment of conflicting legislation at various levels and may result in political instability. These uncertainties could hinder the operation of VTB's business.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to communal tensions and military conflict. From 1994 to 1996 and since 1999, Russian military forces have been engaged in operations in Chechnya, bringing normal economic activity within Chechnya to a halt and disrupting the economy of the neighbouring region, and groups associated with the Chechen opposition have committed various acts of terrorism in population centres in Russia, resulting in significant loss of life, injury and damage to property. The spread of violence, or political measures taken to counter violence, such as the imposition of a state of emergency, could hinder the operation of VTB's business.

Economic Risks

Economic instability in Russia could adversely affect VTB's business.

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

- 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 organized crime into the economy;
- significant increases in unemployment and underemployment; and
- high poverty levels among 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 a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a

sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets.

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

Despite improvements in the Russian economic situation after the 1998 crisis, there can be no assurance that the recent positive trends experienced by the Russian economy, such as the increase in gross domestic product, a relatively stable rouble, and a reduced rate of inflation, will continue or will not be abruptly reversed. Moreover, the recent fluctuations in international oil and natural gas prices, the strengthening of the rouble in real terms relative to the U.S. dollar and the consequences of a relaxation in monetary policy and other factors may adversely affect Russia's economy and VTB's business in the future.

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

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

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

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

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

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

Such changing conditions complicate tax planning and related business decisions. VTB is a significant taxpayer 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 its 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. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for usability and safety. The Government is actively pursuing plans to reorganize the nation's rail, electricity and telephone systems. These reorganisations may result in increased charges and tariffs while 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 VTB's or its clients' business.

Fluctuations in the global economy may adversely affect Russia's economy and VTB'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. These developments could severely limit VTB's access to capital and could adversely affect the financial condition of VTB's clients and thus its business.

Social Risks

Crime and corruption could disrupt VTB's ability to conduct its business and could materially adversely affect its financial condition and results of operations.

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

Social instability could increase support for renewed centralised authority, nationalism or violence and thus materially adversely affect VTB'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 centralized 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 VTB'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 and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies

and anomalies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. Among the risks of the current Russian legal system are:

- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges in interpreting Russian 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 VTB'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 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 remain 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, or in the event VTB's business and/or its clients' businesses are reorganised. Expropriation or nationalisation of any of VTB's assets or portions thereof, potentially with little or no compensation, could have a material adverse effect on its operations and revenues, and on the value of the Notes.

Unlawful or arbitrary Government action may have an adverse effect on VTB'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 VTB, could have a material adverse effect on VTB's business, and on the value of the Notes.

Foreign judgments may not be enforceable against VTB.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered. No such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments. Thus, the enforcement of the court judgements against VTB in the Russian Federation may be impossible. Also, the Facility Agreement provides that controversies, claims

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

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

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

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

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

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

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

VTB's corporate affairs are governed by its charter, its internal regulations, by laws governing Russian banks and by laws governing companies incorporated in Russia. See "The Banking Sector and Banking Regulation in the Russian Federation". 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, corporations organized in the United Kingdom or other jurisdictions. See "Management".

The Law on Banks and Banking Activities (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, 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 include certain financial information, including a balance sheet, income statement and information on VTB's assets, capital reserves, allowances for problem loans, but do not contain all of the information contained in VTB'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 Commission on the Securities Markets within 30 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, quarterly accounts prepared in accordance with Russian accounting standards, etc.) but do not contain all of the information contained in VTB'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.

Russian tax law is not fully developed and is subject to frequent changes, which could have an adverse effect on VTB.

VTB is subject to a broad range of taxes imposed at the federal, regional and local levels, including, but not limited to, value-added tax, income tax, property tax, social taxes and import duties.

The Russian tax system has recently been restructured. The system, as restructured, aims to reduce the number of taxes and the overall tax burden on businesses and to simplify tax laws. However, the system, as restructured, relies heavily on the judgments of the local tax officials and fails to address many existing problems. It imposes a significant tax burden on Russian banks and companies and suffers from numerous inefficiencies. Even if further tax reforms take place, they may not result in a reduction of the tax burden and an establishment of a more efficient tax system and, conversely, may introduce additional tax collection measures. Accordingly, in the future, VTB may have to pay significantly higher taxes, which may adversely affect its financial results.

Generally, tax declarations remain open and subject to inspection by tax and/or customs authorities for a period of three years following the tax year. The fact that a year has been reviewed by tax authorities does not close that year, or any tax declaration applicable to that year, from further review during the three-year period. Accordingly, tax risks in Russia are substantially more significant than typically found in countries with more developed tax systems.

The Russian tax system is subject to frequent change and inconsistent enforcement at the federal, regional and local levels. There can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. These factors, as well as the potential for state budget deficits resulting in additional taxes, may also lead to imposition of additional taxes on VTB.

Risks Relating to the Notes and the Trading Market

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

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

There is no direct recourse of the Noteholders to VTB.

Except as otherwise expressly provided in the "Terms and Conditions of the Notes" and in the Trust Deed, the Noteholders will not have any proprietary or other direct interest in the Issuer's rights under or in respect of the relevant Deposit, in the Fiduciary's rights under or in respect of the relevant Loan Agreement or in any rights that the Issuer may receive by way of assignment from the Fiduciary in respect of the relevant Loan Agreement. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement

to enforce any of the provisions of the relevant Fiduciary Deposit Agreement or the relevant Loan Agreement or have direct recourse to VTB except through action by the Trustee under the Charge (as defined in the “Terms and Conditions of the Notes”) or any assignment of rights, including any rights under a Loan Assignment.

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

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

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

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

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

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

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

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

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

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

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

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

Risks relating to Luxembourg Insolvency Proceedings

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

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

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

The provisions of the Article 445 of the Luxembourg Commercial Code may affect the security interests granted by the Issuer pursuant to any Trust Deed. Indeed, 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 or the Fiduciary, such charge would be declared void and invalid by the courts of Luxembourg.

USE OF PROCEEDS

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

CAPITALISATION

The following table sets out VTB's actual consolidated capitalisation as of June 30, 2003 and VTB's consolidated capitalisation (excluding debt incurred in the normal course of VTB's banking business) as of June 30, 2003, as adjusted to reflect the anticipated borrowing under the Loan Agreement dated December 8, 2003:

	As of June 30, 2003	
	Actual	As adjusted⁽¹⁾
	<i>(millions of U.S. dollars)</i>	
Total short-term debt	409	409
Long-term debt		
Anticipated borrowing under the Loan Agreement.....	–	300
Debentures	66	66
Other borrowings	9	9
Total long-term debt	75	375
Total debt⁽²⁾	484	784
Shareholders' equity		
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	28	28
Total capitalisation	2,699	2,999

(1) Adjusted figures correspond to the capitalisation of VTB as at June 30, 2003, as adjusted to reflect the anticipated borrowing under the Loan Agreement dated December 8, 2003, as if such borrowing had occurred on June 30, 2003.

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

There have been no material changes in VTB's consolidated capitalisation since June 30, 2003, other than a syndicated loan arranged by a number of major international banks in the amount of U.S.\$175 million, which VTB obtained in October 2003 and has fully drawn down and an increase in the amount and the term of an existing syndicated loan in December 2003, which enables VTB to borrow an additional \$193 million after December 5, 2003.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

VTB's selected financial information presented below has been prepared in accordance with IFRS and derived from VTB's audited IFRS Financial Statements as of and for the years ended December 31, 2002 and 2001 and the six-month periods ended June 30, 2003 and 2002.

The selected financial information presented below should be read in conjunction with the IFRS Financial Statements included elsewhere in this document.

	For the year ended December 31,		For the six months ended June 30,	
	2002	2001	2003	2002
<i>(millions of U.S. dollars)</i>				
Selected Income Statement data				
Net interest income (before provision/release of provision for loan impairment)	348	288	138	191
Net fee and commission income	38	31	30	16
Net gains from dealing in foreign currencies	17	15	8	10
Net gains from trading securities	36	116	84	14
(Provision)/release of provision for loan impairment	36	(207)	(75)	39
Profit before taxation	384	496	171	284
Net profit	261	310	119	155

	As of December 31,		As of June 30,	
	2002	2001	2003	2002
<i>(millions of U.S. dollars)</i>				
Selected Balance Sheet data				
Loans and advances to clients	3,016	2,198	3,802	2,637
Trading securities	921	233	848	334
Total assets	7,272	6,128	8,805	6,130
Related party assets	—	675	-	263
Client accounts	2,437	1,783	3,009	2,125
Due to other banks	1,285	597	1,410	760
Debt securities issued by VTB	460	365	1,338	341
Total liabilities	5,078	4,243	6,502	4,069
Related party liabilities	—	1,290	-	731
Guarantees and import letters of credit issued	349	285	1,509	267
Related party guarantees and import letters of credit	—	—	—	3
Total shareholders' equity	2,118	1,835	2,215	1,989

SELECTED FINANCIAL RATIOS AND OTHER INFORMATION

The information below has been derived from VTB's audited IFRS Financial Statements.

	As of and for the year ended December 31,		As of and for the six months ended June 30,	
	2002	2001	2003	2002
Profitability				
Return on average shareholders' equity ⁽¹⁾	13%	19%	11%	16%
Return on average total assets ⁽²⁾	4%	6%	3%	5%
Liquidity				
Net loans/total assets ⁽³⁾	41%	36%	43%	43%
Net loans/client deposits ⁽⁴⁾	124%	123%	126%	124%
Capital adequacy				
Tier one capital ratio (BIS) ⁽⁵⁾	26%	22%	21%	26%
Shareholders' equity/total assets ⁽⁶⁾	29%	30%	25%	32%

- (1) Net income divided by average shareholders' equity. The average shareholders' equity was calculated as a simple average of VTB's shareholders' equity as of January 1 and as of December 31 of the relevant year and as of January 1 and as of June 30 of the relevant six-month period, as applicable. Net income for six-month periods has been annualised for comparison purposes.
- (2) Net income divided by average total assets. The average total assets were calculated as a simple average of VTB's total assets as of January 1 and as of December 31 of the relevant year and as of January 1 and as of June 30 of the relevant six-month period, as applicable. Net income for six-month periods has been annualised for comparison purposes.
- (3) Loans and advances to clients (net of allowance for loan impairment) divided by total assets, calculated as of December 31 of the relevant year and June 30 of the relevant six-month period, as applicable.
- (4) Loans and advances to clients (net of allowance for loan impairment) divided by client accounts, calculated as of December 31 of the relevant year and June 30 of the relevant six-month period, as applicable.
- (5) Tier one capital ratio calculated in accordance with the Bank for International Settlements ("BIS") methodology as presented in "Business – Selected Statistical and Other Information – Capital Adequacy".
- (6) Total shareholders' equity divided by total assets, calculated as of December 31 of the relevant year and June 30 of the relevant six-month period, as applicable.

BUSINESS

Overview

VTB is Russia's second-largest commercial bank, offering a full range of banking services and conducting operations across Russia and Europe. According to recent surveys by *The Banker* and *Expert* magazines, VTB is the second-largest commercial bank in Russia in terms of assets, profits and tier one capital, and the fourth-largest in terms of lending volume and retail deposits (all as calculated under Russian accounting regulations applicable to banks ("RAR")). VTB is Russia's leading bank for foreign trade settlement, with an 11.3% market share measured by volume as of June 30, 2003. *The Banker* has stated that VTB is the second-largest bank in Central and Eastern Europe (including Russia) in terms of tier one capital.

VTB's primary operations include: taking deposits; lending; trading and investing in securities; providing payment and account services; conducting foreign exchange and foreign trade transactions; and providing cash handling and custody services.

In the year ended December 31, 2002, VTB generated operating income of U.S.\$647 million and had a net profit of U.S.\$261 million. Of VTB's operating income in 2002, net interest income after release of allowance for loan impairment accounted for U.S.\$384 million (59% of operating income), gains less losses arising from securities, derivatives and foreign currency activities accounted for U.S.\$228 million (35% of operating income) and net fee and commission income accounted for U.S.\$38 million (6% of operating income). In the six months ended June 30, 2003, VTB generated operating income of U.S.\$334 million and had a net profit of U.S.\$119 million. Of VTB's operating income in the first six months of 2003, VTB's net interest income after provision for loan impairment accounted for U.S.\$63 million (19% of operating income), gains less losses arising from securities, derivatives and foreign currency activities accounted for U.S.\$203 million (61% of operating income) and net fee and commission income accounted for U.S.\$30 million (9% of operating income).

As of December 31, 2002, VTB's total assets were U.S.\$7,272 million and its total shareholders' equity was U.S.\$2,118 million. In 2002, VTB's return on average shareholders' equity was 13% and its return on average assets was 4%. As of June 30, 2003, VTB's total assets were U.S.\$8,805 million and its total shareholders' equity was U.S.\$2,215 million. In the first six months of 2003, VTB's annualised return on average shareholders' equity was 11% and its annualised return on average assets was 3%.

The Ministry of Property Relations of the Russian Federation (the "Ministry of Property Relations") holds 99.9% of VTB's shares and is the controlling shareholder. VTB's other shareholders include OJSC Sberbank ("Sberbank"), LLC Gazexport, CJSC Energomashexport, OJSC Ingosstrakh, the Chamber of Commerce and Industry of the Russian Federation as well as other legal entities and individuals. Of the nine seats on VTB's Supervisory Council, six are held by representatives of various Government ministries and the three other seats are held by a representative of the Central Bank of Russia, a representative of the Russian President and by VTB's President and Chairman of the Management Board.

VTB conducts its banking business in Russia through its network of 42 branches and 72 sub-branches (which offer a limited range of banking services) and through three domestic subsidiary banks. VTB conducts operations outside Russia through four subsidiary banks, located in Austria, Cyprus, Luxembourg and Switzerland, an affiliate bank in Germany and representative offices in Belarus, China, Italy and Ukraine. See "– Banking Network". VTB's legal address is 16 Kuznetsky Most Street, Moscow 103031, Russian Federation and VTB's head office (the "Head Office") is located at 6 Lesnaya Street, Moscow 125047, Russian Federation.

VTB is a member of a number of international financial organizations, including SWIFT, Euroclear and the International Securities Market Association. In addition, VTB is a member of the major organizations that form the infrastructure of the Russian financial markets, including the Association of Russian Banks, the Moscow Interbank Currency Exchange ("MICEX"), the Russian Trading System, the National Currency Association and the Depository and Clearing Company.

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

History

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

VTB's charter was registered with the CBR on October 17, 1990 and has been in force since then with subsequent amendments. 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 in order to perform banking activities, including cash operations and operations with precious metals. In addition, VTB holds licences required for it to trade and hold securities and to engage in other securities-related activities, such as broker and dealer activities, custodial activities, securities management activities and special depositary services. As a Russian commercial bank, VTB is regulated and supervised by the CBR and the Federal Commission on Securities Markets.

VTB's founding shareholders were the CBR, the Ministry of Finance of the Russian Federation and the Ministry of Foreign Economic Relations of the Russian Federation. In October 2002 the CBR transferred its 99.9% shareholding in VTB to the Ministry of Property Relations.

During the Russian financial crisis in 1998 VTB did not suspend operations and continued to execute payments and settlements in accordance with clients' instructions and its own obligations to clients and creditors. VTB settled all of its obligations on outstanding forward contracts and fully repaid all of its other obligations as they became due.

In 2002 VTB underwent a management change due to the Government's decision to develop it as a universal commercial bank, rather than a bank primarily focused on foreign trade activities. A new management team, including VTB's current President, Andrei L. Kostin, arrived from Vnesheconombank as did others from Russian and Western banks. On November 29, 2002 VTB's shareholders elected a new Supervisory Council, reflecting the transfer of the shareholding of the CBR to the Ministry of Property Relations.

Market Position and Competitive Advantages

According to the CBR, as of September 1, 2003, 1,707 banks and non-banking credit organisations were registered in Russia. Most large Russian banks are concentrated in Moscow; large regional banks conduct most of their business in the central city of their region.

According to VTB's calculations, as of June 1, 2003, it had in Russia a 1.7% market share in retail deposits, a 4.5% market share in deposits of legal entities and a 3.9% market share in corporate loans, all as measured by value, with its assets accounting for 4.6% of the assets of the Russian banking sector and its capital accounting for 7.6% of the capital of the Russian banking sector (under RAR).

VTB believes that it enjoys a strong position in the Russian banking market and has a number of competitive advantages over other banks operating in Russia, in particular its independence from Russian financial-industrial groups, international experience and reputation, established relationships with leading Russian companies, strong capital position and experienced management.

- *Independence from Russian Financial-Industrial Groups.* 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 primarily service their groups. VTB's clients value its independence. Since becoming VTB's 99.9% shareholder in October 2002, the Ministry of Property Relations has not asserted control over the day-to-day decision-making or operations of VTB 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 a number of international financial institutions. VTB also has an international reputation as a stable and reliable bank. In the aftermath of Russia's 1998 financial crisis, VTB settled all of its obligations on outstanding forward contracts and fully repaid all of its other obligations as they became due.

- *Established Relationships with Leading Russian Companies.* VTB has a history of cooperation and good continuing 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 multiple clients in the oil and gas industry. See “– Banking Services and Activities – Corporate Banking”.
- *Experienced Management.* VTB’s senior management team has substantial experience in the banking business. VTB’s President and Chief Executive Officer, Andrei L. Kostin, was previously the President of Vnesheconombank, where he oversaw significant commercial banking operations and operations relating to foreign trade. VTB’s other senior managers have previously held senior positions at, among other banks, Vnesheconombank and Sberbank.

Strategy

VTB’s new management team has developed a new strategy for VTB going forward. VTB’s Supervisory Council and its shareholders fully support this new strategy. While VTB’s management is still finalising some details with respect to the implementation of this strategy, a number of strategic objectives are already being implemented, with several programmes being designed and launched.

VTB’s overall strategic goal is to strengthen its position as a pan-European bank 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.

To achieve this strategic goal, VTB is expanding the range and volume of commercial banking services that it provides to clients, enlarging its branch network, developing its investment banking business, diversifying its shareholder base and improving its governance and management systems.

Expansion of Services to Corporate Clients. VTB plans to expand the range and volume of its services to corporate clients through:

- Continuing to enter into strategic partnership agreements with large corporate clients, whereby VTB provides a full range of banking services to such clients. See “– Banking Services and Activities – Legal Entities”.
- Diversifying its portfolio of loans to large corporate clients. VTB will offer its corporate clients loans tailored to their needs and will focus on providing a greater volume of lending services to large corporations operating in industry segments that it views as having significant economic potential but limited funding opportunities, such as metallurgy, information technology, food production, retail and wholesale trade, transportation and communications, while maintaining its market share in lending services to corporate clients in the oil and gas, energy and transport engineering (in particular, aeronautical and automotive) sectors.
- Developing investment financing. VTB believes that the need for investment financing to finance new projects in the Russian economy is significant. The federal Government’s “Energy-Effective Economy” programme envisions U.S.\$15-17 billion annually in investment financing for the Russian energy sector alone for the next seven years and the situation in a number of other economic sectors, both domestic and export-oriented, is similar. VTB’s investment financing is expected to initially take the form of syndicated loans and project financing.
- Creating credit products for small and medium-sized enterprises (“SMEs”). The federal Government has stated, on a number of occasions, that development of SMEs in Russia should be encouraged. VTB plans to focus on working with SMEs in ways that will expand the volume of loans to SMEs while, at the same time, minimise VTB’s credit risk. VTB will initially focus on lending to SMEs engaged in retail and wholesale trade and SMEs that it views as having high economic potential. VTB also plans to actively participate in SME support programmes operated by international financial organisations such as the IFC and the EBRD.

- Maintaining and strengthening VTB's leading position in servicing foreign trade operations. VTB plans to provide Russian corporate clients and foreign corporate clients that have business interests in or export their products to Russia with the most efficient banking support for their foreign trade operations, using, among other things, the resources of VTB's foreign subsidiary banks and financial instruments offered by foreign export credit agencies and export-import banks.
- Offering specialised services to particular clients. VTB plans to position itself as a bank where Russian and foreign corporate clients can obtain services that are tailored to their business needs. For example, VTB intends to introduce international settlement schemes that are tailored to the needs of particular Russian and international corporate clients. Such settlement schemes may include, among other things, several forms of settlement in relation to one contract. VTB also plans to widen the scope of consulting services that it provides to Russian and international corporate clients.
- Developing and improving cross-sale arrangements for banking and related products, such as leasing, insurance and non-governmental pension fund services.

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

- Raising the volume of retail deposits. In order to increase the volume of its retail deposits and attract more retail clients, VTB intends to offer individuals cost-effective long-term retail deposit products, pursue flexible interest rate policies, improve payment systems and broaden the range of transactions offered to individual clients.
- Introducing long-term retail loans. VTB intends to offer individual loans for periods of up to ten years, which may be denominated in roubles or in certain foreign currencies. The loans will include consumer loans, mortgages, loans secured by VTB's debt securities and overdraft loans to debit card holders. VTB plans to offer retail loans through its branches and other distribution channels such as realtors and developers in the case of mortgages and retailers in the case of consumer loans.
- Increasing its presence in the debit card market. VTB plans to widen its selection of issued and serviced debit cards, implement new debit card products, develop microchip-based bank cards and increase the number of its automatic teller machines ("ATMs").
- Attracting clients through marketing campaigns. VTB has begun and will continue local and national marketing campaigns aimed at attracting banking business of medium and high-income individuals in Moscow and regional industrial centres.

Enlarging the Branch Network. VTB plans to open branches in a number of regions of Russia, thus further increasing its regional presence and diversifying its client and funding base. New branches will primarily be located in Moscow, regional industrial centres and rapidly developing cities in the regions, and will serve corporate clients with developed regional operations, regional clients engaged in export activities, SMEs and retail clients. As part of its expansion programme, VTB is actively considering the purchase of regional banks with branch networks, for example in the North West and the Far East of Russia and in Siberia.

Developing Investment Banking. Russian banks currently offer only a small range and volume of investment banking services. Partly due to inquiries by potential clients and given the current shortage of domestic investment banking services in Russia, VTB believes that substantial business opportunities exist in this area and that its reputation for independence will help it gain investment banking clients. VTB recently hired an experienced investment banking team from another bank, and it is developing its investment banking business gradually, starting with underwriting domestic and international securities offerings, providing brokerage services, and entering into strategic equity investments and investment projects where VTB shares the risks of a particular investment with other investors. VTB is also putting in place flexible asset management arrangements, including those targeting conservative long-term investors such as insurance companies and pension funds. On October 23, 2003, VTB signed a cooperation agreement with Taylor-DeJongh, Inc. ("Taylor-DeJongh"), a U.S. investment bank, which provides, among

other things, for VTB and Taylor-DeJongh to jointly offer investment banking projects to companies operating in the oil and gas, energy, metallurgy and other industries.

Diversifying Shareholder Base. VTB believes that diversifying its shareholder base will allow it greater access to funding, increase its existing client business, facilitate establishing relationships with new clients and enhance its competitiveness and transparency. To that effect, VTB plans to bring in two strategic investors, the EBRD and the IFC, in the near future. VTB is currently negotiating with the EBRD and the IFC the manner in which they may acquire interests in VTB. VTB's strategic plan envisions the government further reducing its equity stake within five to seven years.

Improving Governance and Management Systems. VTB is currently improving its governance and internal management systems with the implementation of following policies:

- Reviewing and enhancing the disclosure about its activities and procedures for communication with its shareholders. VTB is putting in place a code of corporate conduct based on current Russian and international standards.
- Implementing mechanisms for comprehensive profitability monitoring and other steps to improve its strategic and current planning and putting in place an automated information processing system that is expected to reduce labour costs. VTB developed these mechanisms in-house on the basis of international best practice, and internationally recognised consulting firms have reviewed them and are overseeing their implementation. The procedures that will be applied are based on techniques such as profit centre allocation, activity-based costing, fund transfer pricing and capital-at-risk.
- Completing implementation of a risk management system that fully complies with practices and standards of leading European banks.
- Strengthening internal control procedures, including monitoring and control of expenses.

Banking Services and Activities

Corporate Banking

Client Segmentation

VTB provides banking services to large privately-owned companies, SMEs and companies partly or wholly owned by state, regional or municipal authorities (together, "companies") as well as to federal, regional and municipal authorities ("public authorities" and, together with companies, "legal entities"). As of July 1, 2003, VTB had approximately 51,000 clients that were legal entities, compared to approximately 46,000 as of December 31, 2002. These clients include natural monopolies such as Russia's national gas company OJSC Gazprom ("Gazprom") and Russia's national electricity company Unified Energy Systems of Russia ("UES") and large enterprises operating in various sectors of the Russian economy, such as oil companies OJSC NK Rosneft and OJSC Lukoil ("Lukoil"), the telecommunications companies OJSC Svyazinvest and AFK Sistema, diamond producer Alrosa Company Ltd. ("Alrosa"), steel manufacturer OJSC Magnitogorsk Iron & Steel Works ("Magnitogorsk Iron & Steel Works"), OJSC Aeroflot – Russian Airlines ("Aeroflot"), the dairy and juice company Wimm-Bill-Dann Foods OJSC ("Wimm-Bill-Dann Foods") and car maker OJSC Avtovaz ("Avtovaz"). VTB's company clients operate in key sectors of the Russian economy, such as oil and gas production, energy, manufacturing, retail and wholesale trade, construction, telecommunications, food production and insurance. VTB also has long-standing relationships with Russian embassies and consulates abroad.

To strengthen its long-term relationships with strategically important large companies and certain public authorities and to secure their business, VTB enters into strategic partnership agreements with such entities. Strategic partnership agreements 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 relevant legal entity and sometimes provide for products or services tailored to the needs of particular legal entities and/or volume discounts. As of September 30, 2003, VTB had 42 strategic partnership agreements.

Services

VTB's services to legal entities include: taking deposits and payment and account services; lending; foreign trade transactions; securities transactions; precious metals operations; and custody services.

Taking Deposits and Payment and Account Services. VTB provides payment and settlement services on behalf of its clients throughout its branches and its correspondent banking network in Russia and abroad. Companies operating nationwide receive services throughout VTB's branch network. VTB also provides payment services to foreign subsidiaries of its clients through its foreign subsidiary banks.

VTB assists legal entities with opening bank accounts and advises them on various banking operations and the use of different banking products in their business. Bank accounts for legal entities include current and term accounts in roubles and in certain foreign currencies, as well as special-purpose accounts such as payment accounts used to settle obligations with Russian counterparties. Legal entities may conduct banking operations and obtain account information through VTB's electronic "Bank – Client" system.

The amounts held in VTB's current accounts of legal entities increased by 20% in 2002 to U.S.\$1,051 million and by 4% in the first six months of 2003 to U.S.\$1,093 million. The amounts held in VTB's term accounts of legal entities increased by 24% in 2002 to U.S.\$842 million and by 39% in the first six months of 2003 to U.S.\$1,172 million. These figures include restricted deposits held as collateral for loans and irrevocable commitments under letters of credit as well as certain restricted deposits of foreign banks. As of June 30, 2003, 37% of VTB's deposits of legal entities were in roubles and 63% in foreign currencies.

Debit cards for legal entities include Visa, Master Card and Diners' Club. In addition to ordinary VTB debit cards, VTB issues and administers branded corporate debit cards. VTB also acts as a distributor for American Express charge cards. In addition, VTB offers legal entities salary payment arrangements whereupon employees' salaries are paid into their VTB debit card accounts. VTB also provides cash handling services to legal entities.

Lending. VTB offers a range of credit products to legal entities. Its main types of credit products are loans and bank guarantees. Terms of loans differ depending on the clients' needs and VTB's capital position. As of June 30, 2003, U.S.\$1,570 million of VTB's U.S.\$3,787 million loans, less allowances, to legal entities were due to be repaid in 2003. Loans are available in roubles and in certain foreign currencies. As of June 30, 2003, 26% of VTB's loans to legal entities (U.S.\$1,002 million) were in roubles and 74% (U.S.\$2,785 million) in foreign currencies. Loans to legal entities always have security or guarantee arrangements. See "– Asset, Liability and Risk Management – Lending Policies and Procedures – Legal Entities".

VTB's traditional client base for loan products has been industries in oil and gas production and processing, gold mining, aircraft and ship building and chemicals and metals production. More recently, VTB has begun to broaden its client base by providing loans to retail chains, food production companies and companies in other growing industry sectors such as telecommunications and the media. In 2002, VTB provided loans to Russian industry leaders such as Lukoil, oil producer OJSC Tyumen Oil Company ("TNK"), aircraft designer and manufacturer AVPK Sukhoi, aluminium producer Russian Aluminium, equipment maker and shipbuilder OJSC United Heavy Machinery ("UHM") and telecommunications provider OJSC MGTS.

VTB also provides loans to public authorities such as Government ministries and regional and municipal administrations. As of December 31, 2002, loans to public authorities were U.S.\$66 million, or 2% of VTB's total loan portfolio, and as of June 30, 2003 were U.S.\$89 million, or 2%.

VTB is continuing to develop its portfolio of medium-term (one to three years) and long-term (over three years) loans to legal entities, which amounted to U.S.\$1,417 million as of June 30, 2003. Loans with maturity of over one year (to legal entities and individuals) amounted to 38% of VTB's total loan portfolio (U.S.\$1,426 million) as of June 30, 2003. VTB also arranges and acts as a lender on syndicated loans made to Russian companies where the syndicate includes foreign and Russian banks. In 2002 VTB acted as an arranger and a lender on syndicated loans provided to such Russian industry leaders as Aeroflot and Alrosa.

VTB also provides loans to SMEs, which generally have higher interest margins than loans to large companies, but may also carry greater credit risks.

VTB is continuing to develop and has begun to offer more complex types of credit products, such as financial leasing, trade and project financing, merger and acquisition financing, and refinancing of investment portfolios of specialised financial entities such as leasing companies and property investment funds. VTB's key partners in its financing projects are foreign financial institutions such as the EBRD.

Foreign Trade Transactions. Given its past as a bank primarily focused on foreign trade activities, VTB continues to provide payment and settlement services for legal entities in connection with import and export operations, to issue import, stand-by and revolving letters of credit and to provide export and import financing and related ancillary services. In the first six months of 2003, these services contributed approximately U.S.\$19 million to VTB's operating income. These revenues have increased as VTB takes on clients from Vnesheconombank. VTB provides export and import settlement services to, and assists with documenting foreign trade operations of, oil companies such as TNK, Lukoil and OJSC Slavneft, state-owned arms exporters such as RSK MiG, FGUP Rosoboronexport and FGUP Tekhsnabzhexport, as well as to SMEs. VTB offers consulting services for legal entities regarding export and import settlements within the framework of Russian currency laws and complex banking and financial operations relating to exports and imports.

VTB also arranges financing from foreign banks for companies to finance imports into Russia. VTB acts as borrower and guarantor in transactions with foreign export agencies and banks that finance trade operations throughout the world. VTB also provides pre-export financing for legal entities. VTB was the first Russian bank to form relationships with foreign export credit agencies after the 1998 Russian banking crisis.

In addition, VTB buys, sells and collects foreign currencies for legal entities and provides legal entities with consulting services relating to foreign currency operations. VTB also engages in transactions in the international currency markets on behalf of its clients and itself.

Transactions in Securities. VTB offers legal entities brokerage, investment advisory, market making, depositary and payment agency services in government, municipal and corporate securities. In addition, legal entities may invest in VTB's proprietary promissory notes and certificates of deposits. VTB also acts as the primary depositary and paying agent for federal currency bonds (known as "MinFin bonds") and performs operations with MinFin bonds in the secondary market on its customers' behalf.

Precious Metals Operations. VTB sells and purchases precious metals (primarily gold) in physical and book-entry forms to and from legal entities. It also engages in export and sale of precious metals on its own behalf and on behalf of banks and companies engaged in precious metals mining. In addition, it provides pre-export financing and hedging products to companies engaged in precious metals mining and processing and purchases precious metals directly from such companies. In the first six months of 2003, VTB purchased 7.2 metric tons of gold directly from producers and exported 0.7 metric tons of gold. VTB's domestic clients are gold producers, the CBR and commercial banks and its international clients are major banks such as JPMorgan Chase and HSBC.

Custody services. VTB is the largest bank custodian in Russia and was one of the first Russian banks licenced by the Federal Commission on Securities Markets to conduct a full range of custodial services. In August 2003, Thomas Murray Ratings Limited awarded VTB an "A-" custody rating, with a stable outlook, for MinFin bonds and a "BBB" rating, with a stable outlook, for all other types of Russian assets. VTB is recognised as an eligible foreign custodian by global custodians and institutional investors. As of October 15, 2003, VTB maintained accounts for 290 depositary institutions, including 21 global custodians.

VTB provides custody services with respect to Russian Federation rouble-denominated bonds, Russian Federation Eurobonds, Russian regional and municipal bonds, Russian corporate equity and debt securities, 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 also provides specialised depositary services for non-governmental pension funds and mutual funds. As of June 30, 2003 VTB had approximately 2,645 legal entities as depositary clients holding securities with an approximate face value of U.S.\$7.6 billion in their VTB custody accounts.

Retail Services

VTB's retail services focus on bank accounts, lending and certain ancillary services. VTB's retail business began through offering services to employees of its corporate clients, and employees of corporate clients currently constitute approximately half of VTB's retail clients.

VTB is committed to expanding its retail business. See "– Strategy". It recently hired an experienced retail services team from another bank and regularly conducts its own market research or employs external research providers to ensure that it is meeting the needs of its retail clients in all major regions of Russia and that its new products will succeed. For example, VTB recently conducted a market study of demand for mortgages.

Bank Account Services. Retail deposit portfolio development is a priority for VTB and it is offering its retail customers an increasing range of deposit accounts. VTB's deposit accounts include current and term accounts and are denominated in roubles, U.S. dollars and euro. Terms of the accounts vary from on demand to two years and may be extended.

Individual accounts and term deposits were U.S.\$544 million, or 22%, of VTB's total deposit portfolio as of December 31, 2002 and U.S.\$744 million, or 25%, as of June 30, 2003. In the first six months of 2003, the amount held in VTB's rouble-denominated individual bank accounts grew by 78% to U.S.\$212 million and in foreign-currency denominated individual bank accounts by 25% to U.S.\$532 million. As of June 30, 2003, 28% of VTB's individual deposits were in roubles and 72% in U.S. dollars and euro.

Individuals may conduct their banking through VTB's branches, sub-branches and ATMs. As of October 1, 2003, VTB had 300 ATMs. VTB is also developing phone-based and Internet banking.

VTB issues Visa, MasterCard and Diners' Club debit cards to individuals. The number of individual debit cards issued by VTB grew by 33%, to 215,018, in the first six months of 2003.

VTB provides a number of ancillary services to individuals. VTB buys, sells and exchanges all major foreign currencies for individuals and cashes foreign payment instruments and travellers checks. Individuals can make direct payments from their bank accounts with VTB and pay for goods and services via the Internet using debit cards issued by VTB. VTB also provides domestic and international money transfer services for individuals via its branch and correspondent banking network and sells travellers checks. Individuals may also rent safe deposit boxes to store valuables.

Lending. The loans that VTB offers to individuals include consumer loans, mortgages and loans guaranteed by VTB's corporate clients. Retail loans to individuals amounted to U.S.\$15.6 million, or 0.37% of VTB's total loans and advances to customers, as of June 30, 2003. Individuals usually obtain consumer loans to purchase household goods, such as automobiles and electronics, or to finance travel, medical care, education or renovations. Consumer loans and mortgages always have security or guarantee arrangements. See "– Asset, Liability and Risk Management – Lending Policies and Procedures – Individuals".

The Russian market and legal framework for mortgages is underdeveloped. VTB is seeking to help increase the use of mortgages. In October 2003, VTB opened its first centre for mortgage and consumer lending in Moscow. The centre will also serve as a base for development and launch of new retail mortgage lending products. In addition, VTB is developing relationships with developers and realtors in order to use them as distribution channels for its mortgage loans. As of November 1, 2003, the initial long-term value of VTB's mortgage portfolio (not including mortgage loans granted outside Moscow), expressed as the sum of the principal loan amounts divided by the sum of appraised values of the mortgaged properties, was 64.5% and the current long-term value, expressed as the sum of outstanding loan amounts divided by the sum of appraised values of the mortgaged properties, was 46.6%.

See "– Strategy – Expansion of Services to Retail Clients" for a description of VTB's strategy for increasing the volume of its consumer lending.

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

Proprietary Activities

VTB engages in activities in securities for its own account. In the past, these activities primarily involved government securities, but the share of Russian corporate and other securities in VTB's securities portfolio has been increasing. VTB is one of the major traders on MICEX and in the over-the-counter markets for Russian government securities and is the leading market-maker with respect to MinFin bonds and Russian Federation eurobonds. It also participates in rouble-denominated government securities auctions conducted by the CBR and in repo transactions with the largest Russian banks and with foreign banks. In addition, VTB engages in some transactions in derivatives, such as currency swaps.

VTB conducts trading and investment activities in the following government securities: MinFin bonds, federal loan bonds ("OFZ") and Russian Federation eurobonds. As of December 31, 2002, government securities accounted for 75% of VTB's U.S.\$1,882 million securities portfolio (trading securities and investment securities available for sale), with foreign-currency denominated securities (MinFin bonds and Russian Federation eurobonds) accounting for 72% and rouble-denominated OFZs accounting for 3%. As of June 30, 2003, partly due to VTB continuing to diversify its securities portfolio, government securities accounted for 57% of VTB's U.S.\$2,021 million securities portfolio (trading securities and investment securities available for sale), with foreign-currency denominated securities (MinFin bonds and Russian Federation eurobonds) accounting for 52% and rouble-denominated OFZs accounting for 5%.

VTB also conducts trading and investment activities in Russian corporate eurobonds, foreign government securities and bills of exchange and debentures. As of December 31, 2002, Russian corporate eurobonds accounted for 7%, bills of exchange and debentures for 6% and various foreign government securities for 2% of its securities portfolio (trading securities and investment securities available for sale). As of June 30, 2003, bills of exchange and debentures accounted for 24%, Russian corporate eurobonds 5%, and various foreign government securities for 3% of its securities portfolio (trading securities and investment securities available for sale). VTB also holds some corporate equity securities for investment purposes, which, as of December 31, 2002, accounted for 4% and, as of June 30, 2003, for 3%, of its securities portfolio.

VTB arranges and underwrites domestic and international securities offerings. In 2002, VTB acted as an underwriter in domestic securities offerings of, among others, such leading Russian companies as AFK Sistema, Russian Aluminium and OJSC Seventh Continent and was one of the underwriters in a eurobond offering of AFK Sistema. In the first six months of 2003, VTB acted as an underwriter in domestic securities offerings of, among others, steel producers Mechel and Magnitogorsk Iron & Steel Works, telecommunications provider Vimpelcom OJSC and Wimm-Bill-Dann Foods. According to *Chonds*, a Russian bond market information agency, in the third quarter of 2003, VTB was the third-largest underwriter of Russian corporate bonds.

Banking Network

Overview

As of September 30, 2003, VTB had 42 branches and 72 sub-branches, located in Moscow and all major Russian regions. VTB has three Russian subsidiary banks: RJSB Novosibirskvneshtorgbank ("NVTB") in Novosibirsk, RJSB Ulyanovskvneshtorgbank in Ulyanovsk and JSB Zabaikalsky in Chita. Branches, sub-branches and subsidiary banks serve corporate and individual clients located in their regions and participate in certain programs that are administered through a number of VTB branches, such as financing of enterprises engaged in precious metals mining.

VTB believes that having branches in close proximity to its clients is instrumental in improving the quality of client services. VTB is continuing to develop its branch network throughout Russia. In the first nine months of 2003, it opened 6 sub-branches in Moscow and 12 sub-branches in the regions, all of which serve individuals and legal entities.

In addition, VTB has four foreign subsidiary banks, Donau-Bank AG in Vienna, Austria ("Donau-Bank"), Russian Commercial Bank in Limassol, Cyprus ("RCB-Cyprus"), East-West United Bank in Luxembourg ("East-West Bank") and Russian Commercial Bank in Zurich, Switzerland ("RKB-Zurich"), an affiliate bank (31.9% - owned by VTB), Ost-West Handelsbank ("OWH"), in Frankfurt, Germany, and representative offices in Beijing, Kiev, Milan and Minsk.

Development

VTB's development strategy for its branches includes increasing cooperation between branches and large regional clients, attracting additional business from large regional clients and increasing diversification of branches' client base. VTB plans to open additional branches in Moscow and the regions and may purchase regional banks with regional branch networks. See " – Strategy – Enlarging the Branch Network". Depending on the relative costs, VTB may purchase, construct or lease its branch or sub-branch buildings. VTB generally seeks to recover the costs of opening a new branch or a sub-branch within its first three years of operation.

On September 26, 2003, VTB's Supervisory Council approved the Concept of Restructuring of Foreign Banking Subsidiaries for 2003-2005, which supports VTB's overall strategy of becoming a pan-European bank with a comprehensive and competitive range of banking products. Pursuant to this plan, VTB is to optimise its foreign subsidiary structure from the legal, regulatory and tax perspective of the VTB group as a whole, ensure that group operations are aligned and are effectively controlled and managed so as to generate an appropriate return on capital and take advantage of VTB group synergies. VTB is currently in the process of developing a restructuring plan for its foreign subsidiaries.

In the future, VTB may acquire ownership interests in three foreign banks currently controlled by the CBR – OWH, in which it already holds a stake, Moscow Narodny Bank in London and BCEN-Eurobank in Paris – as Russian legislation mandates the end of CBR's ownership of commercial banks located abroad.

To support and diversify the services that it provides to clients, VTB is building a network of Russian subsidiaries that operate in various segments of the Russian financial and banking markets, including finance, bank card processing and trade facilitation.

Principal Subsidiaries and Affiliates

VTB's principal subsidiaries are NVTB in Novosibirsk, Donau-Bank in Vienna, East-West Bank in Luxembourg, RCB-Cyprus in Limassol and RKB-Zurich in Zurich.

NVTB. VTB acquired its stake in NVTB in 1992 in order to expand its operations into Western Siberia. VTB currently holds a 98% stake in NVTB. NVTB is headquartered in Novosibirsk, one of Russia's largest cities.

NVTB's banking activities include retail and commercial banking, including, but not limited to, bank accounts, lending, debit cards, and securities and foreign currency proprietary trading activities. Retail banking activities account for 93% and commercial banking activities 7% of NVTB's business. NVTB has its main office and six sub-branches in Novosibirsk and currently has no expansion plans. Its main competitive advantages are its reputation for reliability and its focus on customers' needs, which has resulted in a significant volume of retail loans. NVTB has a number of consumer financing agreements with retailers and automobile dealers.

Donau-Bank. Donau-Bank was established by the former State Bank of the USSR and Vneshtorgbank of the USSR in 1974 and is located in Vienna, Austria. VTB currently has an 85% ownership stake in Donau-Bank, which it purchased from the CBR in increments during the 1990s, and the CBR owns 15%. VTB anticipates purchasing the CBR's stake in Donau-Bank in the near future.

In past years, Donau-Bank has made a significant contribution to VTB's operating income and net profit. In the first six months of 2003 Donau-Bank's net operating income was U.S.\$65 million and its net profit was U.S.\$51 million. Its total assets as of June 30, 2003 were U.S.\$755 million.

Donau-Bank lends, either bilaterally or as part of syndicates including major international banks, to large Russian companies, including Gazprom, Lukoil, TNK and Alrosa. In 2002, 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 a year), but the share of medium-term (one to three years) financing in Donau-Bank's loan portfolio is increasing. Donau-Bank also provides pre-export and post-export financing (financing that is repayable once the export transaction is completed), letters of credit and guarantees to Russian exporters and Western importers.

Donau-Bank conducts trading and investment activities for its own account and on behalf of its clients in the Russian and European securities, money, and foreign exchange markets. It also engages in repo transactions with Russian securities.

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

VTB is planning 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 operates as an offshore Cyprus bank and is located in Limassol, Cyprus. Ownership of RCB-Cyprus was transferred to VTB from Vnesheconombank of the USSR following the break-up of the Soviet Union, and RCB-Cyprus is currently wholly-owned by VTB. 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 takes deposits from Russian companies and then lends the amount of such deposit back to the client.

Given the nature of RCB-Cyprus' business, it holds significant assets while generating a relatively small fee-based operating income. Its total assets were U.S.\$1,140 million as of June 30, 2003. In the first six months of 2003 RCB-Cyprus generated operating income of U.S.\$2 million and reported a net profit of U.S.\$0.6 million.

East-West Bank. East-West Bank was established in 1974 and is located in Luxembourg. VTB currently owns 53% of East-West Bank, AFK Sistema owns 30%, the CBR owns 15% and Eurobank owns 2%. AFK Sistema has an option to purchase East-West Bank shares from VTB that, if fully exercised, would reduce VTB's current ownership to 32%.

In the first six months of 2003 East-West Bank's net profit was U.S.\$2 million and its total assets were U.S.\$136 million as of June 30, 2003.

East-West Bank's services include transaction processing and financing services with respect to commercial operations between Benelux countries and Russia, syndicated loans to Russian clients, credit confirmations and guarantees, fiduciary operations, private banking and asset management services to wealthy Russian individuals and transactions with Russian government and corporate securities.

RKB-Zurich. RKB-Zurich was incorporated in 1992 and is located in Zurich, Switzerland. It is authorized to perform a full range of banking operations, except deposit taking. It is wholly-owned by VTB.

In the first six months of 2003 RKB-Zurich's net profit was U.S.\$4 million and its total assets were U.S.\$238 million as of June 30, 2003.

RKB-Zurich's primary activities include trade and project financing, allowance of letters of credits and guarantees, payment and settlement services, arranging syndicated loans, trust and fiduciary services and consulting services, primarily for Russian clients, and foreign exchange transactions, transactions with precious metals and transactions in securities for its own and clients' behalf.

OWH. VTB also has an associate bank, OWH. OWH was established in 1971 and is located in Frankfurt, Germany. VTB currently holds a 31.9% stake in OWH with the CBR holding a 52% stake. OWH's main banking activities include clearing and settlements for international trade transactions, lending and proprietary securities trading. It has a wide correspondent bank network throughout Europe, including Russia and the Commonwealth of Independent States. VTB may, in the future, acquire the CBR's stake in OWH. 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.

VTB Monitoring

VTB's representatives serve on boards of directors or supervisory boards of all of its subsidiaries. VTB's Foreign Subsidiary Banks Department performs annual internal audits of foreign subsidiary banks, reviews, on a quarterly basis, the financial information of subsidiary banks and prepares reports for VTB's Management Board.

VTB's Regional Branches and Domestic Subsidiaries Department monitors the domestic subsidiaries. Each of VTB's domestic subsidiaries provides VTB with information on its financial position and performance on a quarterly basis. Domestic subsidiaries' operations are also included in VTB's internal audit.

Asset, Liability and Risk Management

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 asset, liability and risk management functions are divided among VTB's Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee ("CC"), Risk Analysis Division ("RAD"), Treasury and Back Office.

The ALCO establishes major balance sheet parameters for use in asset and liability management and, with the assistance of the RAD and VTB's middle office monitors compliance with them. The ALCO sets minimum interest rates on loans, as described in more detail below, and determines the overall allocation of VTB's funds. The ALCO also manages currency, interest rate, securities portfolio and liquidity risks and exposures. The RAD, divided into the Credit Risks Unit, the Financial Risks Unit and the Summary Analytical Unit, identifies and evaluates the risks that VTB faces. It proposes risk limits on various banking operations and prepares recommendations regarding asset and liability management, and interest and currency risk management for the ALCO. The RAD reports to the ALCO, the CC and the Management Board. The CC fixes limits on VTB's credit operations and approves individual credit transactions. As described in more detail below, the Management Board must approve certain decisions of the CC and the ALCO.

VTB's asset, liability and risk management procedures have recently undergone an external evaluation by international management consultants and were found adequate in light of the nature of VTB's operations and international best practices. As a result of its asset, liability and risk management improvement project, VTB has introduced contingency plans for both financial and non-financial crises and improved and standardised its risk management methodologies. VTB is currently working on improving its credit procedures.

Risk Management

Within VTB, the ALCO, the CC, the RAD and the Treasury carry out risk management functions in respect of credit risk, market risks (interest rate, currency and securities portfolio risks) and liquidity risk. 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 analysis and, where appropriate, other quantitative techniques. Risk limits are established for credit, market and liquidity risks and the level of VTB's risk exposure is then maintained within these limits. Risk assessment is also the basis for optimal risk-adjusted capital allocation, transactional pricing and performance assessment.

VTB manages its operational and legal risks through internal monitoring and compliance policies as well as through obtaining outside insurance. VTB's Compliance Department and Legal Department monitor compliance with, and ensure the proper functioning of, internal policies and procedures designed to minimize legal and operational risks.

VTB's subsidiaries have their own asset, liability and risk management procedures. Foreign subsidiary banks' procedures comply with applicable laws and regulations. However, VTB is informed of, and monitors, all significant risk exposures of its subsidiaries. The RAD carries out credit risk exposure control on a consolidated basis and such control has a high priority within VTB's risk management framework. Subsidiaries regularly report their credit exposures and the RAD takes this information into account in

determining VTB's aggregate credit exposures to single borrowers and borrowers in particular industry sectors and countries. The RAD also monitors subsidiaries' exposures to market risks. The RAD evaluates the internal risk management and control systems of the subsidiaries on an annual basis, thus ensuring a uniform approach to risk management throughout VTB.

Credit Risk

VTB manages its credit risk by establishing limits in relation to single borrowers and groups of borrowers, which are recommended by the RAD and approved by the CC, and by complying with exposure limits established by the CBR. VTB also mitigates its credit risk by obtaining collateral, using other security arrangements, and taking corporate and personal guarantees. See "– Lending Policies and Procedures".

Exposure limits to single borrowers that are legal entities are approved on a case-by-case basis by the CC. VTB's Back Office monitors compliance with these limits. Exposure limits to large corporate borrowers may include some or all of their subsidiaries. Exposure limits to such borrowers are set at the head office level and extend to branches that make loans to the relevant borrower or its subsidiaries. In 2002, VTB violated CBR exposure limits to a single borrower with respect to loans that it extended to Gazprom. No regulatory action was taken against VTB by the CBR with respect to this violation, which was cured, and VTB is currently in compliance with the CBR single borrower exposure limits.

The RAD regularly conducts analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and recommends changing exposure limits to single borrowers, where appropriate. This analysis is conducted semi-annually for large borrowers and for all borrowers when the terms of the relevant loan change.

The RAD determines and the CC approves total credit risk limits with respect to particular industry sectors, regions within Russia and countries. The RAD monitors compliance with credit risk exposure limits, reviews such limits every three months and recommends limit modifications to the CC. VTB's Compliance Department monitors the activities of the RAD and VTB's Loan Administration Department.

Credit risk limits are set for each industry sector, region within Russia and country in which VTB's borrowers operate or where their cash flows originate, as applicable (there is no country limit for Russia). Country limits are based on ratings of international rating agencies. Russian regional limits are set using a scoring system, which includes the relevant region's industrial volume, investment volume, ratio of overdue loans to outstanding loans and dependence on federal assistance. Industry sector limits are set using an internal scoring system, which uses a set of factors including the industry's growth rate, volume of the direct investment into the relevant industry, strategic role in the Russian economy and development forecast prepared by the RAD as well as VTB's experience with enterprises in that industry. Each of the factors is assigned a score. The industry's combined score determines whether it is placed in Group A (low risk), Group B (medium risk) or Group C (high risk). For each risk group the RAD calculates risk limits, expressed as a percentage of VTB's capital. If VTB has strategic relationships with clients in a particular industry, the CC may approve higher risk limits for that industry.

The following table sets out industry sector credit risk limits currently in place.

Industry	Credit Risk Limit (millions of U.S. dollars)
Group A	
Natural gas production and sale	700
Petroleum extraction and refining	700
Nuclear energy.....	570
Telecommunications.....	570
Group B	
Motor vehicle manufacturing	350
Agriculture	300
Goldmining	250
Mechanical engineering	250
Precious stones mining.....	250
Metal works	200
Timber, pulp and paper production	200
Building materials (other than timber) and glass production.....	190
Chemical and petrochemical	190
Construction.....	190
Electric power.....	190
Insurance and financial services	190
Large retail and wholesale trading companies.....	190
Metallurgy – ferrous metals.....	190
Metallurgy – non-ferrous metals.....	190
Power engineering.....	190
Railway transportation.....	190
Transportation (other than railway).....	190
Other (including provision of utilities and other services).....	190
Group C	
Retail and wholesale trade	200
Coal mining.....	48
Jewellery production.....	48
Light industry	48
Pharmacies	48
Printing trade	48
Total credit risk limit	7,060

Credit risk 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. The RAD analyses banks and other financial institutions on the basis of, among other information, 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 limit for credit operations with particular banks are set on the basis of the financial position, size and status of the relevant bank and the volume of its transactions with VTB. Credit risk limits are reviewed semi-annually for Russian banks and annually for foreign banks. Transactions that may result in violation of a credit risk limit are reviewed by the CC.

The Management Board assigns limits on credit operations to VTB's branches, within which they can make their own credit decisions. Branches have credit committees that make decisions on loans to legal entities and individuals within the limits set for the particular branch. The CC and the Management Board approve credit operations that surpass branch limits. Credit limits for branches are reviewed semi-annually by the CC, on the basis of analyses by the RAD, the Loan Administration Department and Regional Business

Development Department. The RAD monitors branch limits and recommends necessary changes. The counterparty exposure limits set by a branch's credit committee cannot exceed overall limits set by the Management Board for such branch.

Credit risks of off-balance sheet financial instruments such as derivatives are 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. VTB's Documentary Operations and Currency Control Department ("DOCCD") regularly monitors VTB's off-balance sheet commitments. The CC sets limits for off-balance sheet exposures and counterparty limits for banks and other financial institutions, which include deposit limits, foreign exchange limits (which include derivatives) and documentary transactions limits. The head of the DOCCD and VTB's Deputy Chairman responsible for off-balance sheet transactions reviews off-balance sheet transactions within the limits and the CC reviews the transactions that exceed the limits.

VTB is also implementing a system that evaluates its overall credit risk and regularly reviews expected and unexpected credit risk using both internal ranking and the value-at-risk and the capital-at-risk methodologies. 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 case of the borrower's default or in case of 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. VTB has established a working group that is refining and incorporating this system into VTB's risk management practices.

Market Risks

The ALCO sets VTB's policies for market risks (currency, interest rate and securities portfolio risks).

Currency Risk. VTB takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The RAD conducts value-at-risk 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 conversion operations. The Treasury 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 open foreign currency position limits for both overnight and intra-day positions and stop-loss limits. Compliance with these limits and the relevant CBR limits is monitored on a daily basis by VTB's middle offices.

The tables below present, on a consolidated basis, VTB's exposure to foreign currency exchange rate risk as of December 31, 2002 and June 30, 2003. Included in the table are VTB'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 VTB's exposure to currency movements, and their fair values.

As of December 31, 2002, VTB had the following positions in currencies:

	As of December 31, 2002				
	U.S dollars	RUR	Euro	Other currencies	Total
	<i>(millions of U.S. dollars)</i>				
Assets					
Cash and short-term funds	275	166	136	66	643
Mandatory cash balances with local central banks	—	203	8	—	211
Trading securities	679	147	82	13	921
Due from other banks	830	205	180	31	1,246
Loans and advances to customers	2,299	662	55	—	3,016
Investment securities available for sale	901	29	31	—	961
Accrued interest income and other assets	72	41	19	12	144
Premises and equipment	—	117	11	2	130
Total assets	5,056	1,570	522	124	7,272
Liabilities					
Due to other banks	955	178	86	66	1,285
Customer accounts	1,432	761	228	16	2,437
Other borrowed funds	694	—	—	—	694
Debt securities in issue	172	193	95	—	460
Accrued interest expense and other liabilities	73	63	23	16	175
Deferred tax liability	—	18	9	—	27
Total liabilities	3,326	1,213	441	98	5,078
Net balance sheet position	1,730	357	81	26	2,194
Credit related commitments	1,309	15	88	351	1,763
Off-balance sheet net notional position	(282)	4	247	38	7

As of June 30, 2003, VTB had the following positions in currencies:

	As of June 30, 2003				
	U.S dollars	RUR	Euro	Other currencies	Total
	<i>(millions of U.S. dollars)</i>				
Assets					
Cash and short-term funds	324	155	68	72	619
Mandatory cash balances with					
local central banks	—	312	5	—	317
Trading securities	534	286	16	12	848
Due from other banks	1,023	289	219	29	1,560
Loans and advances to					
customers	2,679	1,009	104	10	3,802
Investment securities available					
for sale	970	76	124	3	1,173
Investment securities held to					
maturity	—	—	—	5	5
Accrued interest income and					
other assets	59	128	31	15	233
Premises and equipment	2	228	16	2	248
Total assets	5,591	2,483	583	148	8,805
Liabilities					
Due to other banks	1,016	138	174	82	1,410
Customer accounts	1,680	1,042	275	12	3,009
Other borrowed funds	382	—	—	8	390
Debt securities in issue	624	609	105	—	1,338
Accrued interest expense and					
other liabilities	99	175	31	18	323
Deferred tax liability	—	14	18	—	32
Total liabilities	3,801	1,978	603	120	6,502
Net balance sheet position	1,790	505	(20)	28	2,303
Credit related commitments	3,207	134	143	330	3,814
Off-balance sheet net notional position	(527)	130	363	45	11

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, which sets forth the new interest rate.

In accordance with Russian market practice, the majority of VTB's assets and liabilities have fixed interest rates. VTB manages its interest rate risk by maintaining an interest rate margin (the spread between the interest rates on its assets and liabilities) sufficient to cover operational expenses and risk premium. As of October 1, 2003, this margin was 4.2% and the average margin for the first ten months of 2003 was 3.8%. The RAD regularly reviews and reports back to 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 assets and liabilities structure.

The table below summarizes the effective interest rates by major currencies for major monetary financial instruments as of December 31, 2002 and 2001 and as of June 30, 2003 and 2002. The analysis has been prepared using period-end effective contractual rates.

	As of December 31, 2002				As of December 31, 2001			
	USD	RUR	Euro	Other currencies	USD	RUR	Euro	Other currencies
Assets⁽¹⁾								
Cash and cash equivalents	1%	0%	1%	1%	1%	0%	1%	0%
Debt trading securities	10%	13%	7%	5%	3%	15%	4%	–
Due from other banks	4%	9%	4%	2%	4%	14%	4%	3%
Loans and advances to customers	9%	21%	10%	–	10%	21%	7%	7%
Debt investment securities available for sale...	9%	–	–	–	8%	–	–	–
Liabilities								
Due to other banks	1%	9%	3%	2%	4%	20%	4%	1%
Customer accounts	6%	6%	2%	2%	4%	7%	6%	1%
Other borrowed funds	3%	–	–	–	4%	–	–	–
Debt securities in issue	7%	9%	7%	–	6%	6%	–	–

(1) Dashes indicate where VTB does not have the respective assets or liabilities in the corresponding currency.

	As of June 30, 2003				As of June 30, 2002			
	USD	RUR	Euro	Other currencies	USD	RUR	Euro	Other currencies
Assets⁽¹⁾								
Cash and cash equivalents	1%	0%	1%	1%	1%	0%	1%	1%
Debt trading securities	5%	13%	9%	4%	5%	15%	10%	1%
Due from other banks	3%	2%	3%	1%	3%	14%	4%	3%
Loans and advances to customers	10%	18%	9%	5%	11%	16%	9%	7%
Debt investment securities available for sale...	9%	–	9%	8%	7%	–	–	–
Liabilities								
Due to other banks	2%	2%	3%	0%	3%	14%	4%	1%
Customer accounts	4%	6%	2%	3%	3%	6%	3%	2%
Other borrowed funds	4%	–	–	3%	6%	6%	–	–
Debt securities in issue	7%	13%	7%	2%	3%	–	–	–

(1) Dashes indicate where VTB does not have the respective assets or liabilities in the corresponding currency.

For the year ended December 31, 2002, VTB's interest income was U.S.\$530 million and its interest expense was U.S.\$182 million, resulting in net interest income of U.S.\$348 million. For the six months ended June 30, 2003, VTB's interest income was U.S.\$294 million and its interest expense was U.S.\$156 million, resulting in net interest income of U.S.\$138 million, in each case prior to impairment of interest earning assets.

Securities portfolio risk. Securities portfolio risk is the risk of changes in the value of securities as a result of interest rate or price movements. VTB's main source of securities portfolio risk is its Russian government debt securities portfolio. However, VTB has in place portfolio limits on various types of securities and securities transactions and single issuer limits, which allow it to maintain its securities portfolio risk at an acceptable level. The limits are established on the basis of regularly performed value-at-risk evaluation and market analysis. VTB also limits the authority of particular traders to enter into securities transactions. VTB's middle office monitors compliance with these limits and informs the Loan of Administration Department of violations. The ALCO receives monthly reports on securities portfolio risk structure from the RAD. For a view of VTB's securities portfolio structure see "– Selected Statistical and Other Information – Securities Portfolio".

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 the Russian Federation – Regulation of the Russian Banking Sector – The CBR and Its Role – 6. Liquidity and Reserve Requirements”.

The ALCO sets VTB’s minimum necessary 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, or, if necessary, more frequent, basis. VTB’s Treasury manages VTB’s short-term liquidity needs within limits approved by 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 having a highly liquid trading securities portfolio. Medium-term liquidity needs are managed through repo transactions and obtaining funds in the syndicated loan market and the interbank market. VTB also obtains liquidity by issuing debt securities in the Russian domestic market. These debt securities are primarily short-term.

The following table shows VTB's liquidity position as of December 31, 2002.

As of December 31, 2002						
	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-terms funds	487	–	–	–	156	643
Mandatory cash balances with local central banks	125	51	16	1	18	211
Trading securities ⁽¹⁾	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 ⁽²⁾	851	–	–	–	110	961
Accrued interest income and other assets	107	29	7	1	–	144
Premises and equipment	–	–	–	–	130	130
Total assets	3,741	1,193	776	1,089	473	7,272
Liabilities						
Due to other banks	1,127	95	33	30	–	1,285
Customer accounts ⁽³⁾	1,357	568	233	123	156	2,437
Other borrowed funds	70	290	215	119	–	694
Debt securities in issue	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 as of December 31, 2002	853	901	1,124	1,887	2,194	–

- (1) VTB 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.
- (2) Investment securities available for sale are valued at market value and are available to meet VTB's short-term liquidity needs.
- (3) VTB believes that although a substantial portion of customer deposits are on demand and less than one month, diversification of these deposits by number and type of depositors and VTB's past experience indicate that these deposits provide a long-term and stable source of funding for VTB.

The following table shows VTB's liquidity position as of June 30, 2003.

As of June 30, 2003						
	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	515	—	—	—	104	619
Mandatory cash balances						
with local central banks	191	82	26	5	13	317
Trading securities ⁽¹⁾	848	—	—	—	—	848
Due from other banks	1,283	180	21	72	4	1,560
Loans and advances to						
customers	503	1,070	795	1,426	8	3,802
Investment securities						
available for sale ⁽²⁾	1,062	—	—	—	111	1,173
Investment securities						
held to maturity	—	—	—	5	—	5
Accrued interest income						
and other assets	147	58	8	—	20	233
Premises and equipment	—	—	—	—	248	248
Total assets	4,549	1,390	850	1,508	508	8,805
Liabilities						
Due to other banks	1,031	292	35	52	—	1,410
Customer accounts ⁽³⁾	1,646	850	285	180	48	3,009
Other borrowed funds	115	156	110	9	—	390
Debt securities in issue	325	308	332	373	—	1,338
Accrued interest expense						
and other liabilities	219	68	12	14	10	323
Deferred tax liability	—	—	32	—	—	32
Total liabilities	3,336	1,674	806	628	58	6,502
Net liquidity gap	1,213	(284)	44	880	450	2,303
Cumulative liquidity gap as of June 30, 2003	1,213	929	973	1,853	2,303	—

- (1) VTB 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.
- (2) Investment securities available for sale are valued at market value and are available to meet VTB's short-term liquidity needs
- (3) VTB believes that although a substantial portion of customer deposits are on demand and less than one month, diversification of these deposits by number and type of depositors and VTB's past experience indicate that these deposits provide a long-term and stable source of funding for VTB.

The following table sets out certain ratios as of December 31, 2002 and June 30, 2003.

	As of December 31, 2002	As of June 30, 2003
Loans to clients ⁽¹⁾ as % of total assets	41%	43%
Loans to clients ⁽¹⁾ as % of client accounts	124%	126%
Loans to clients ⁽¹⁾ as % of total equity	142%	172%

(1) Net of allowance for loan impairment.

Funding

Historically, VTB has relied on the CBR for a large portion of its funding. However, the CBR has gradually been withdrawing funding from VTB. CBR funding has declined from U.S.\$1,286 million as of December 31, 2001 to U.S.\$380 million as of December 31, 2002, and U.S.\$110 million as of June 30, 2003. The withdrawal of CBR funding has not had a negative impact on VTB's balance sheet due to an increase in VTB's client base, including a number of commercial clients of Vnesheconombank transferring their business to VTB due to Vnesheconombank's cessation of commercial activities, and an increase in the volume of VTB's banking operations. Currently, the major sources of VTB's funding are deposits from clients and other banks, funds obtained in the international syndicated loan market and debt securities issued in the domestic market.

The volume of client accounts and term deposits grew by 37% in 2002 to U.S.\$2,437 million and by 23% in the first six months of 2003 to U.S.\$3,009 million. Short-term deposits constitute a majority of VTB's client deposits. Long-term deposits, however, grew by 356% in 2002 to U.S.\$123 million and by 46% in the first six months of 2003 to U.S.\$180 million. Deposits from legal entities grew by 21% in 2002 to U.S.\$1,893 million and by 20% in the first six months of 2003 to U.S.\$2,265 million. These figures include restricted deposits held as collateral for loans and irrevocable commitments under letters of credit as well as certain restricted deposits of foreign banks. Retail deposits grew by 143% in 2002 to U.S.\$544 million, and by 37% in the first six months of 2003 to U.S.\$744 million. This growth in retail deposits was partly due to VTB's strategy of offering attractive deposit terms.

Client deposits accounted for 48% (U.S.\$2,437 million) of VTB's liabilities as of December 31, 2002 and 46% (U.S.\$3,009 million) as of June 30, 2003. The following table sets out the composition of VTB's deposit portfolio as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002	As of December 31, 2001	As of June 30, 2003	As of June 30, 2002
	<i>(millions of U.S. dollars)</i>			
State and public organisations				
Current/settlement accounts	249	246	196	241
Term deposits	7	6	18	7
Other legal entities				
Current/settlement accounts	802	632	897	799
Term deposits	835	675	1,154	718
Individuals				
Current/settlement accounts	103	73	131	88
Term deposits	441	151	613	272
Total customer accounts.....	2,437	1,783	3,009	2,125

Debt securities issued by VTB on the domestic markets, including promissory notes, debentures and certificates of deposit, also serve as a source of funding. The value of VTB's issued securities grew by 26% in 2002 to U.S.\$460 million, representing 9% of its liabilities as of December 31, 2002 and by 191% in the first six months of 2003 to U.S.\$1,338 million, representing 21% of VTB's liabilities as of June 30, 2003. In 2004, VTB intends to issue five-year rouble-denominated bonds in the amount of RUR5 billion (U.S.\$168

million at the exchange rate of RUR29.79 per U.S.\$1.00). The following table sets out VTB's securities issued as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002	As of December 31, 2001	As of June 30, 2003	As of June 30, 2002
	<i>(millions of U.S. dollars)</i>			
Promissory notes	432	327	1,209	309
Debentures and deposit certificates	28	38	129	32
Total debt securities in issue	460	365	1,338	341

VTB also obtains funding in the international syndicated loan market. As of December 31, 2002, VTB had U.S.\$225 million in outstanding syndicated loan borrowings and U.S.\$233 million as of June 30, 2003. In October 2003 VTB obtained an additional syndicated loan arranged by a number of major international banks in the amount of U.S.\$175 million. VTB also has a number of credit lines and other financing arrangements with international banks and can refinance a number of pre-export, post-export and other trade-related loans through special-purpose financing arrangements such as bankers' acceptances and bilateral credit facilities.

Lending Policies and Procedures

Legal Entities

A prospective borrower makes a loan application through a customer manager in one of VTB's departments responsible for loan origination from particular industry groups. The loan application must include information on the prospective borrower's business, the purpose of financing and the proposed collateral. The customer manager and VTB's Legal and Security Departments conduct the initial investigation of the prospective borrower and the RAD conducts a follow-up study. The RAD analyses the likely effect of the loan on the prospective borrower's financial position and on VTB's loan portfolio concentration and credit risk level. For companies, the RAD also evaluates the shareholding structure, financial position, industry and market position, credit history and proposed collateral. For public authorities, the RAD evaluates the status of the budget, compliance with federal budgetary norms, cash flow, existing indebtedness, history of debt service, credit history and level of dependence on the highest taxpayers. On the basis of its evaluation, the RAD recommends whether the loan should be granted.

The CC has the authority to approve loans within limits set by the Management Board, which apply to all borrowers that are legal entities. The current limits for CC approval include loans of U.S.\$10 million or less with a term not exceeding eighteen months and loans of U.S.\$1 million or less with a term not exceeding five years. A three-quarters majority is required to approve a loan. At the Head Office level, the SME Credit Committee approves loans to SMEs. The terms of loans currently granted to SMEs may not exceed one year and the amounts of such loans may not exceed U.S.\$500,000 per SME. VTB's Vice Presidents also have authority to grant loans to legal entities within set parameters and the CC and the Management Board may delegate loan approval to certain loan officers within established limits or with respect to particular lending programmes.

In order to determine the appropriate interest rate, VTB allocates corporate borrowers into five categories (standard, prime, prime with minimal credit risk, medium business and small business) in accordance with a set of criteria. The ALCO establishes minimal interest rates, 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 structuring and originating the loan. However, with the assistance of outside consultants, VTB has developed an internal rating system, which it expects to implement in 2004, which will allow it to assign risk premiums to each credit transaction based on a credit score on a particular borrower. The credit score will be calculated on the basis of the prospective borrower's financial and market position, credit history, relationship with customers and suppliers and other factors.

VTB monitors the borrower's financial condition throughout the life of the loan. The RAD monitors the financial positions of the borrowers with outstanding loans of U.S.\$3 million or more on a quarterly basis. If appropriate, such as when the financial situation of the borrower appears to be deteriorating, it recommends measures to reduce exposure to a borrower, such as prohibiting further draws on a credit line (where the terms of the relevant credit line so permit) or creating additional allowances. VTB's originating departments and branches monitor the financial conditions of the borrowers with outstanding loans of under U.S.\$3 million.

Lending procedures in VTB's branches are tailored to the local customer base. Branches make their own credit decisions within limits set by the Head Office. Loans outside branch limits must be approved by the CC. VTB's subsidiary banks have their own credit procedures, which VTB monitors.

VTB requires collateral, other security arrangement and/or third party guarantees for all loans to legal entities. Acceptable collateral includes real property, land leasing rights, production equipment, vehicles, airplanes, ships, securities, precious metals, raw materials and inventory. The value of the collateral is first determined on the basis of an independent third-party appraisal conducted by an independent third-party appraiser selected from a list of independent appraisers prepared by the RAD and approved by the Management Board, and is then confirmed by the RAD, which may conduct its own evaluation of collateral based on the data collected by the customer manager and the independent appraiser. VTB monitors the value of the collateral throughout the life of the relevant loan. VTB accepts third-party guarantees as long as they fall within VTB's credit risk limits for the guarantor. A guarantor is evaluated in the same manner as the relevant borrower. Other acceptable security arrangements include a client agreeing that a certain volume of its cash receivables will flow through its VTB accounts over which VTB has an express right of set-off. As of October 15, 2003, the majority of VTB's loans to legal entities were assured by such arrangements.

Individuals

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. VTB's Security Department verifies the information provided in the loan application.

Lending decisions are made, at the Head Office level, by the Retail Credit Committee, and, at the branch level, by the relevant branch's credit committee. VTB's Vice President in charge of retail services may approve retail loans in the amounts of up to U.S.\$25,000. In making the lending decision the relevant credit committee takes into account the individual's income, existing indebtedness, the ratio of individual's income to his or her obligations (including rent, utility and other payments) and the individual's payment history with respect to various obligations, such as mobile phone and cable television payments. 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 the minimum interest rate may be increased based on the purpose and the currency of the loan.

VTB requires collateral and/or third party guarantees for all loans to individuals. Acceptable collateral includes real estate, personal property, securities, precious metals, automobiles and other liquid assets. The value of the collateral is first determined on the basis of conducted by an independent third-party appraiser selected from a list of independent appraisers prepared by the RAD and approved by the Management Board, and is then confirmed by the RAD, which may conduct its own evaluation of collateral based on the data collected by VTB's collateral manager and the independent appraiser. VTB monitors the value of the collateral throughout the life of the relevant loan. VTB accepts third-party guarantees for retail loans from individuals and legal entities. Guarantees are accepted within the credit limits set by VTB for the relevant guarantor.

Selected Statistical and Other Information

The following selected statistical and other financial information is derived, where appropriate, from VTB's audited consolidated IFRS Financial Statements for the years ended December 31, 2002 and 2001 and the six months ended June 30, 2003 and 2002.

Loan Portfolio

VTB lends primarily to companies, government bodies, banks, other legal entities and individuals in Russia.

Composition. The following table sets out VTB's loan portfolio (excluding loans to banks) as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002	As of December 31, 2001	As of June 30, 2003	As of June 30, 2002
	<i>(millions of U.S. dollars)</i>			
Current loans and advances	3,097	2,344	3,954	2,743
Rescheduled loans and advances	100	118	102	110
Overdue loans and advances	181	131	183	150
Less: Allowance for loan impairment	(362)	(395)	(437)	(366)
Total loans and advances to customers.....	3,016	2,198	3,802	2,637

The following table sets out VTB's loans to banks as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002	As of December 31, 2001	As of June 30, 2003	As of June 30, 2002
	<i>(millions of U.S. dollars)</i>			
Current term placements with other banks.....	1,165	581	1,402	918
Reverse sale and repurchase agreements with other banks.....	35	—	163	—
Overdue placements with other banks	165	166	113	160
Less: Allowance for loan impairment	(119)	(173)	(118)	(163)
Total due from other banks.....	1,246	574	1,560	915

Client Concentration. As of December 31, 2002, VTB had 9 borrowers (excluding loans to banks) and as of June 30, 2003, 16 borrowers (excluding loans to banks) with aggregated loan amounts above U.S.\$50 million. As of December 31, 2002, the total amount of these loans was U.S.\$1,607 million or 48% of the total loan portfolio (excluding loans to banks) and as of June 30, 2003 was U.S.\$1,694 million or 40%. As for VTB's single largest borrower, as of December 31, 2002, VTB had loan exposure totalling U.S.\$734 million, or 22% of the total loan portfolio, to Gazprom and its subsidiaries. This loan exposure (which does not include guarantee exposure) was reduced to U.S.\$227 million, or 5% of the total loan portfolio, as of June 30, 2003.

The following table sets out economic sector risk concentrations within the loan portfolio (excluding loans to banks), as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002		As of December 31, 2001		As of June 30, 2003		As of June 30, 2002	
	<i>Amount (millions of U.S. dollars)</i>	<i>%</i>	<i>Amount (millions of U.S. dollars)</i>	<i>%</i>	<i>Amount (millions of U.S. dollars)</i>	<i>%</i>	<i>Amount (millions of U.S. dollars)</i>	<i>%</i>
Manufacturing	972	29	460	18	1,317	31	728	24
Energy	1,201	35	1,305	50	655	15	1,303	43
Finance	139	4	9	—	563	13	—	—
Trade and commerce	357	11	194	8	307	7	286	10
Mining	—	—	—	—	251	6	—	—
Chemical	161	5	120	5	206	5	162	5
Food and agriculture	—	—	—	—	175	4	—	—
Telecommunications and media	130	4	63	2	153	4	138	5
Transport	69	2	63	2	152	4	61	2
Construction	85	2	130	5	132	3	83	3
Fishing	101	3	100	4	106	3	100	3
Government bodies	66	2	3	—	89	2	53	2
Other	97	3	146	6	133	3	89	3
Total loans and advances to customers...	3,378	100%	2,593	100%	4,239	100%	3,003	100%

Maturity. The following table sets out VTB's net loan portfolio (excluding loans to banks) by maturity as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002	As of December 31, 2001	As of June 30, 2003	As of June 30, 2002
	<i>(millions of U.S. dollars)</i>			
On demand and less than one month	353	294	503	151
One to six months	969	605	1,070	707
Six to 12 months	636	421	795	589
More than one year	1,047	878	1,426	1,190
Overdue/no stated maturity	11	—	8	—
Total⁽¹⁾	3,016	2,198	3,802	2,637

(1) Net of allowances for loan impairment.

Short-term loans predominate VTB's loan portfolio, as is customary in the Russian domestic lending market. VTB expects that as the Russian economy becomes more stable, the "more than one year" category will experience significant growth.

Currency. The following table sets out VTB's net loan portfolio (excluding loans to banks) by currency as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002		As of December 31, 2001		As of June 30, 2003		As of June 30, 2002	
	(millions of U.S. dollars)	%	(millions of U.S. dollars)	%	(millions of U.S. dollars)	%	(millions of U.S. dollars)	%
RUR ⁽¹⁾	662	22	559	25	1,009	27	522	20
U.S. dollars ⁽¹⁾	2,299	76	1,629	74	2,679	70	2,090	79
Other currencies ⁽¹⁾	55	2	10	1	114	3	25	1
Total loans and advances to customers, net⁽¹⁾	3,016	100%	2,198	100%	3,802	100%	2,637	100%

(1) Net of allowances for loan impairment.

Loan Classification and Allowances

A loan impairment estimation exercise follows certain steps and procedures as described below.

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 VTB.
2. Determination of whether an individually significant loan shows objective evidence of impairment or not. Special emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. If VTB 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 reorganization 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 shows 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, *i.e.* those loans which shows signs of impairment and on which VTB 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).

All remaining loans that have been identified as individually significant or non-performing are assessed on a portfolio basis if, and only if, there are signs that impairment is present in those portfolios. For the purpose of such a review, the portfolio of loans is grouped in pools, based on similar credit risk characteristics. Such pools are further assessed for impairment as if they were a single asset.

The following table sets out the details of changes in the allowances for loans to customers for the years ended December 31, 2002 and 2001 and for the six months ended June 30, 2003 and 2002.

	As of December 31, 2002	As of December 31, 2001	As of June 30, 2003	As of June 30, 2002
Allowance for loan impairment as at January 1	395	214	362	395
Charge of allowance for loan impairment during the year	18	181	76	(29)
Loans and advances to customers written off during the year as uncollectable	(51)	—	(1)	—
Allowance for loan impairment as at period end	362	395	437	366

The following table sets out the details of changes in the allowances for loans to banks for the years ended December 31, 2002 and 2001 and for the six months ended June 30, 2003 and 2002.

	As of December 31, 2002	As of December 31, 2001	As of June 30, 2003	As of June 30, 2002
Allowance for loan impairment as at January 1	173	176	119	173
(Release)/charge of allowance for loan impairment during the year	(54)	26	(1)	(10)
Due from other banks written off during the year as uncollectable.....	—	(29)	—	—
Allowance for loan impairment as at period end	119	173	118	163

Deposit portfolio

Client concentration. The table below sets out concentrations within VTB's client accounts by economic sector as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002		As of December 31, 2001		As of June 30, 2003		As of June 30, 2002	
	<i>Amount (millions of U.S. dollars)</i>	<i>%</i>	<i>Amount (millions of U.S. dollars)</i>	<i>%</i>	<i>Amount (millions of U.S. dollars)</i>	<i>%</i>	<i>Amount (millions of U.S. dollars)</i>	<i>%</i>
Individuals.....	544	22	224	12	744	25	360	17
Manufacturing	255	10	95	5	630	21	176	8
Finance	166	7	32	2	437	15	95	4
Trade	398	16	154	9	381	13	350	16
Government bodies	256	11	252	14	214	7	248	12
Energy	474	19	788	44	188	6	597	29
Transport	67	3	—	—	116	4	—	—
Construction	19	1	—	—	49	2	—	—
Foreign entities and representative offices..	66	3	30	2	45	1	57	3
Telecommunications and media	68	3	31	2	17	—	19	1
Other	124	5	177	10	188	6	223	10
Total customer accounts.....	2,437	100%	1,783	100%	3,009	100%	2,125	100%

Maturity. The following table sets out VTB's deposit portfolio by maturity as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002	As of December 31, 2001	As of June 30, 2003	As of June 30, 2002
	<i>(millions of U.S. dollars)</i>			
On demand and less than one month ⁽¹⁾	1,357	1,031	1,646	1,361
One to six months	568	420	850	214
Six to 12 months.....	233	166	285	158
More than one year	123	27	180	240
Overdue/no stated maturity.....	156	139	48	152
Total	2,437	1,783	3,009	2,125

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

Securities Portfolio

Trading Securities Portfolio. The following table sets out VTB's trading securities portfolio as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002	As of December 31, 2001	As of June 30, 2003	As of June 30, 2002
	<i>(millions of U.S. dollars)</i>			
USD denominated securities				
MinFin bonds.....	506	29	411	95
Russian corporate eurobonds.....	105	20	104	62
Bills of exchange	53	—	—	—
Other	15	8	19	6
RUR denominated securities				
Bills of exchange and debentures	68	59	148	37
Federal loan bonds (OFZ).....	54	39	101	37
Other	25	9	36	26
Securities denominated in other currencies				
Securities issued by foreign governments	43	40	14	49
Russian corporate eurobonds.....	19	—	2	—
Other	33	29	13	22
Total trading securities	921	233	848	334

Available for Sale Portfolio. The following table sets out VTB's investment securities available for sale portfolio as of December 31, 2002 and 2001 and June 30, 2003 and 2002.

	As of December 31, 2002	As of December 31, 2001	As of June 30, 2003	As of June 30, 2002
	<i>(millions of U.S. dollars)</i>			
Debt securities				
Eurobonds of the Russian Federation.....	756	1,517	437	835
MinFin bonds.....	93	431	197	394
Bills of exchange of Russian companies and banks.....	—	—	171	—
Bonds of Russian companies and banks.....	—	—	172	—
State bonds of foreign countries.....	—	—	53	—
Other	2	—	32	—
Equity securities				
Corporate shares.....	68	16	70	16
Other	42	23	41	25
Total investment securities available for sale.....	961	1,987	1,173	1,270

Guarantees

In the first six months of 2003, guarantees issued by VTB grew by 495%, from U.S.\$226 million as of December 31, 2002, to U.S.\$1,344 million as of June 30, 2003. As of June 30, 2003, guarantees issued to two Russian companies accounted for 42% (U.S.\$566 million) and 37% (U.S.\$500 million), respectively, of all guarantees issued by VTB.

Derivatives

The following table sets out derivative contracts outstanding as of December 31, 2002.

	As of December 31, 2002					
	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
	<i>(millions of U.S. dollars)</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 following table sets out derivative contracts outstanding as of June 30, 2003.

As of June 30, 2003						
	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
<i>(millions of U.S. dollars)</i>						
Spot						
Sale of foreign currency	27	—	—	1	—	—
Purchase of foreign currency	16	—	—	7	—	—
Sale of precious metals.....	—	—	—	2	—	—
Purchase of precious metals	1	—	—	8	—	—
Sale of securities.....	11	—	—	—	—	—
Purchase of securities	38	—	3	—	—	—
Deliverable forwards						
Sale of securities.....	60	—	4	7	—	—
Purchase of securities	62	—	—	54	—	—
Swap						
Sale of precious metals.....	—	—	—	9	—	—
Purchase of precious metals	—	—	—	1	—	—
Sale of foreign currency	137	—	—	64	(1)	1
Purchase of foreign currency	21	—	—	438	(4)	8
Total	373	—	7	591	(5)	9

Dividends

The following table sets forth VTB's dividends for the years ended December 31, 2002 and 2001.

	Year ended December 31,	
	2002	2001
Paid cash dividends (millions of U.S. dollars)	53	20
Dividend payout ratio ⁽¹⁾	20%	6%

(1) Calculated as the amount of dividends which have been declared and paid in the next year divided by the amount of net profit for the relevant year.

Capital Adequacy

The following table sets forth VTB's capitalisation as of June 30, 2003 in accordance with the Basle Accord, a paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988 and prepared by the Basle Committee on Banking Regulation and Supervision, as amended through 1996.

	As of June 30, 2003
	<i>(millions of U.S. dollars)</i>
Tier one capital	
Share Capital.....	2,153
Share Premium	34
Retained earnings.....	28
Total tier one capital	2,215
Tier two capital	
Goodwill.....	(20)
Total qualifying capital.....	2,195
Risk Weighted Asset	
Credit risk.....	8,726
Interest Rate Risk.....	1,099
Currency Risk.....	655
Total Risk Weighted Assets.....	10,480
Risk Adjusted Capital Ratio ⁽¹⁾	21%

(1) Tier one capital plus tier two capital divided by total risk weighted assets.

IT Infrastructure

VTB views information technology as key to its daily operations and is committed to modernising its existing information technology infrastructure and continuing to invest in information technology in order to support its operations in the future. VTB currently has an integrated communications network in Moscow and its branches have separate internal networks.

VTB is currently working on developing an integrated information system designed to improve all of VTB's business areas. VTB's Head Office telecommunications systems have been modernised. VTB is currently establishing common communication systems with all of its branches and has developed programs that, once implemented, will allow branches on-line access to the Head Office's information systems. VTB has in place fall-back servers and back-up systems, which it is currently upgrading. VTB expects to spend U.S.\$80 million for improvements to its information technology within the next five years.

Employees

As of June 30, 2003, VTB had 6,557 employees, 2,553 of which were based in Moscow, 3,877 elsewhere in Russia and 127 outside Russia.

The Russian market for qualified financial institutions personnel, especially for junior and middle management, is highly competitive. VTB's personnel management policy is aimed at developing skilled, highly productive staff that is successful in conducting its business. VTB has developed a comprehensive training program, 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 SMEs. VTB believes that its current compensation package is, for the most part, comparable to that offered by other major Russian banks.

VTB believes that creating a corporate culture is important for its business development. To that effect, it organizes regular seminars during which senior managers share their experience with VTB's employees, as well as working groups aimed at development of separate business segments, seminars and roundtable discussions for middle managers.

Staff costs accounted for 44% of VTB's operating expenses in 2002 and in the first six months of 2003.

VTB has a trade union to which a number of its employees currently belong. VTB has never experienced any strikes, work stoppages, labour disputes or actions that have affected the operation of its business and it considers its relationship with its employees to be good.

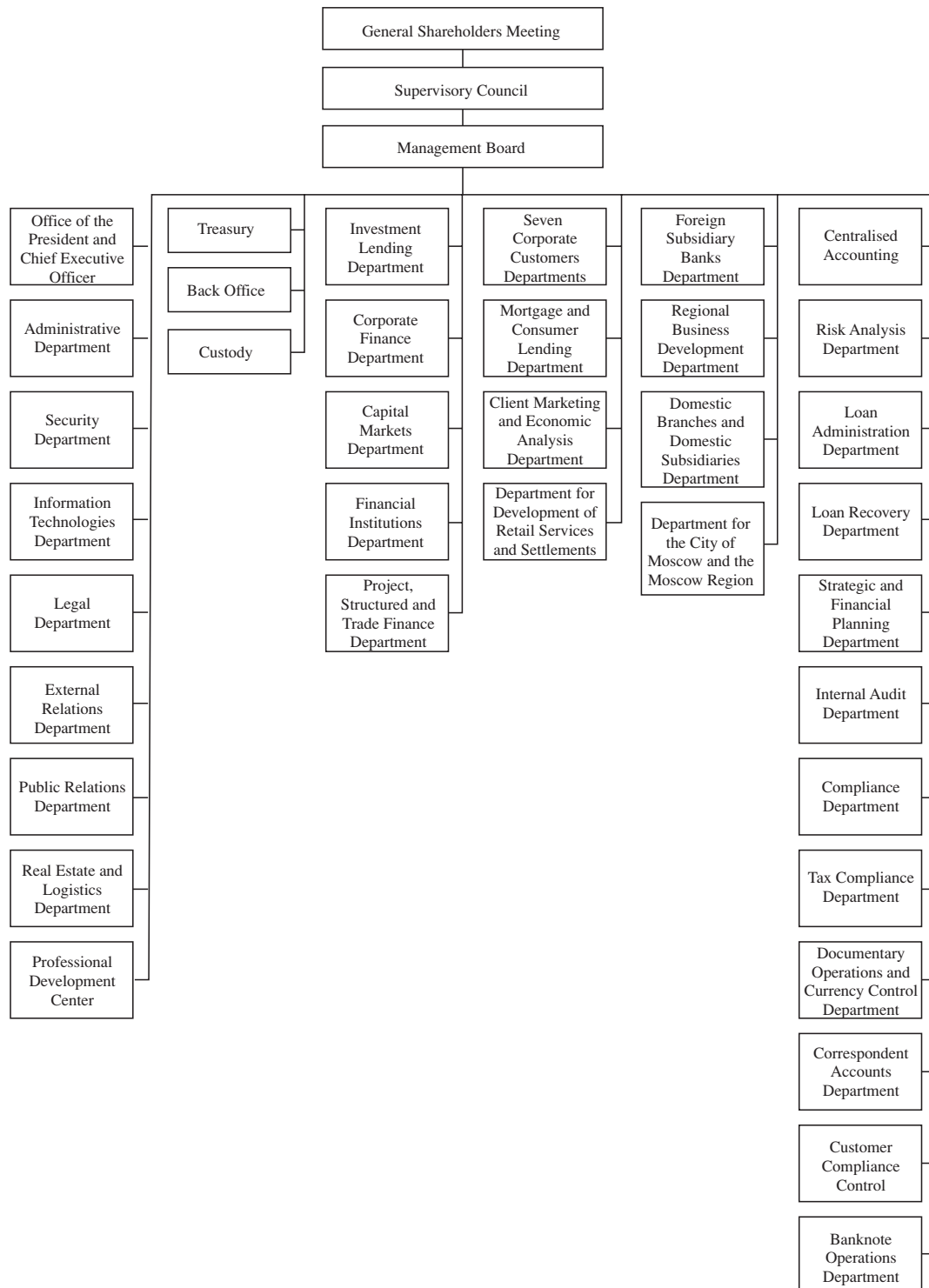
Litigation

VTB is, from time to time, the subject of legal proceedings and other investigations in the ordinary course of its business. It is not currently engaged in any litigation that it deems material and has not been engaged in any such litigation in the 12 months before the date of this Offering Circular.

MANAGEMENT

Organisational Structure

The following chart sets forth VTB's management bodies and departments.



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 President (Chairman of the Management Board).

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. 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 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 a special meeting of shareholders on November 29, 2002 and confirmed by the annual meeting of shareholders on June 23, 2003. The name, age, qualifications and certain other information for each member of the Supervisory Council of VTB are set out below:

Alexei L. Kudrin (42) has been the Chairman of the Supervisory Council since July 2, 2002. Mr. Kudrin is the Deputy Chairman of the Government and the Minister of Finance of the Russian Federation. From July 1, 1998 through January 19, 1999 and from June 7, 1999 through May 17, 2000 he served as First Deputy Minister of Finance of the Russian Federation. From January 22 through June 4, 1999 he was the First Deputy Chairman of the Management Board of Unified Energy Systems. Mr. Kudrin graduated from Leningrad State University and has a Ph.D. in Economics.

Alexander A. Braverman (49) has served as a Member of the Supervisory Council since November 29, 2002. Since November 2000 Mr. Braverman has been the First Deputy Minister of Property Relations of the Russian Federation. From July 1999 through November 2000 he was the President of the Russian Marketing Association and from 1997 through July 1999 he was the First Deputy Chairman of the State Property Committee of the Russian Federation. Mr. Braverman graduated from the Kharkov Engineering-Economical Institute and has a Ph.D in Economics.

Anton V. Danilov-Danilyan (37) has served as a Member of the Supervisory Council since May 17, 2002. Since April 1997 Mr. Danilov-Danilyan has headed the Economics Department in the Administration of

the President of the Russian Federation. Mr. Danilov-Danilyan graduated from the Economics Department of the Moscow State University in 1988.

Anton V. Drozdov (39) has served as a Member of the Supervisory Council since May 17, 2002. Since July 2003, Mr. Drozdov has been the Deputy Head of Administration of the Government of the Russian Federation. From July 1999 until July 2003, he headed the Financial Department in the Administration of the Government of the Russian Federation. Mr. Drozdov graduated from the Finance Academy of the Government of the Russian Federation in 1986 with specialisation in Economics.

Arkady V. Dvorkovich (31) has served as a Member of the Supervisory Council since November 29, 2002. Mr. Dvorkovich is the Deputy Minister of Economic Development and Trade of the Russian Federation. From July 7, 1998 through July 10, 2000 he was the General Director of the Economic Expert group at the Ministry of Finance and from July 11 through July 28, 2000 he was the senior scientist at the Economic Expert group. From July 31, 2000 through March 26, 2001 he was an Advisor to the Minister at the Ministry of Economic Development and Trade of the Russian Federation. Mr. Dvorkovich graduated from the faculty of Economics of the Moscow State University in 1994 with specialisation in economic cybernetics and received Master's degrees in Economics from the Russian School of Economics in 1994 and from Duke University in 1997.

Sergei I. Kolotukhin (45) has served as a Member of the Supervisory Council since May 17, 2002. Since February 2000 Mr. Kolotukhin has been the Deputy Minister of Finance of the Russian Federation. From March 1997 through January 2000 he was the Deputy Chairman of the Executive Board of VTB. Mr. Kolotukhin graduated from the Financial Academy of the Government of the Russian Federation in 1983 with specialisation in International Economic Relations.

Andrei L. Kostin (47) has served as a Member of the Supervisory Council since November 29, 2002. Mr. Kostin has been the President of VTB and the Chairman of the Management Board since June 10, 2002. From October 1996 through June 2002 Mr. Kostin was the Chairman of Vnesheconombank. 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 Honourable Charters of the Government of the Russian Federation.

Alexei V. Ulyukaev (47) has served as a Member of the Supervisory Council since November 29, 2002. Since June 20, 2003 Mr. Ulyukaev has been the First Deputy Minister of Finance of the Russian Federation. From July 1, 1998 through May 31, 2000 he was the Deputy Director of the Institute for Economic Problems of the Transitional Period. Mr. Ulyukaev graduated from the Economics Department of the Moscow State University. He has two Doctorates in Economics.

Oleg V. Vyugin (51) has served as a Member of the Supervisory Council since November 29, 2002. Since April 16, 2002 Mr. Vyugin has been the First Deputy Chairman of the CBR. From October 10, 1992 through April 16, 2002 he was a Vice President and Chief Economist at Troika Dialog investment company. From May 31 through October 15, 1992 he was the First Deputy Minister and from July 1, 1998 through May 31, 1999 he was the Deputy Minister of Finance of the Russian Federation. Mr. Vyugin graduated from the Mathematics Department of the Moscow State University in 1974 and has a Ph.D. in Physical and Mathematical Sciences from the Moscow State University.

Management Board

The Management Board is VTB's collective executive body and is elected by the Supervisory Council. Members of the Management Board may be re-elected an unlimited number of times. The Management Board meets as necessary, but not less than once a month, and makes its decisions by simple majority, provided that the quorum of half of the elected members of the Management Board is present. Members of the Management Board are responsible for VTB's day-to-day management and administration. The Chairman of the Management Board represents VTB and acts as its Chief Executive Officer.

The name, age, qualifications and certain other information for each member of the Management Board is set out below.

Andrei L. Kostin (47) See "—Supervisory Council".

Vadim O. Levin (40) has been the First Deputy Chairman and member of the Management Board since August 2002. From July 1997 through July 2002 he was the Deputy Chairman of Vnesheconombank. Mr. Levin graduated from the Leningrad Financial Economic Institute in 1985 and received a Ph.D in Economics in 1988.

Vladimir A. Dmitriev (50) has been a Deputy Chairman and member of the Management Board since July 2002. From July 1997 through July 2002 he was the First Deputy Chairman of Vnesheconombank. Mr. Dmitriev graduated from the Moscow Institute of Finance in 1975 with specialisation in International Economic Relations.

Gennadiy V. Soldatenkov (51) has been a Deputy Chairman and member of the Management Board since January 2001. From April 1996 through January 2001 he was the Deputy Chairman of the Board of Sberbank and the Chairman of Moscow Regional Head Office of Sberbank. Mr. Soldatenkov graduated with honours from the Moscow Financial Institute in 1979 with specialisation in Finance and Credit.

Igor N. Zavyalov (43) has been the Deputy Chairman and member of the Management Board since July 2002. From April 1999 through July 2002 Mr. Zavyalov was the Deputy Chairman of Vnesheconombank. 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.

Alexei I. Akinshin (44) has been a member of the Management Board since May 2003. Since July 2002 he has served as a Senior Vice President of VTB. From 1996 until his appointment as a Senior Vice President of VTB, he was the Head of the Resources Department, Head of Currency and Financial Operations Department, Director of the Directory for Currency-Financial Operations and a Member of the Supervisory Council of Vnesheconombank. Mr. Akinshin graduated with honours from the Moscow Institute of Finance with specialisation in International Economic Relations.

Erkin R. Norov (49) has been a member of the Management Board since July 2002. Since July 2002 he has served as a Senior Vice President of VTB. From July 1999 through June 2002 he was the Director for Development and Strategic Planning of Vnesheconombank. From March 1999 through July 1999 Mr. Norov was the Head of the Department for Calculation of Tax Basis and Tax Income Planning of the Ministry of the Russian Federation for Taxes and Levies and from 1992 through March 1999 he was the Vice-President and the Head of Moscow Representation Office of Avtovaz. Mr. Norov graduated from the Moscow State University in 1976 with specialisation in Economic Cybernetics.

Management – Certain Transactions

As of July 30, 2003, VTB had outstanding loans to members of the Management Board in the amount of U.S.\$198,339. As of July 30, 2003, VTB had no outstanding loans to members of the Supervisory Council.

In 2002, the total remuneration of the members of VTB's senior management, including pension contributions and discretionary compensation amounts, amounted to U.S.\$10 million and in the first six months of 2003, U.S.\$11 million.

Share Ownership

The aggregate beneficial interest of VTB's directors, senior management and employees as of June 30, 2003 was 0.00019% of VTB's total share capital.

SHAREHOLDING

VTB's Share Capital and Shareholders

As of June 30, 2003, 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 Ministry of Property Relations which holds 99.9% of VTB's issued and outstanding shares. VTB's other shareholders include, among others, Sberbank, LLC Gazexport, CJSC Energomashexport, OJSC Ingosstrakh and the Chamber of Commerce and Industry of the Russian Federation.

Rights of VTB's Shareholders

VTB's shareholders have the right to vote at all general meetings of shareholders. As required by the Federal Law on Joint Stock Companies and VTB's charter, all of its ordinary shares have the same nominal value and grant identical rights to their holders. Each fully paid ordinary share gives its holder the right to:

- freely transfer the shares without the consent of other shareholders;
- receive dividends;
- participate in shareholders meetings and vote on all matters of shareholders competence;
- transfer voting rights to its representative on the basis of a power of attorney;
- elect and dismiss members of the board of directors and the internal audit commission;
- if holding, alone or with other holders, 2% or more of the voting stock, within 30 days after the end of VTB's fiscal year, make proposals for the annual shareholders meeting and propose candidates to the Supervisory Council directors 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 fulfills 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.

RELATED PARTY TRANSACTIONS

VTB 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 2002 and 2001 with related parties (excluding the major shareholder (the CBR or, after October 2002, the Ministry of Property Relations)).

	2002	2001
	<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).

	2002	2001
	<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.....	20	–

The following table sets forth interest income and expense as well as other transactions for the six months ended June 30, 2003 and 2002 with the major shareholder (the CBR or, after October 2002, the Ministry of Property Relations).

	For the six months ended June 30,	
	2003	2002
	<i>(millions of U.S. dollars)</i>	
Interest income	—	1
Interest expense	—	(10)
Balances arising from derivative financial instruments.....	—	61
Dividends declared	(53)	(20)

VTB did not have any balances outstanding with related parties as at June 30, 2003.

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 are in the process of being published in the Mémorial, Recueil des Sociétés et Associations in December 2003. It is registered with the Register of Commerce and Companies, Luxembourg under number B-97,053. Its registered office is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

VTB Capital S.A.'s subscribed share capital amounts to euro 31,000 divided into 310 registered shares with a par value of euro 100 each. All of the shares are fully paid up. Three hundred and nine shares are owned by Stichting VTB Capital and one share by Stichting Participatie DITC Amsterdam.

VTB Capital S.A. has a Board of Directors, currently consisting of three directors. The directors at present are:

1. Rolf Caspers, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg;
2. Peter Dickinson, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg; and
3. Vincent de Rycke, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

Deutsche Bank Luxembourg S.A. is the domiciliation agent of VTB Capital S.A. Its duties include the provision of certain administrative and related services. Its appointment may be terminated and it may retire upon two months prior notice subject to the appointment of an alternative domiciliation agent.

The corporate object of VTB Capital S.A., as described in Article 3 of its Articles of Incorporation, is:

- the issue of notes and other debt securities under a programme for the issuance of loan participation notes for the purpose of financing loans to JSC Vneshtorgbank;
- the making of fiduciary deposits with a fiduciary institution for the purpose of such fiduciary institution making loans to JSC Vneshtorgbank;
- the granting of loans to JSC Vneshtorgbank;
- the granting of security interests over its assets to a trustee in relation to the issuance of the loan participation notes; and
- the making of deposits at banks or with other depositaries.

VTB Capital S.A. may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general VTB Capital S.A. may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Elpers & Co Réviseurs d'entreprises S.à.r.l., having its registered office at 11, Boulevard du Prince Henri, L-1724 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 at the date of this Offering Circular:

	€
Shareholders' Funds:	
Share capital (issued 310 Ordinary Shares of €100 each)	31,000
Total Capitalisation	31,000

Other than as detailed above, VTB Capital S.A. does not have any loan capital, borrowings or contingent liabilities.

Financial Statements

Since its date of incorporation, no financial statements of VTB Capital S.A. have been prepared. VTB Capital S.A. intends to publish its first financial statements in respect of the period ending on June 30, 2004. Any future published financial statements prepared by VTB Capital S.A. (which will be in respect of the period ending on June 30 in each year) will be available from the Paying Agent in Luxembourg. VTB Capital S.A. will not produce interim financial statements.

FACILITY AGREEMENT

The following is the text of the Facility Agreement entered into between VTB and the Fiduciary. In the context of each Loan, the Facility Agreement should be read in conjunction with, and is qualified in its entirety by, the relevant Loan Supplement for such Loan.

This Facility Agreement is made on 8 December 2003 **between:**

- (1) **JSC VNESHTORGBANK**, a company established under the laws of the Russian Federation whose registered office is at 16 Kuznetsky Most Street, Moscow 103031, Russian Federation (“**VTB**”); and
- (2) **DEUTSCHE BANK LUXEMBOURG S.A.**, a bank established under the laws of Luxembourg whose registered office is at 2 Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under number B-9164 (the “**Lender**”).

Whereas, the Lender has at the request of VTB agreed to make available to VTB a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of this Agreement, as amended and supplemented in relation to each Loan by a Loan Supplement dated the Closing Date substantially in the form set out in the Schedule hereto (each, a “**Loan Supplement**”);

Whereas, it is intended that, concurrently with the extension of any Loan under this loan facility, the Lender will (i) accept a fiduciary deposit from VTB Capital S.A. (the “**Issuer**”) in the same nominal amount and bearing the same rate of interest as such Loan and (ii) the Issuer will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such fiduciary deposit; and

Whereas, it has been agreed in the Principal Trust Deed (as defined below) that if following any future assignment by the Lender of its rights and obligations under any Loan Agreement, the Trustee or any person receiving payments under the direction of the Trustee in accordance with Clause 2.8 of the Principal Trust Deed is no longer a resident of a state with which the Russian Federation has a double taxation treaty providing for a zero withholding tax rate on income in the form of interest, then the Issuer shall use its best endeavours (using its powers under the Principal Trust Deed) to select a new trustee or co-trustee (in both cases subject to the approval of the Noteholders under the terms of the Trust Deed), appoint an agent or nominee, delegate any of its functions or take such other measures that it deems advisable or necessary so that payments obtain the benefit of a zero withholding tax rate on payments in the form of interest.

Now it is hereby agreed as follows:

1. Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

“**Account**” means an account in the name of the Lender as specified in the relevant Loan Supplement.

“**Affiliates**” of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control by such specified Person. For the purposes of this definition, “control” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“**Agency Agreement**” means the paying agency agreement relating to the Programme dated 8 December 2003 between the Issuer, the Lender, VTB, the Trustee and the agents named therein.

“**Arrangers**” mean Deutsche Bank AG London and UBS Limited or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

“Business Day” means (save in relation to Clause 4) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating.

“Calculation Agent” means, in relation to a Loan, Deutsche Bank Luxembourg S.A. or any person named as such in the relevant Loan Supplement or any successor thereto.

“Change of Control” means the Ministry of Property Relations of the Russian Federation and/or any other federal state agencies appropriately authorised to hold the shares of VTB (i) ceasing to own or control (directly or indirectly) 50% plus one share of the issued and outstanding voting share capital of VTB; or (ii) no longer has the right to appoint or remove a majority of VTB’s supervisory council.

“Change of Control Payment Date” means the Business Day falling 90 days after VTB gives notice to the Lender of a Change in Control pursuant to sub-Clause 5.4.

“Closing Date” means the date specified as such in the relevant Loan Supplement.

“Day Count Fraction” has the meaning specified in the relevant Loan Supplement.

“Dealer Agreement” means the dealer agreement relating to the Programme dated 8 December 2003 between the Issuer, the Lender, VTB, the Arrangers and the other dealers named therein or appointed pursuant to it.

“Deposit” means the fiduciary deposit made pursuant to the Fiduciary Deposit Agreement corresponding to the relevant Loan.

“Deposit Agreement” means the fiduciary deposit agreement between the Issuer and the Lender dated 8 December 2003.

“Dollars”, “\$” and “U.S.\$” means the lawful currency of the United States of America.

“Encumbrance” means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 90 days of arising) or other security interest securing any obligation of any Person or any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

“euro” or “€” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

“Event of Default” has the meaning assigned to such term in sub-clause 11.1 hereof.

“Fiduciary Deposit Agreement” means, with respect to the relevant Deposit, the Deposit Agreement as amended and supplemented by the relevant Fiduciary Deposit Supplement.

“Fiduciary Deposit Supplement” means the fiduciary deposit supplement corresponding to the relevant Deposit.

“Financial Indebtedness” means any obligation for the payment of money in any currency, whether sole, joint or several, and whether actual or contingent, in respect of:

- (a) moneys borrowed or raised (including the capitalised value of obligations under financial leases and hire purchase agreements which would, in accordance with IAS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital) and interest and other charges thereon or in respect thereof;

- (b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;
- (c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;
- (d) any liability under any interest rate or currency hedging agreement (and the amount for such Financial Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction (if it shows a sum owed to the counterparty of VTB or any Subsidiary), at the relevant time);
- (e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and
- (f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group).

“Fixed Rate Loan” means a Loan specified as such in the relevant Loan Supplement.

“Floating Rate Loan” means a Loan specified as such in the relevant Loan Supplement.

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

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

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

“Independent Appraiser” means any third party appraiser of international standing selected by VTB, provided however that such Appraiser is not an Affiliate of the Group.

“Interest Payment Date” means the dates specified as such in the relevant Loan Supplement, or, in the event of a prepayment in whole or in part in accordance with sub-Clauses 5.3 and 5.4, the date set for such redemption in respect of the part of the Loan to be redeemed.

“Interest Period” means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period, the Interest Commencement Date, and ending on (but excluding) the next Interest Payment Date.

“Issuer” means VTB Capital S.A.

“Lead Manager(s)” means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement.

“Lender Agreements” means the Dealer Agreement, this Agreement, the Deposit Agreement and together with, in relation to each Loan, the relevant Subscription Agreement, Loan Supplement and Fiduciary Deposit Supplement.

“Loan” means each loan to be made pursuant to, and on the terms specified in this Agreement and the relevant Loan Supplement and includes each Fixed Rate Loan and Floating Rate Loan.

“Loan Agreement” means this Agreement and (unless the context requires otherwise), in relation to a Loan means this Agreement as amended and supplemented by the relevant Loan Supplement.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition or operations of VTB or of VTB and any of its Principal Subsidiaries taken as a whole or (b) VTB’s

ability to perform its obligations under a Loan Agreement or (c) the validity, legality or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement.

“Noteholder” means, in relation to a Note, the person in whose name such Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

“Notes” means the loan participation notes that may be issued from time to time by the Issuer under the Programme in Series, each Series corresponding (i) to a Deposit and relating to a Deposit as defined in the relevant Fiduciary Deposit Supplement and (ii) to a Loan and relating to a Loan as defined in the relevant Loan Supplement.

“Officer’s Certificate” means a certificate signed by an officer of VTB who shall be the principal executive officer, principal accounting officer or principal financial officer of VTB.

“Opinion of Counsel” means a written opinion from international legal counsel as reasonably selected by VTB with the written consent of the Lender, such consent not to be unreasonably withheld or delayed.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

“Potential Event of Default” means any event which, after notice or passage of time or both, would be an Event of Default.

“Principal Subsidiary” means at any relevant time a Subsidiary of VTB:

- (i) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 5 per cent. of the total consolidated assets or the gross consolidated revenues of VTB and its Subsidiaries, all as calculated by reference to the then latest audited accounts (or consolidated accounts as the case may be) (in each case, produced on the basis of IFRS, consistently applied) of such Subsidiary and the then latest audited consolidated accounts of VTB (produced on the basis of IFRS, consistently applied) and its consolidated Subsidiaries; or
- (ii) to which is transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

“Principal Trust Deed” means the principal trust deed dated 8 December 2003 between the Issuer and the Trustee.

“Programme” means the programme for the issuance of loan participation notes.

“Programme Limit” means U.S.\$2,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement.

“Put Option” means the put option granted to Noteholders pursuant to the Conditions of a Series of Notes.

“Rate of Interest” has the meaning assigned to such term in the relevant Loan Supplement.

“Relevant Indebtedness” means any Financial Indebtedness which (a) is in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument which is listed or quoted on any stock exchange; (b) is denominated, payable or optionally payable in a currency other than Roubles; and (c) was initially offered and distributed (as to more than fifty per cent. of the original principal amount of such debt) outside the Russian Federation.

“Relevant Time” means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

“Repayment Date” means the date specified as such in the relevant Loan Supplement.

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

“Same-Day Funds” means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

“Series” means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

“Specified Currency” means the currency specified as such in the relevant Loan Supplement.

“Subscription Agreement” means the agreement specified as such in the relevant Loan Supplement.

“Subsidiary” means, with respect to any Person, (i) any corporation, association or other business entity of which at least 50 per cent. of the total voting power entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or any combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

“Supplemental Trust Deed” means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 10 of the Principal Trust Deed).

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof.

“Taxes” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Luxembourg or any taxing authority thereof or therein provided, however, that for the purposes of this definition the references to Luxembourg shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term **“Taxation”** shall be construed accordingly.

“Trust Deed” means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed and specified as such in the relevant Loan Supplement.

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

“VTB Account” means an account in the name of VTB as specified in the relevant Loan Supplement for receipt of Loan funds.

“VTB Agreements” means this Agreement, the Agency Agreement, the Dealer Agreement and together with, in relation to each Loan, the relevant Subscription Agreement and Loan Supplement.

“Warranty Date” means the date hereof, the date of each Loan Supplement, each Closing Date, each date on which the Offering Circular or any of the Lender Agreements is amended, supplemented or replaced and each date on which the Programme Limit is increased.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Principal Trust Deed, the Notes, the Agency Agreement, the Dealer Agreement or the relevant Loan Supplement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

- 1.3.1 All references to “Clause” or “sub-clause” are references to a Clause or sub-clause of this Agreement.
- 1.3.2 The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.
- 1.3.3 Words importing the singular number include the plural and vice versa.
- 1.3.4 All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- 1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

2. Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to VTB Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes (unless otherwise specified in the relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Facility Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions “**Account**”, “**Closing Date**”, “**Day Count Fraction**”, “**Deposit**”, “**Fiduciary Deposit Agreement**”, “**Fiduciary Deposit Supplement**”, “**Interest Payment Date**”, “**Loan Agreement**”, “**Notes**”, “**Rate of Interest**”, “**Repayment Date**”, “**Specified Currency**”, “**Subscription Agreement**” and “**Trust Deed**”, together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Facility Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3. Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to VTB and VTB shall make a single drawing in the full amount of such Loan.

3.2 Loan Arrangement Fee

In consideration of the Lender's undertaking to make a Loan available to VTB, VTB hereby agrees that it shall, two Business Days before each Closing Date, pay to the Lender, in Same-Day Funds, an Arrangement Fee in connection with the financing of such Loan. The Arrangement Fee shall be increased by the front-end commissions, fees and expenses incurred by the Lender in connection with financing such Loan. The total amount of the Arrangement Fee as increased by the front-end commissions, fees and expenses is to be as specified in the relevant Loan Supplement.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the amount of the relevant Loan to the VTB Account specified in the relevant Loan Supplement.

3.4 Ongoing Fees and Expenses

In consideration of the Lender (i) accepting Deposits and agreeing to make Loans to VTB in the same nominal amount and bearing the same interest rate as the Deposits, (ii) making available the facility hereunder, (iii) holding the Fiduciary Accounts and (iv) fulfilling its obligations under the Fiduciary Deposit Agreements, VTB shall pay on demand to the Lender each year all ongoing commissions and costs as set forth to VTB in an invoice from the Lender.

4. Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Loan Supplement.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid by VTB to the Lender in arrear not later than 10.00 a.m. two Business Days prior to each Interest Payment Date.

4.3 Interest for Floating Rate Loans

4.3.1 Interest Payment Dates: Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, such interest shall be paid by VTB to the Lender in arrear not later than 10.00 a.m. two Business Days prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 Business Day Convention: If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would

otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans:* The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified in the relevant Loan Supplement;
- (b) the Designated Maturity is a period specified in the relevant Loan Supplement; and
- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (a) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:
 - (I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or
 - (II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

- (b) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (a)(I) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (a)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and
- (c) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe as selected by the Calculation Agent (the “**Principal Financial Centre**”) are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the applicable Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest, Rate Multipliers and Rounding

- 4.5.1 If any Margin or Rate Multiplier is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- 4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- 4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded

down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 Determination and Notification of Rates of Interest and Interest Amounts

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of such Floating Rate Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to VTB, the Trustee, the Issuer, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Clause 4.3.2, the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of VTB and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Issuer, the Lender and VTB agree that such determination or calculation may be made by or at the direction of the Trustee. The Trustee shall incur no liability in respect of such determination or calculation.

4.9 Definitions

In this Clause 4, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Benchmark**” has the meaning specified in the relevant Loan Supplement;

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a “**TARGET Business Day**”); and/or

- (iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the **“Calculation Period”**):

- (i) if **“Actual/365”** or **“Actual/Actual - ISDA”** is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if **“Actual/365 (Fixed)”** is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- (iii) if **“Actual/360”** is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (iv) if **“30/360”**, **“360/360”** or **“Bond Basis”** is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (v) if **“30E/360”** or **“Eurobond Basis”** is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Repayment Date, the Repayment Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and
- (vi) if **“Actual/Actual-ISMA”** is specified in the relevant Loan Supplement:
 - (a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (I) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (II) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“Determination Date” means the date specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date.

“Effective Date” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the relevant Loan Supplement or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means the amount of interest payable, and in the case of Fixed Rate Loans, means the Fixed Amount or Broken Amount, as the case may be.

“Interest Commencement Date” means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

“Page” means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 (**“Reuters”**) and Moneyline Telerate (**“Moneyline Telerate”**)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

“Reference Banks” means the institutions specified as such in the relevant Loan Supplement or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that are most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe).

“Relevant Financial Centre” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the relevant Loan Supplement or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

“Relevant Rate” means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

“Relevant Time” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Loan Supplement or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose “local time” means, with respect to Europe as a Relevant Financial Centre, 11.00 hours, Brussels time.

“Representative Amount” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the relevant Loan Supplement or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

“Specified Duration” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the relevant Loan Supplement or, if none is specified, a period of time equal to the relevant Interest Accrual Period, ignoring any adjustment pursuant to Clause 4.3.2.

4.10 Calculation Agent and Reference Banks

The Issuer and the Lender shall procure that there shall at all times be specified no less than four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and appointed one or more Calculation Agents if provision is made for them hereon and for so long as any amount remains outstanding under a Loan Agreement. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Lender shall (with the prior approval of VTB) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of VTB) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both VTB and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to each particular Series.

5. Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, VTB shall repay each Loan not later than 10.00 a.m. two Business Days prior to the Repayment Date therefor.

5.2 Special Prepayment for Tax Reasons or Change in Circumstances

If, as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application), in the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in any Trust Deed, VTB would thereby be required to make or increase any payment due pursuant to any Loan Agreement as provided in sub-clauses 6.2 or 6.3 (other than, in each case, where the increase

in payment is in respect of any amounts due or paid pursuant to Clauses 3 and 13), or if (for whatever reason) VTB would have to or has been required to pay additional amounts pursuant to Clause 8, and such additional amounts cannot be avoided by VTB taking reasonable measures available to it, then VTB may (without premium or penalty), upon not less than 10 days' notice to the Lender (which notice shall be irrevocable), prepay the relevant Loan in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

5.3 Illegality

If, at any time after the date of the relevant Loan Supplement, by reason of the introduction of, or any change in, any applicable law or regulation or regulatory requirement or directive of any agency of any state the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by VTB) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Issuer or the Lender, as the case may be, to allow all or part of the relevant Loan, the Deposit or the corresponding Series of Notes to remain outstanding or for the Issuer or the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan Agreement, Fiduciary Deposit Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Loan or Deposit, as the case may be, then upon notice by the Lender to VTB in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), VTB and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified VTB. If such a basis has not been determined within the 30 days, then upon notice by the Lender to VTB in writing, VTB shall prepay such Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on such date as the Lender shall certify to be necessary to comply with such requirements, subject to the right of the Lender to require prepayment earlier than set out in this sub-Clause to the extent that any applicable grace periods permitted by law would otherwise be exceeded.

5.4 Prepayment in the Event of Change of Control

- 5.4.1 If, following a Change of Control, any Noteholder has exercised its Put Option, VTB shall on the Change of Control Payment Date, prepay the principal amount of the relevant Loan in an amount which corresponds to the aggregate principal amount of the corresponding Series of Notes in relation to which the Put Option has been duly exercised in accordance with the Conditions of such Series of Notes.
- 5.4.2 Promptly, and in any event within 10 calendar days after the date of any Change of Control, VTB shall deliver to the Lender a written notice in the form of an Officer's Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.
- 5.4.3 The Lender shall notify VTB not more than three Business Days after receipt of notice thereof from the Paying Agent, the amount of each relevant Loan to be prepaid as a consequence of the exercise of the Put Option by any Noteholders.
- 5.4.4 For the avoidance of doubt, this sub-Clause 5.4 may be disapplied under the terms of the relevant Loan Supplement.

5.5 Reduction of a Loan Upon Redemption and Cancellation of Notes

VTB or any Subsidiary of VTB may from time to time, in accordance with the Conditions of the Notes, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that the Issuer notifies the Lender that an amount of Notes has been surrendered to it for cancellation by VTB or any of VTB's Subsidiaries and cancelled, the relevant Loan shall be deemed to have been prepaid by VTB in an amount corresponding to the aggregate principal amount of the

Notes surrendered to the Issuer for cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by VTB in respect of such amounts.

5.6 Payment of Other Amounts

If a Loan is to be prepaid by VTB pursuant to any of the provisions of Clauses 5.2, 5.3, 5.4 or pursuant to the terms of the relevant Loan Agreement, VTB shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual receipt of payment by the Lender and all other sums payable by VTB pursuant to the relevant Loan Agreement.

5.7 Provisions Exclusive

VTB may not voluntarily prepay any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid may not be reborrowed under such Loan Agreement.

6. Payments

6.1 Making of Payments

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

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

All payments to be made by VTB under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If VTB shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any Taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, VTB shall reimburse the Lender in the Specified Currency for such payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to the obligations of the Lender pursuant to sub-Clauses 10.6.1 and 10.6.3. The provisions of this Clause 6.2 shall not apply to any tax imposed on and calculated by reference to the overall net income of the Lender

6.3 Withholding on Deposits and Notes

If the Lender notifies VTB (setting out in reasonable detail the nature and extent of the obligation with such evidence as VTB may reasonably require) that it or the Issuer has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it or the Issuer is obliged to make under or in respect of a Deposit or a Series of Notes in circumstances where the Issuer, subject to receipt thereof, is required to pay additional amounts pursuant to Condition 8 of such Series of Notes or otherwise or the Lender, subject to receipt thereof, is required to pay additional amounts pursuant to Clause 8 of the Fiduciary Deposit Agreement, VTB agrees to pay to the Lender, not later than 10:00am two Business Days prior to the date on which payment is due to the Noteholders of such Series or such other party (as the case may be) in Same-Day Funds to the relevant Account, such additional amounts as are equal to the said additional amounts which the Issuer or the Lender, as the case may be, must pay pursuant to the terms of Condition 8 of such

Series of Notes or Clause 8 of the Fiduciary Deposit Agreement or otherwise provided, however, that the Lender shall procure that immediately upon receipt by the Issuer from any Paying Agent of any sums paid pursuant to this provision and subsequently paid to the Lender, to the extent that the Noteholders of such Series or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, the Lender shall repay such additional amounts to VTB (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series or such other party is entitled to such additional amount).

6.4 Reimbursement

To the extent that the Issuer or the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which VTB has made a payment pursuant to this Clause 6 or the Lender or obtains any reimbursement from the Issuer pursuant to the terms of any Fiduciary Deposit Agreement (including any sums representing any reimbursement made by the Trustee to the Issuer pursuant to the terms of the Trust Deed), the Lender shall pay to VTB so much of the benefit received as will leave the Issuer or the Lender, as the case may be, in exactly the same position as it would have been had no additional amount been required to be paid by VTB pursuant to this Clause 6 or had no reimbursement been paid to the Lender pursuant to such Fiduciary Deposit Agreement; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to VTB, the amount of any such payment and the timing of any such payment, shall be determined solely by the Issuer or the Lender, as the case may be. The Lender shall use its best endeavours to, and shall use its best endeavours (upon instruction by VTB) to procure that the Issuer under the terms of any Fiduciary Deposit Agreement shall, obtain any credits or refunds available to the Lender or the Issuer (as the case may be) but shall not be obliged to disclose to VTB any information regarding its tax affairs or computations or obtained from the Issuer pursuant to the terms of any Fiduciary Deposit Agreement. The Lender shall notify VTB of any tax credit or allowance or other reimbursement it receives from the Issuer pursuant to such Fiduciary Deposit Agreement.

If as a result of a failure to obtain relief from deduction or withholding of any tax imposed by Russia or Luxembourg (i) such tax is deducted or withheld by VTB and pursuant to this Clause 6 or the relevant Fiduciary Deposit Agreement an increased amount is paid by VTB to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of tax as referred to above the Lender (upon instructions by VTB) or the Issuer, as the case may be, applies to the relevant Russian or Luxembourg tax authorities for a tax refund and such tax refund is credited by the Russian or Luxembourg tax authorities to a bank account of the Lender or the Issuer, the Lender shall as soon as reasonably possible notify VTB of the receipt of such tax refund and (upon instructions by VTB) promptly transfer the entire amount of the tax refund to a bank account of VTB specified for that purpose by VTB.

Any amount attributed to the Issuer under this Clause 6.4 shall only be payable by the Lender to the extent the Issuer has funded the Lender.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of VTB to make any deduction, withholding or payment as described in sub-clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or VTB's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances. VTB

agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause.

7. Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the persons mentioned in sub-clauses 14.10.6 and 14.10.7 hereof have agreed to receive process in the manner specified therein.

7.2 Further Conditions

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the Lender shall have received the full amount of the relevant Deposit representing the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement and (b) the Lender shall have received in full the amount referred to in sub-clauses 3.2 and 3.4, if due and payable, above, as specified in the relevant Loan Supplement.

8. Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof, which:

- 8.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in sub-clauses 6.2 or 6.3); or
- 8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in sub-clauses 6.2 or 6.3); or
- 8.1.3 imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan,

and if as a result of any of the foregoing:

- (i) the cost to the Lender of making, funding or maintaining such Loan is increased; or
- (ii) the amount of principal, interest or other amount payable to or received by the Lender under such Loan Agreement is reduced; or
- (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from VTB hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan, then subject to the following, and in each such case:
 - (a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to VTB, together with a certificate signed by two directors of the Lender or by any person empowered by the authorised signatories of the Lender on behalf of the

Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and describing the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and providing all relevant reasonable supporting documents describing such matters; in attributing such increased costs to VTB, the Lender shall apply methods which are consistent with the Lender's treatment of customers similar to VTB having generally similar provisions in their agreements with the Lender, providing that nothing herein shall require the Lender to disclose any confidential information; and

- (b) VTB, in the case of clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided that this sub-Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under sub-clauses 6.2 or 6.3.

8.2 Mitigation

In the event that the Lender becomes aware it is (having exercised due care) to make a claim pursuant to sub-Clause 8.1:

- 8.2.1 the Lender shall consult in good faith with VTB and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, VTB's obligations to pay any additional amount pursuant to such sub-clause; and
- 8.2.2 VTB may only require the substitution of the Lender as lender under the relevant Loan Agreement(s) in the circumstances permitting the substitution of the Lender under the relevant Fiduciary Deposit Agreement,

except that nothing in this sub-Clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless VTB agrees to reimburse the Lender such costs or expenses.

9. Representations and Warranties

9.1 VTB's Representations and Warranties

VTB does, and on each Warranty Date (unless expressly stated otherwise) shall be deemed to, represent and warrant to the Lender as follows, to the intent that such shall form the basis of each Loan Agreement:

- 9.1.1 VTB is duly organised and incorporated and validly existing under the laws of the Russian Federation and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under each Loan Agreement and to borrow Loans; VTB has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Loan Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its terms.
- 9.1.2 The Loan Agreement, including each Loan Supplement in relation thereto, has been duly executed and delivered by VTB and constitutes a legal, valid and binding obligation of VTB enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency,

moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that certain gross-up provisions may not be enforceable under Russian law.

- 9.1.3 The execution, delivery and performance of each Loan Agreement, including each Loan Supplement in relation thereto, by VTB will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of VTB or (iii) any agreement or other undertaking or instrument to which VTB is a party or which is binding upon VTB or any of its assets, nor result in the creation or imposition of any Encumbrance on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument.
- 9.1.4 All consents, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian Federation required by VTB in connection with the execution, delivery, performance, legality, validity, enforceability, and, subject to Russian legal requirements, admissibility in evidence of each Loan Agreement have been obtained or effected and are in full force and effect.
- 9.1.5 No event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Financial Indebtedness of VTB, and no such event will occur upon the making of the relevant Loan.
- 9.1.6 Except as disclosed in the offering circular dated 8 December 2003 relating to the Programme (as amended, supplemented or superceded, the "**Offering Circular**") there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of VTB, threatened, against VTB or any of its Principal Subsidiaries, the adverse determination of which could have a Material Adverse Effect.
- 9.1.7 Except for Encumbrances of the types referred to in sub-Clause 10.1, VTB and each of its Principal Subsidiaries has the right of ownership (as that expression is defined under the laws of the Russian Federation or the laws of the jurisdiction of such Principal Subsidiary) to its property free and clear of all Encumbrances which if existing would have a Material Adverse Effect and VTB's obligations under the Loans will rank at least *pari passu* with all its other unsecured and unsubordinated Financial Indebtedness (apart from any obligations mandatorily preferred by law).
- 9.1.8 The most recent audited consolidated financial statements of VTB:
- (i) were prepared in accordance with IFRS, as consistently applied; and
 - (ii) save as disclosed therein, present fairly in all material respects the assets and liabilities as at that date and the results of operations of the Group during the relevant financial year.
- 9.1.9 Except as disclosed in the Offering Circular, there has been no material adverse change since the date of the last audited consolidated financial statements of VTB in the financial condition, results of business operations or prospects of VTB or the Group taken as a whole.
- 9.1.10 The execution, delivery and enforceability of each Loan Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim filed with a Russian court).

- 9.1.11 Neither VTB nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement.
- 9.1.12 VTB is in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.
- 9.1.13 Neither VTB, nor any of its Principal Subsidiaries, has taken any corporate action nor, to the best of the knowledge and belief of VTB, have any other steps been taken or legal proceedings started or threatened in writing against VTB or any of its Principal Subsidiaries for its or their bankruptcy, winding-up, dissolution, external administration or re-organisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its or their assets or revenues.
- 9.1.14 There are no strikes or other employment disputes against VTB which are pending or, to VTB's knowledge, threatened in writing which could have a Material Adverse Effect.
- 9.1.15 In any proceedings taken in the Russian Federation in relation to each Loan Agreement, the choice of English law as the governing law of each Loan Agreement and any arbitration award obtained in England pursuant to Clause 14.10.4 in relation to each Loan Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in Russia.
- 9.1.16 As of the date of each Loan Supplement and Closing Date (though not on any of the other dates included in the definition of Warranty Date) and subject to sub-Clause 10.6.1, under the laws of the Russian Federation, it will not be required to make any deduction or withholding from any payment it may make hereunder.
- 9.1.17 Its execution of each Loan Agreement will constitute, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes.
- 9.1.18 It has no overdue tax liabilities which could have a Material Adverse Effect other than those which it has disclosed to the Lender prior to the date of the relevant Loan or which it is contesting in good faith.
- 9.1.19 All licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable VTB and any of its Principal Subsidiaries to own its assets and carry on its business are in full force and effect and, if not, the absence of which could not have a Material Adverse Effect.
- 9.1.20 With respect to any offer and sale of Notes pursuant to each Subscription Agreement neither VTB nor any of its affiliates (as defined in Rule 405 under the Securities Act), nor any person acting on its or their behalf (other than the Dealers (as defined in the Dealer Agreement), on behalf of which VTB makes no undertaking) has engaged or will engage in any directed selling efforts (as defined in Regulation S under the Securities Act ("**Regulation S**")) and VTB, its Affiliates and any persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to VTB as follows:

- 9.2.1 The Lender is duly incorporated under the laws of Luxembourg and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.

- 9.2.2 The execution of the Lender Agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or the constitutive documents, rules and regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.
- 9.2.3 The Lender (i) is a bank which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg, and (ii) does not have a permanent establishment in Russia.
- 9.2.4 The Lender Agreements constitute legal, valid and binding obligations of the Lender.
- 9.2.5 All authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

10. Covenants

So long as any amount remains outstanding under a Loan Agreement:

10.1 Negative Pledge

So long as any amount remains outstanding hereunder, neither VTB nor any Principal Subsidiary will create or permit to subsist any Encumbrance (other than any Encumbrance upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation, asset-backed financing or like arrangement and whereby all payment obligations secured by such Encumbrance, or having the benefit of such Encumbrance, are to be discharged solely from such assets or revenues, provided that such Encumbrances shall not be incurred if that would result in the principal amount of such encumbered Relevant Indebtedness exceeding 10% of VTB's total assets (as reported in its most recent financial statements prepared under IAS)) upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Relevant Indebtedness unless, at the same time or prior thereto, VTB's obligations hereunder are to the satisfaction of the Trustee secured equally and rateably therewith or benefit from such other security or other arrangements, as the case may be, to the satisfaction of the Trustee.

10.2 Maintenance of Authorisations

VTB shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of such Loan Agreement or for the validity or enforceability thereof.

10.3 Disposals

VTB shall not and VTB shall ensure that no member of the Group shall, without the prior written consent of the Lender, sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any material part of its revenues or its assets (which for the avoidance of doubt excludes payments of cash, or other consideration, for the acquisition of any asset on normal commercial terms) unless the terms of such transaction are substantially no less favourable to VTB, or the relevant member of the Group, as the case may be, than those that would be obtained in a comparable arms-length transaction. This Clause 10.3 does not apply to any transaction between VTB and any of its Subsidiaries, or between any Subsidiaries of VTB. With respect to a sale of capital assets (other than a sale carried out in the course of ordinary banking business) involving aggregate payments or value in excess of US\$500,000,000, VTB shall deliver to the Lender a written opinion from an Independent Appraiser to the effect that

such sale is fair, from a financial point of view, to VTB or the relevant Subsidiary, as the case may be and such written opinion shall be conclusive and binding on the parties.

10.4 Maintenance of Capital Adequacy

- (a) VTB shall not permit its consolidated total capital ratio as calculated in accordance with the recommendations of the Basle Committee on Banking Regulations and Supervisory Practices (as of the date hereof) to fall below 8%, such recommendations to be as provided in such Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended in November 1991, and such calculation to be made by reference to the latest annual consolidated audited accounts of VTB prepared in accordance with IFRS.
- (b) VTB shall ensure that neither it nor any Principal Subsidiary which carries on a banking business shall permit its total capital ratio to fall below the minimum total capital ratio required by in the case of VTB, the Central Bank of Russia and, in the case of any other such Principal Subsidiary, the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in the jurisdiction in which such other Principal Subsidiary carries on its banking business, such calculation to be made by reference to, in the case of VTB, the latest annual non-consolidated audited accounts of VTB prepared in accordance with Russian legislation or, if the Central Bank of Russia so requires, IFRS and, in the case of each such Principal Subsidiary, the latest annual non-consolidated audited accounts of such Principal Subsidiary or if such Principal Subsidiary does not prepare audited accounts, the latest annual non-consolidated unaudited accounts of such Principal Subsidiary (in either case as prepared under the accounting regulations used to calculate its capital adequacy in the relevant jurisdictions) provided that, should VTB or any other Principal Subsidiary carry on a banking business in more than one jurisdiction, it shall not permit its total capital ratio to fall below the minimum ratio required by the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in each such jurisdiction.

10.5 Limitations on Distributions from Principal Subsidiaries

VTB will not, nor will it permit any Principal Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Principal Subsidiary to pay dividends or make any other distributions on its share capital other than any agreement in effect prior to the Closing Date and advised in writing to the Lender and Trustee.

10.6 Withholding Tax Exemption

- 10.6.1 The Lender shall use its best endeavours to provide VTB no later than 10 Business Days before the first Interest Payment Date with respect to the first Loan made pursuant to this Agreement (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year) with a certificate, issued and certified by the competent Luxembourg authorities, confirming that the Lender is tax resident in Luxembourg, provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Luxembourg authorities, but shall notify VTB without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. Such certificate shall be appropriately apostilled and a certified translation supplied.
- 10.6.2 VTB and the Lender (using its best endeavours and in accordance with law) agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding change then the procedure referred to in sub-Clause 10.6.1 will be deemed changed accordingly.

10.6.3 The Lender shall within 30 days of the request of VTB (to the extent it is able to do so under applicable law including Russian laws) deliver to VTB such other information or forms to be duly completed and delivered as may be needed to obtain a tax refund if a relief from deduction or withholding of Russian Taxes has not been obtained. If required, the other forms referred to in this sub-clause 10.6.3 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Luxembourg and any requisite power of attorney issued by the Lender to VTB shall be duly signed and apostilled or otherwise legalised. The Lender shall provide VTB with all assistance it may reasonably require to ensure that VTB can deliver to the tax authorities the information or forms specified in this sub-clause 10.6.3. VTB shall indemnify the Lender for all out-of-pocket costs and expenses incurred by the Lender as a result of steps undertaken pursuant to this sub-Clause 10.6.3. The Lender shall not be obligated to take any step under this sub-Clause 10.6.3 if, in the reasonable opinion of the Lender, to so take would be prejudicial to it (other than the incurrence of costs and expenses of an administrative nature).

10.7 Reports

10.7.1 VTB will furnish to the Lender commencing with the year ending 31 December 2003, within 9 months of the relevant year-end audited annual financial statements prepared in accordance with IFRS as consistently applied and in English, including a report thereon by VTB's certified independent accountants.

10.7.2 Within 30 days of the close of each calendar quarter, VTB shall deliver to the Lender a written notice in the form of an Officer's Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, what action VTB is taking or proposes to take with respect thereto.

10.7.3 VTB will on request of the Lender provide the Lender with such further information, other than information which VTB determines in good faith to be confidential, about the business and financial condition of VTB and its Subsidiaries as the Lender may reasonably request (including information referred to in Clauses 14.5 and 14.12 of the Principal Trust Deed).

10.7.4 VTB consents that any information provided to the Lender pursuant to this sub-Clause 10.7 and sub-Clause 5.4 may also be provided to the Issuer and the Trustee without violating any duty of confidentiality or secrecy that the Lender may owe to VTB under the laws of Luxembourg.

10.7.5 VTB will at the same time as delivering its audited annual financial statements pursuant to Clause 10.7.1 and within 30 days of a request from the Lender, deliver to the Lender an Officer's Certificate specifying those Subsidiaries which were at a date no more than 10 days before the date of such Officer's Certificate, Principal Subsidiaries.

10.8 Compliance with Terms of the Fiduciary Deposit Agreement

The Lender agrees that it will observe and comply with its obligations set out in the relevant Fiduciary Deposit Agreement and will not agree to any amendment to the terms of such Fiduciary Deposit Agreement.

11. Events of Default

11.1 Events of Default

If one or more of the following events of default (each, an "**Event of Default**") shall occur and be continuing, the Lender shall be entitled to the remedies set forth in sub-clause 11.3:

11.1.1 VTB fails to pay within five Business Days any amount payable under a Loan Agreement as and when such amount becomes payable in the currency and in the manner specified therein.

- 11.1.2 VTB fails to perform or observe any of its other obligations under a Loan Agreement and (except where in any such case that failure is not capable of remedy when no such notices as is hereinafter mentioned will be required) that failure continues for the period of 30 days (or such longer period as the Lender may permit) next following the submission by the Lender to VTB of notice in writing requesting the same to be remedied.
- 11.1.3 Any representation or warranty of VTB or any certificate or notice delivered to the Lender in connection with such Loan Agreement proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated if not remedied (if capable of remedy) within 30 days.
- 11.1.4 VTB or any Principal Subsidiary (i) fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes payable, taking into account any applicable grace period or (ii) any Financial Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of VTB or such Principal Subsidiary or (provided that no event of default, howsoever described, has occurred) any person or entity entitled to such Financial Indebtedness; provided, that the total amount of such Financial Indebtedness unpaid or capable of being accelerated exceeds U.S.\$20,000,000 (or its equivalent in another currency).
- 11.1.5 VTB or any Principal Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; provided that in the case of a Principal Subsidiary the same could have a Material Adverse Effect.
- 11.1.6 The occurrence of any of the following events: (i) VTB or any Principal Subsidiary fails or is unable to pay its debts generally as they become due; (ii) revocation of the general banking licence of VTB or any Principal Subsidiary; (iii) VTB or any Principal Subsidiary seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation committee (*likvidatsionnaya komissiya*) or a similar officer of VTB or such Principal Subsidiary or any analogous procedure or event in any other relevant jurisdiction; (iv) the institution of the supervision (*nablyudeniye*) or bankruptcy management (*konkursnoye proizvodstvo*) of VTB or any Principal Subsidiary, as such terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" of 26 October 2002 (as amended or replaced from time to time) or any analogous procedure or event in any other relevant jurisdiction; (v) the institution of the financial rehabilitation (*finansovoye ozdorovleniye*), pursuant to the request of the Central Bank of Russia, temporary administration (*vremennaya administratsiya*) or reorganisation (*reorganizatsiya*) with respect to VTB or any Principal Subsidiary as such terms are defined in the Federal Law of the Russian Federation No. 40-FZ "On Insolvency (Bankruptcy) of Credit Organisations" dated 25 February 1999 (as amended or replaced from time to time) or any analogous procedure or event in any other relevant jurisdiction; (vi) any judicial liquidation, dissolution, administration or winding-up in respect of VTB or any Principal Subsidiary; or (vii) the shareholders of VTB or any Principal Subsidiary approving any plan of dissolution, administration or winding-up of VTB or such Principal Subsidiary.
- 11.1.7 Any governmental authorisation necessary for the performance of any obligation of VTB under a Loan Agreement fails to be in full force and effect.
- 11.1.8 Any governmental authority or court takes any action that has a material adverse effect on VTB's ability to perform its obligations under a Loan Agreement or the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement.
- 11.1.9 Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of VTB having a fair market value of more than U.S.\$20,000,000 or the equivalent thereof in any other currency or any event occurs which under the laws of any jurisdiction has a similar or analogous effect unless such execution,

distress, enforcement of an Encumbrance or similar or analogous event is being contested in good faith by VTB and is not removed, paid out, stayed or discharged within 45 days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.

- 11.1.10 The aggregate amount of unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against VTB and its Principal Subsidiaries in the aggregate exceeds U.S.\$20,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 45 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for ten days after the notice specified in sub-clause 11.2.
- 11.1.11 Any seizure, compulsory acquisition, expropriation, nationalisation without appropriate compensation or renationalisation after the date of a Loan Agreement by or under the authority of a government authority of all or part (the book value of which is fifteen per cent. (15 per cent.) or more of the book value of the whole) of the assets of VTB or any Principal Subsidiary.
- 11.1.12 VTB or any of its Principal Subsidiaries ceases to carry on the principal business it carries on at the date of a Loan Agreement.
- 11.1.13 At any time it is or becomes unlawful for VTB to perform or comply with any or all of its obligations under a Loan Agreement or any of such obligations (subject as provided in sub-clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable.
- 11.1.14 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

11.2 Notice of Default

VTB shall deliver to the Lender and the Trustee, within 30 days after becoming aware thereof, written notice of any event which is a Potential Event of Default or an Event of Default, its status and what action VTB is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to VTB, (a) declare the obligations of the Lender under the relevant Loan Agreement to be immediately terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by VTB that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by VTB; provided, however, that if any event of any kind referred to in sub-clause 11.1.6 occurs, the obligations of the Lender under such Loan Agreement shall immediately terminate, and all amounts payable under such Loan Agreement by VTB that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all especially waived by VTB.

11.4 Rights Not Exclusive

The rights provided for in each Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. Indemnity

12.1 Indemnification

VTB undertakes to indemnify the Lender and each director, officer, employer or agent (other than the Principal Paying Agent or any of the Paying Agents) of the Lender (each an “**Indemnified Party**”) against Liabilities (as defined below) (including, without limitation, amounts payable by the Lender under any Fiduciary Deposit Agreement, where such amount is subject to receipt by the Lender of the relevant amount from VTB), which an Indemnified Party may sustain or incur in relation to the preparation and execution, or purported execution, of the exercise of its powers, authorities and discretions and the performance of its duties under, and in any other manner in relation to, this Agreement or any Loan Agreement, unless, in any such case, such Liability was caused by such Indemnified Parties’ negligence or wilful misconduct or resulted from its breach of this Agreement or any Fiduciary Deposit Agreement. “**Liability**” means any loss, damage, claim, demand, judgement, action, proceeding (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and reasonably incurred out-of-pocket costs and expenses (including legal fees) on a full indemnity basis (but excluding any Liability that is the subject of the undertakings contained in Clause 13 and sub-clauses 14.2 and 14.6 of this Agreement).

12.2 Independent Obligation

Sub-clause 12.1 constitutes a separate and independent obligation of VTB from its other obligations under or in connection with each Loan Agreement or any other obligations of VTB and shall not affect, or be construed to affect, any other provision of a Loan Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Lender, supported by relevant documentation, setting forth the amount of Liability described in sub-clause 12.1 and specifying in reasonable detail the basis therefor shall be prima facie evidence of the amount of such Liability.

12.4 Survival

The obligations of VTB pursuant to sub-clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by VTB.

13. Expenses

13.1 Front-end Expenses for the Extension of the Loan by the Lender

VTB shall, pursuant to sub-clause 3.2 hereof and the relevant Loan Supplement, pay the Lender front-end commissions, fees and expenses in the Specified Currency incurred and properly documented by the Lender in connection with the negotiation, preparation and execution of each Loan Agreement and all related documents and other expenses connected with the extension of each Loan.

13.2 Payment of Ongoing Expenses

In addition, VTB hereby agrees to pay to the Lender on demand in the Specified Currency all ongoing commissions, costs, fees and expenses (including, without limitation, enforcement costs), payable by the Lender under or in respect of the Lender Agreements. VTB shall also pay the Lender on behalf of the Issuer for any indemnification or other payment obligations of the Issuer under or in respect of the Agency Agreement and/or Trust Deed (other than the obligation of the Issuer to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes). Payments to the Lender referred to in this sub-Clause 13.2 shall be made by VTB at least two Business Days before the relevant payment is to be made or expense incurred; provided that

before such payment is made by VTB, the Lender shall submit an invoice providing, in reasonable detail, the nature and calculation of the relevant payment or expense. Subsequently, VTB and the Lender shall enter and sign a delivery and acceptance act (Act of Acceptance) as provided in sub-Clause 13.3.

13.3 Acts of Acceptance

In connection with all payments to be made under Clause 12 and Clause 13 and sub-Clause 14.2, VTB and the Lender shall within 60 days of such payment becoming due or such indemnity claim being made, enter into and sign a delivery and acceptance act (which VTB shall prepare) with respect to the amounts to be paid by VTB. Invoices and delivery and acceptance acts shall separately specify: (i) the net amount due, (ii) any applicable Russian income tax withholding, (iii) any applicable Russian VAT and (iv) the resulting total tax-inclusive amount.

14. General

14.1 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of VTB's obligations recorded therein.

14.2 Stamp Duties

14.2.1 VTB shall pay all stamp, registration and documentary taxes, duties or similar charges (if any) imposed on VTB by any person in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs, expenses or penalties which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by VTB to pay such taxes or similar charges.

14.2.2 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 any Loan Agreement and any documents related thereto as well as Notes of corresponding Series and any documents related thereto, VTB shall repay the Lender on demand an amount equal to such stamp or other documentary taxes, charges or duties and shall indemnify the Lender against any and all costs and expenses properly documented and connected with the payment of such amounts.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or VTB, any right, power to privilege under any Loan Agreement and no course of dealing between VTB and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in each Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 Notices

All notices, requests, demands or other communications to or upon the respective parties to each Loan Agreement shall be given or made in the English language by telex, Swift or courier, or fax (in the case of the Lender only) to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Loan Agreement addressed as follows:

14.4.1 if to VTB :

JSC Vneshtorgbank
43 Vorontsovskaya Street
Moscow 109044
Russian Federation

Telex: 412362 BFTR RU

Swift: VTBR RU MM

Attention: Financial Institutions Department, quoting reference “3003” (for official correspondence and general requests); or

Back-office, quoting reference “2501” (for payment and settlement documents).

14.4.2 if to the Lender:

Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

Fax: +352 473 136

Attention: Coupon Paying Department

or to such other address, telex, Swift or fax number as any party may hereafter specify in writing to the other.

Any notice, request, demand or other communication given by courier shall be conclusively deemed to have been given on the day of actual delivery thereof and, if given by telex, fax or Swift, on the day of transmittal thereof, in each case if given during the normal business hours of the recipient, and on the business day during which such normal business hours next occur if not given during such hours on any day.

14.5 Assignment

14.5.1 Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in sub-clause 14.5.3 below, shall be references to the exercise of such rights or discretions by the Issuer or Trustee (as Trustee). Notwithstanding the foregoing, neither the Issuer nor the Trustee shall be entitled to participate in any discussions between the Lender and VTB or any agreements of the Lender or VTB pursuant to sub-clauses 6.4 or 6.5 or Clause 8.

14.5.2 VTB shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.

14.5.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement except:

- (i) following an Event of Default or a Fiduciary Relevant Event (as defined in the Deposit Agreement), the Lender may, upon giving written notice to VTB, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to the Issuer, or any assignee or transferee of the Issuer. Any reference in this Agreement to any such assignee or transferee shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations of the Issuer, assignee or transferee; and

- (ii) the Lender may, by giving not less than 90 days notice to VTB, transfer all (but not part) of its rights and obligations under this Agreement to a Successor Lender. Such resignation shall take effect on the date specified in such notice which shall be the same date as the date upon which such Successor Lender is substituted for the Fiduciary in relation to the relevant Deposit.

For the purposes of this Clause 14, “**Successor Lender**” means a bank incorporated or established under the laws of Luxembourg which:

- (a) is qualified and authorised to act as a fiduciary under Luxembourg law; and
- (b) has itself or is part of a group which has, a long-term debt rating by Standard & Poor’s Rating Services of at least “A–” and/or Moody’s Investors Service Limited of at least “A3”;
- (c) is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; and
- (d) does not have a permanent establishment in Russia.

In the event a Successor Lender is appointed to act as lender, the Lender shall deliver to the Successor Lender information in connection with each Loan Agreement as is in its possession and is sufficient to allow the Successor Lender to perform its obligations under this Agreement and the relevant Loan Supplements and the Successor Lender shall accede to this Agreement and the relevant Loan Supplements and at such time give the same representations, warranties and undertakings as set out herein.

14.6 Currency Indemnity

To the fullest extent permitted by law, the obligation of VTB in respect of any amount due in the Specified Currency (or such other currency as contemplated by such obligation) under a Loan Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the Specified Currency (or such other currency as contemplated by such obligation) that the Lender may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the Specified Currency (or such other currency as contemplated by such obligation) that may be so purchased for any reason falls short of the amount originally due (the “**Due Amount**”), VTB hereby agrees to indemnify and hold harmless the Lender against any deficiency in the Specified Currency. Any obligation of VTB not discharged by payment in the Specified Currency (or such other currency as contemplated by such obligation) shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided the relevant Loan Agreement, shall continue in full force and effect. If the amount in the Specified Currency (or such other currency as contemplated by such obligation) that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to VTB.

14.7 Prescription

Subject to the Lender having received the principal amount thereof or interest thereon from VTB, the Lender shall forthwith repay to VTB, subject to receipt thereof from or at the direction of the Issuer, the principal amount or the interest amount thereon, respectively, of any Series of Notes upon such Series of Notes becoming void pursuant to Condition 11 of such Notes (as confirmed to the Lender by the Issuer).

14.8 Contracts (Rights of Third Parties) Act 1999

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

14.9 Choice of Law

Each Loan Agreement shall be governed by, and construed in accordance with, the laws of England.

14.10 Jurisdiction

- 14.10.1 For the exclusive benefit of the other party, each of VTB and the Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with any Loan Agreement and that accordingly any suit, action or proceeding (collectively, “**Proceedings**”) arising out of or in connection with such Loan Agreement may be brought in such courts.
- 14.10.2 Each of the parties irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any Proceedings in any such court referred to in this Clause 14 and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and may be enforced in the courts of any other jurisdiction.
- 14.10.3 Nothing contained in any Loan Agreement shall limit the right of any party to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with such Loan Agreement in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with such Loan Agreement to the extent permitted by any applicable law.
- 14.10.4 Each of the parties hereby agrees that, at the option of the other party, any dispute, controversy, claim or cause of action brought by any party against another party or arising out of or relating to any Loan Agreement may be settled by arbitration in accordance with the Rules of the London Court of International Arbitration, which rules are deemed to be incorporated by reference into this Clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate an additional arbitrator who shall be the Chairman of the Tribunal. If a dispute, claim controversy or cause of action shall involve more than two parties, the parties thereto shall attempt to align themselves in two sides (i.e. claimant and respondent) each of which shall appoint an arbitrator as if there were only two sides to such dispute, claim controversy or cause of action. If such alignment and appointment shall not have occurred within twenty (20) calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the Arbitration Court of the London Court of International Arbitration shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.
- 14.10.5 Fees of the arbitration (excluding each party’s preparation, travel, attorneys’ fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction

thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

14.10.6 Lender's Process Agent: The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Deutsche Trustee Company Limited, Winchester House, 1 Great Winchester Street, London EC2N 2DB or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of VTB, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, VTB shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause shall affect the right of VTB to serve process in any other manner permitted by law.

14.10.7 VTB's Process Agent: VTB agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Clifford Chance Secretaries Limited, 10 Upper Bank St., London E14 5JJ, or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on VTB's behalf, VTB shall, on the written demand of the Lender, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to VTB. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

14.11 Counterparts

Each Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

14.12 Language

The language which governs the interpretation of each Loan Agreement is the English language.

14.13 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties.

14.14 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of each Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

This Loan Supplement is made on [SIGNING DATE] **between:**

- (1) **DEUTSCHE BANK LUXEMBOURG S.A.**, a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg (the “**Lender**”); and
- (2) **JSC VNESHTORGBANK**, a company established under the laws of the Russian Federation whose registered office is at 16 Kuznetsky Most Street, Moscow 103031, Russian Federation (“**VTB**”).

Whereas:

- (A) VTB has entered into a facility agreement dated 8 December 2003 (the “**Facility Agreement**”) with the Lender in respect of VTB’s U.S.\$2,000,000,000 Programme for the Issuance of Loan Participation Notes (the “**Programme**”).
- (B) VTB proposes to borrow ● (the “**Loan**”) and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1. Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2. Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

“**Account**” means the account in the name of the Lender (account number ●, ●);

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

“**Closing Date**” means ●;

“**Fiduciary Deposit Supplement**” means a supplement dated ● to the deposit agreement dated 8 December 2003 between the Issuer and the Lender relating to the Deposit;

“**Loan Agreement**” means the Facility Agreement as amended and supplemented by this Loan Supplement;

“**Notes**” means ● [● per cent.][Floating Rate] Loan Participation Notes due ● issued by the Issuer as Series ● under the Programme;

“**Repayment Date**” means ● [*amend as required for Floating Rate Notes*];

“**Specified Currency**” means ●;

“**Subscription Agreement**” means an agreement between the Lender, the Fiduciary, VTB and [MANAGERS] dated ● relating to the Notes;

“**Trust Deed**” means the Principal Trust Deed between the Issuer and the Trustee dated 8 December 2003 as amended and supplemented by a Supplemental Trust Deed dated ● constituting and securing the Notes; and

“**VTB Account**” means the account in the name of VTB (account number ●).

3. Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4. The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to VTB and VTB shall make a single drawing in the full amount of the Loan.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1 Fixed Rate Loan Provisions

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Interest Commencement Date ●
- (ii) Rate[(s)] of Interest: ● per cent. per annum [payable [annually/semi-annually] in arrear
- (iii) Interest Payment Date(s): ● in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted]
- (iv) Fixed Amount[(s)]: ● per ● in principal amount
- (v) Broken Amount: *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount [(s)] and the Interest Payment Date(s) to which they relate]*
- (vi) Day Count Fraction (Clause 4.9): ●
(Day count fraction should be Actual/Actual-ISMA for all fixed rate loans other than those denominated in U.S. dollars, unless specified)
- (vii) Determination Date(s) (Clause 4.9): ● in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last interest period]**
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Loans: [Not Applicable/give details]

4.2.2 Floating Rate Loan Provisions

[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Interest Commencement Date ●
- (ii) Interest Period(s): ●
- (iii) Specified Interest Payment Dates: ●

- (iv) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (v) Business Centre(s) (Clause 4.9): ●
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
- (vii) Interest Period Date(s): [Not Applicable/*specify dates*]
- (viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): ●
- (ix) Screen Rate Determination (Clause 4.3.3):
- Relevant Time: ●
 - Interest Determination Date: [● *[TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]*]
 - Primary Source for Floating Rate: [*Specify relevant screen page or “Reference Banks”*]
 - Reference Banks (if Primary Source is “Reference Banks”): [*Specify four*]
 - Relevant Financial Centre: [*The financial centre most closely connected to the Benchmark - specify if not London*]
 - Benchmark: [*LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark*]
 - Representative Amount: [*Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount*]
 - Effective Date: [*Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period*]
 - Specified Duration: [*Specify period for quotation if not duration of Interest Accrual Period*]
- (x) ISDA Determination (Clause 4.3):
- Floating Rate Option: ●
 - Designated Maturity: ●
 - Reset Date: ●

* Only to be completed for a Loan where Day Count Fraction is Actual/Actual-ISMA.

- ISDA Definitions: (if different from those set out in the Conditions) ●
- (xi) Margin(s): [+/-] ● per cent. per annum
- (xii) Minimum Rate of Interest: ● per cent. per annum
- (xiii) Maximum Rate of Interest: ● per cent. per annum
- (xiv) Day Count Fraction (Clause 4.9): ●
- (xv) Rate Multiplier: ●
- (xvi) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement: ●

5. Fees and Expenses

Pursuant to Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to VTБ, VTБ hereby agrees that it shall, two Business Days before the Closing Date, pay to the Lender, in Same-Day Funds, the arrangement fee as increased by the front-end fees, commissions and expenses incurred by the Lender in connection with financing the Loan, pursuant to an invoice submitted by the Lender to VTБ in the total amount of ●.

6. Governing Law

This Loan Supplement shall be governed by and construed in accordance with English law.

DEPOSIT AGREEMENT

The following is the text of the Deposit Agreement entered into between the Issuer and the Fiduciary. In the context of each Series of Notes and the corresponding Deposit, the Deposit Agreement should be read in conjunction with, and is qualified in its entirety by, the relevant Fiduciary Deposit Supplement for such Series and Deposit.

This Deposit Agreement is made 8 December 2003 between:

- (1) VTB Capital S.A., a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B-97,053 acting as *fiduciant* in accordance with the Trust and Fiduciary Contracts Act 2003 (as defined below) (hereafter called the “**Client**”); and
- (2) Deutsche Bank Luxembourg S.A., a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115, Luxembourg acting as fiduciary in accordance with the Trust and Fiduciary Contracts Act 2003 (hereafter called the “**Fiduciary**”).

Whereas, the Fiduciary has agreed to make available to JSC Vneshtorgbank (“**VTB**”) a loan facility in the maximum amount of the Programme Limit (as defined in the Facility Agreement) on the terms and subject to the conditions of a facility agreement dated 8 December 2003 made between the Fiduciary and VTB (the “**Facility Agreement**”), as amended and supplemented in relation to each loan (a “**Loan**”) under the Facility Agreement by a loan supplement to be dated the relevant Closing Date (each a “**Loan Supplement**” and, together with the Facility Agreement, the “**Loan Agreement**” corresponding to such Loan);

Whereas, it is intended that, concurrently with the extension of any Loan under the Facility Agreement, (i) the Fiduciary will accept a fiduciary deposit (a “**Deposit**”) from the Client in the same nominal amount and bearing the same rate of interest as such Loan, on the terms and subject to the conditions of this Agreement, as amended and supplemented in relation to each Deposit by a fiduciary deposit supplement to be dated the relevant Closing Date substantially in the form set out in the Schedule hereto (each a “**Fiduciary Deposit Supplement**” and, together with this Agreement, the “**Fiduciary Deposit Agreement**” corresponding to such Deposit) and (ii) the Client will issue certain loan participation notes in the same nominal amount bearing the same rate of interest as such Deposit.

It is hereby agreed as follows:

1. It is agreed that with respect to each Deposit, all the provisions of this Fiduciary Deposit Agreement and the corresponding Fiduciary Deposit Supplement shall apply *mutatis mutandis* separately and independently to each such Deposit and the expressions “**Closing Date**”, “**Day Count Fraction**”, “**Fee Side Letter**”, “**Fiduciary Account**”, “**Fiduciary Assets**”, “**Fiduciary Deposit Agreement**”, “**Fiduciary Fees**”, “**Fiduciary Relevant Event**”, “**Fiduciary Reserved Rights**”, “**Initial Fiduciary Assets**”, “**Notes**” and “**Specified Currency**” together with all other terms that relate to such a Deposit shall be construed as referring to those of the particular Deposit in question and not of all Deposits unless expressly so provided, so that each such Deposit shall be made pursuant to this Agreement and the relevant Fiduciary Deposit Supplement, together comprising the Fiduciary Deposit Agreement in respect of such Deposit and that, unless expressly provided, events affecting one Deposit shall not affect any other Deposit. Unless the context otherwise requires, terms used in this Agreement which are not defined herein but which are defined in the Trust Deed or the Fiduciary Deposit Supplement shall have the meanings assigned to such terms therein.
2. The Client hereby agrees to deposit on the Closing Date (as defined in the relevant Fiduciary Deposit Supplement) into a separate fiduciary account for the purposes of each Fiduciary Deposit Supplement (the “**Fiduciary Account**”) opened with the Fiduciary the amount of the Deposit set out in the relevant Fiduciary Deposit Supplement, such Deposit coming under the legal ownership of the Fiduciary (the “**Initial Fiduciary Assets**” and, together with any rights against, and monies owed by, VTB under the relevant Loan Agreement, the “**Fiduciary Assets**”), subject to the receipt of such an amount by or on behalf of the Client in connection with the issue by the Client of the

corresponding Notes. The principal amount outstanding of the Fiduciary Assets will be subject to reduction from time to time in accordance with the provisions of Clause 19 of this Agreement.

3. Simultaneously, as soon as the Initial Fiduciary Assets are credited unconditionally and irrevocably to the Fiduciary, the Client hereby irrevocably instructs the Fiduciary to grant a Loan in an amount equal to the sum of the Initial Fiduciary Assets in the Specified Currency to, and place such amount at the disposal of, VTB. The Loan is to be in the name of the Fiduciary on a fiduciary basis, but for the account and at the sole risk of the Client, according to the terms and conditions of the relevant Loan Agreement to be concluded on or about the relevant Closing Date between the Fiduciary and VTB.

The Client acknowledges knowing the content of each Loan Agreement entered into on the relevant Closing Date and agrees to the terms and conditions thereof.

4. The Fiduciary Assets will, by virtue of the Luxembourg law of 27 July 2003 on trust and on fiduciary agreements (the “**Trust and Fiduciary Contracts Act 2003**”), come under the legal ownership of the Fiduciary. The Fiduciary Assets in respect of each Fiduciary Deposit Supplement will be kept in the books of the Fiduciary separate from any and all of its other assets and separate from all other Fiduciary Assets under any other Fiduciary Deposit Supplement.
5. The Fiduciary will credit to the Fiduciary Account only and all those amounts which the Fiduciary receives from VTB under the relevant Loan Agreement specified in the Fiduciary Deposit Supplement in payment of (i) interest, principal and additional amounts (if any) under the relevant Loan Agreement and (ii) commissions, fees and expenses received pursuant to Clauses 3 and 13 of the Facility Agreement in respect of the relevant Loan Agreement (the “**Fees**”). Without prejudice to Clause 8(i) of this Agreement, the Client hereby irrevocably instructs the Fiduciary, on the day and subject and to the extent any amount is credited by the Fiduciary under this Agreement to the Fiduciary Account, to transfer (i) such amount in respect of interest, principal amounts and additional amounts (if any) under the relevant Loan Agreement credited to the Fiduciary Account to the Account (as defined in the relevant Fiduciary Deposit Supplement) and (ii) such amount in respect of Fees (as specified in the relevant Fiduciary Deposit Supplement) (less the Fiduciary Fees which the Fiduciary shall be entitled to retain in satisfaction of the obligation of the Client under the Fee Side Letter to pay the Fiduciary Fees to the Fiduciary) credited to the Fiduciary Account to or to the order of the Client, upon which transfer such amount will immediately cease to be the legal property of the Fiduciary and no longer form part of the Fiduciary Assets.

With respect to any Fees contemplated by this Clause 5, upon the presentation of any invoice of a party in connection with the Fiduciary Deposits or the funding thereof by the Client to the Fiduciary, the Fiduciary shall promptly submit a corresponding invoice to VTB for payment in accordance with Clauses 3 and 13 of the Facility Agreement. The Fiduciary shall not otherwise be responsible to any person in respect of the payment of any invoices submitted by the Client to the Fiduciary as contemplated by this Clause 5 and shall be entitled to deduct from any such payment any applicable tax, duty or similar levy. The Fiduciary shall not be responsible for any failure of VTB to make any payments, nor shall it be required to take any action to recover any amounts from VTB.

6. Subject to the provisions of this Agreement and the relevant Fiduciary Deposit Supplement, each Deposit is made with the Fiduciary for the period of the relevant Loan Agreement and will bear interest at the same rate as the rate of interest applicable to the corresponding Loan as calculated under the relevant Loan Agreement.
7. In the event of a prepayment at any time of all or part of a Loan in accordance with the terms of the relevant Loan Agreement, upon but subject to the receipt by the Fiduciary of any amounts in respect of principal, interest and additional amounts (if any) pursuant to such prepayment, the Fiduciary will credit such amounts to the Fiduciary Account and, upon such action, its obligations in respect of the payment of interest and principal in respect of the Fiduciary Assets under the relevant Fiduciary Deposit Agreement shall be correspondingly reduced and correspondingly discharged.
8. All payments to be made by the Fiduciary under the relevant Fiduciary Deposit Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear

of and without deduction for or on account of any Taxes. If the Fiduciary under the relevant Fiduciary Deposit Agreement or the Client under the terms of the relevant Notes shall be required by applicable law to make any deduction or withholding from any payment under the relevant Fiduciary Deposit Agreement or the Notes, as the case may be, for or on account of any Taxes, the Client shall notify the Fiduciary in the case of deductions or withholding in respect of the relevant Notes and, in either case, the Fiduciary shall notify VTB in accordance with Clause 6.3 of the relevant Loan Agreement and, subject to receipt of an additional amount from VTB under the terms of the relevant Loan Agreement, either (i) in respect of deductions or withholding in respect of the relevant Fiduciary Deposit Agreement, increase any payment due hereunder to such amount as may be necessary to ensure that the Client receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes and account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law or (ii) in respect of deductions or withholding in respect of the relevant Notes, transfer any such additional amount received from VTB in this respect to the Fiduciary Account. In connection with payments due to the Fiduciary hereunder, the Client waives all right of set off or counterclaim which it might have against the Fiduciary.

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Fiduciary to make any deduction, withholding or payment as described in this Clause 8, then, without in any way limiting, reducing or otherwise qualifying the Client's rights, or the Fiduciary's obligations, under this Clause, such party shall promptly upon becoming aware of such circumstances notify the other party and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances.

For the purposes of this Agreement:

"Notes" means the series of loan participation notes specified in the Fiduciary Deposit Supplement to be issued by the Client pursuant to a trust deed to be executed between it and Citicorp Trustee Company Limited (the **"Trustee"**) to be dated 8 December 2003 (the **"Trust Deed"**) (as supplemented by a supplemental trust deed to be dated on or about the relevant Closing Date) to fund the relevant Deposit; and

"Taxes" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Grand Duchy of Luxembourg or any tax authority thereof or therein.

9. The Client shall use its best endeavours to obtain any tax credits or refunds available to it, and the Client shall disclose to the Fiduciary any information regarding its tax affairs or computations requested by the Fiduciary. To the extent that the Client subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which it has received a payment pursuant to Clause 8 of this Agreement, the Client shall promptly notify the Fiduciary of such tax credits, allowances or reimbursement obtained and used and promptly pay to the Fiduciary for onward credit to VTB so much of the benefit it received as will leave the Client in substantially the same position as it would have been had no such tax credit or allowance or other reimbursement referred to in this Clause 9 been received; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Fiduciary under this Clause 9, the amount of any such payment and the timing of any such payment, shall be determined solely by the Client.
10. Disbursed expenses, as well as all other costs, taxes or fees of the Fiduciary in connection with the execution of the relevant Fiduciary Deposit Supplement (the **"Fiduciary Fees"**) will be agreed pursuant to the terms of a fees side letter dated on or about the date of the relevant Fiduciary Deposit Supplement between, *inter alia*, the Fiduciary, the Client and the Dealers in respect of a Series of

Notes of the Client (the “**Fee Side Letter**”) and the Fiduciary shall deduct the Fiduciary Fees in accordance with Clause 5.

11. The Fiduciary shall have no other liability in its capacity as fiduciary in accordance with the Trust and Fiduciary Contracts Act 2003 than to make available to VTB loans in accordance with the Facility Agreement and any Loan Supplement and to comply with terms of this Agreement, the Facility Agreement, any Loan Supplement and any Fiduciary Deposit Supplement. The Fiduciary in particular shall be under no obligation to make any investigation into, or shall not be responsible or liable for (i) the creditworthiness of the Client or VTB; (ii) the validity, legality, effectiveness or enforceability of the obligations of any such person as referred to in (i) above; (iii) whether any Loan Agreement is valid, binding or enforceable and has been executed by duly authorised officers of any parties thereto other than the Fiduciary or (iv) whether all consents, licenses, approvals, registrations, authorisations or declarations (including without limitation foreign exchange approvals) required under any Loan Agreement or the execution and delivery thereof and performance of any transactions thereunder have been obtained and are in full force and effect (other than those applicable to the Fiduciary). Furthermore, the Fiduciary shall be under no obligation (a) to require any form of security or guarantee to be granted by VTB or a third party, (b) subject to Clause 13, to take any measures to enforce payment of interest on, or prepayment of, any Loan by VTB, (c) to contest any imposition of taxes, fees or costs, (d) to oppose seizure, arrest or other restrictions imposed on any Loan or the Fiduciary Assets by any courts or public authorities or (e) to assess or keep under review the creditworthiness of VTB.
12. So long as any principal, interest or additional amounts (if any) under any Loan Agreement remains outstanding, the Fiduciary will not, without the prior written consent of the Client, make any determination (save in respect of sub-Clause 5.3 of the Facility Agreement) under or agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms and conditions of such Loan Agreement and will act at all times in accordance with any instructions of the Client from time to time with respect to such Loan Agreement save as otherwise required by applicable law. In performing its responsibilities and fiduciary duties, exercising its discretions under this Agreement and holding the Fiduciary Assets, the Fiduciary shall exercise the standard of care of a prudent fiduciary in connection with the administration of assets and liabilities similar to the Fiduciary Assets.
13. The Fiduciary is not automatically, without written instructions and an adequate advance for costs (as determined by the Fiduciary) from the Client, obliged to take any judicial or extra-judicial steps against VTB, if VTB does not perform in time any of its obligations under any Loan Agreement.

Upon the occurrence of an Event of Default (as defined in the relevant Loan Agreement) under the Facility Agreement or a Fiduciary Relevant Event, the Client instructs the Fiduciary to, and the Fiduciary will, give notice to the Client and promptly take all necessary actions to assign to the Client, or any assignee or transferee of the Client, and the Client will accept such assignment, of any and all of the Fiduciary’s rights (save in respect of any Fiduciary Reserved Rights) against VTB under the relevant Loan Agreement and the Fiduciary will, after such assignment and payment to the Client, or assignee or transferee of the Client, as the case may be, of all sums standing to the credit of the Fiduciary Account, have no further obligations under the relevant Fiduciary Deposit Agreement.

“**Fiduciary Relevant Event**” means the earlier of the failure by the Fiduciary to make any payment of principal or interest under the Fiduciary Deposit Agreement when due, the filing of an application for the institution of bankruptcy, liquidation, controlled management (*“gestion contrôlée”*), suspension of payments, insolvency, moratorium, general settlement with creditors (*“concordat préventif de faillite”*) or composition proceedings over the assets of the Fiduciary in Luxembourg, or the taking of any action for the liquidation, stay of payments or controlled management procedure in relation to the Fiduciary, or the taking of any action in furtherance of the dissolution of the Fiduciary.

“**Fiduciary Reserved Rights**” are the rights to be excluded from the assignment of the Fiduciary’s rights under the relevant Loan Agreement, being all and any rights, interests and benefits in respect

of the rights of the Fiduciary under the following Clauses of the Facility Agreement: 3.2, 6.2 (to the extent that VTB is to reimburse the Fiduciary on demand for any amount paid by the Fiduciary in respect of Russian Federation taxes, penalties or interest), 8, 12 and 14.2 (to the extent that VTB shall reimburse the Fiduciary on demand for any amount paid by the Fiduciary in respect of any stamp, registration and documentary taxes or similar charges of the relevant Loan Agreement).

14. Without prejudice to the provisions of Clause 13 of this Agreement, the Fiduciary may by giving not less than 90 days' written notice to the Client, resign as the Fiduciary and transfer all of its rights and obligations under each Fiduciary Deposit Agreement to a Qualified Financial Institution; provided that such resignation shall take effect only on the date specified in such notice which shall be the same date as the date upon which such Qualified Financial Institution is substituted for the Fiduciary as the lender under the each Loan Agreement.

For the purposes of this Clause 14, "**Qualified Financial Institution**" means a bank incorporated or established under the laws of Luxembourg which:

- (a) is qualified and authorised to act as a fiduciary under Luxembourg law;
- (b) has itself or is part of a group which has a long-term debt rating by Standard & Poor's Rating Services of at least "A"- and/or Moody's Investors Service Limited of at least "A3";
- (c) is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg; and
- (d) does not have a permanent establishment in Russia.

In the event a successor Qualified Financial Institution is appointed to act as fiduciary, the Fiduciary shall deliver to the successor fiduciary all Fiduciary Assets in its power in respect of each Fiduciary Deposit Agreement, and provide information in connection with each Fiduciary Deposit Agreement or Loan Agreement as is in its possession and is sufficient to allow the successor fiduciary to perform its obligations under each Fiduciary Deposit Agreement and each Loan Agreement after all amounts due to the Fiduciary have been paid and the successor fiduciary shall accede to each Fiduciary Deposit Agreement and at such time give the same representations, warranties and undertakings as set out herein.

15. The Client may only assign or transfer, in whole or part, any of its rights and benefits or obligations under any Fiduciary Deposit Agreement, without the consent of the Fiduciary, to the Trustee.
16. The Fiduciary represents and warrants that it is a bank validly incorporated in the Grand Duchy of Luxembourg, that it has obtained all necessary corporate and regulatory approvals to enter into the relevant Fiduciary Deposit Agreement and the relevant Loan Agreement and that each of the relevant Fiduciary Deposit Agreement and the relevant Loan Agreement constitutes its valid, legal and binding obligations.
17. The Fiduciary agrees to pass promptly to the Client copies of all certificates and information received by it under the relevant Loan Agreement.
18. The relevant Fiduciary Deposit Agreement shall remain in force up to whichever is the earlier of (i) the receipt by the Fiduciary of all amounts payable under the relevant Loan Agreement, the crediting of such amounts to the Fiduciary Account and the onward payment of such amounts in accordance with Clause 5 of this Agreement or (ii) the perfection of any of the assignments or the substitution provided for in this Agreement.
19. The relevant Loan Agreement provides that VTB or any of its Subsidiaries (as defined therein) may at any time and from time to time purchase Notes in the open market or by tender or by private agreement at any price. In the event that the Client notifies the Fiduciary that an amount of Notes has been surrendered to it for cancellation by VTB or any of VTB's subsidiaries and have been cancelled, each of the Fiduciary Assets and the relevant Facility Agreement shall be deemed to have

been prepaid by the Fiduciary and VTB respectively in an amount corresponding to the aggregate principal amount of the Notes surrendered to the Client for cancellation, together with accrued interest (if any) thereon and no further payment shall be made or required to be made by the Fiduciary in respect of such amounts. The Fiduciary shall keep proper records of the amount of each of the Fiduciary Assets and the relevant Loan outstanding and, in each case, interest payable in respect thereof.

- 20.** The Fiduciary shall be authorised to rely on any instructions issued by the Client as being properly issued and shall not incur any liability hereunder by acting in accordance with any such instructions. This Agreement and each Fiduciary Deposit Agreement are governed by, and will be construed in accordance with, the laws of the Grand Duchy of Luxembourg and in particular the Trust and Fiduciary Contracts Act 2003. Court of venue is Luxembourg City. However, each party is entitled to bring legal proceedings in any other competent courts. The parties hereby agree that the courts of England shall constitute competent courts for this purpose and in this respect each of the parties to this Agreement submits to the jurisdiction of the courts of England in respect of any disputes arising hereunder.
- 21.** Amendments to and supplemental provisions of this Agreement and any Fiduciary Deposit Agreement must be agreed in writing.

Should provisions laid down in this Agreement or the relevant Fiduciary Deposit Supplement be or become in whole or in part legally invalid or impracticable, the remaining provisions of this Agreement or the relevant Fiduciary Deposit Supplement shall remain in effect.

This Fiduciary Deposit Supplement is made on [SIGNING DATE] **between:**

- (1) VTB Capital S.A., a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B-97,053 acting as fiduciant in accordance with the Trust and Fiduciary Contracts Act 2003 (hereafter called the “**Client**”); and
- (2) Deutsche Bank Luxembourg S.A., a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg acting as fiduciary in accordance with the Trust and Fiduciary Contracts Act 2003 (hereafter called the “**Fiduciary**”).

Whereas:

- (A) the Client has entered into a deposit agreement dated 8 December 2003 (the “**Deposit Agreement**”) with the Fiduciary; and
- (B) the Client proposes to make a deposit of ● (the “**Deposit**”) and the Fiduciary wishes to accept such Deposit on the terms set out in the Deposit Agreement and this Fiduciary Deposit Supplement.

It is agreed as follows:

1. Definitions

Capitalised terms used but not defined in this Fiduciary Deposit Supplement shall have the meaning given to them in the Deposit Agreement save to the extent supplemented or modified herein.

2. Additional Definitions

For the purpose of this Fiduciary Deposit Supplement, the following expressions used in the Deposit Agreement shall have the following meanings:

“**Account**” means the account in the name of the Client with the Principal Paying Agent (account number ●, ●);

“**Closing Date**” means ●;

“**Fiduciary Deposit Agreement**” means the Deposit Agreement as amended and supplemented by this Fiduciary Deposit Supplement;

“**Loan Agreement**” means the Facility Agreement and the Loan Supplement dated ●.

“**Notes**” means ● [● per cent.][Floating Rate] Loan Participation Notes due ● issued by the Client as Series ● under the Programme; and

“**Specified Currency**” means ●.

3. Incorporation by Reference

Except as otherwise provided, the terms of the Deposit Agreement shall apply to this Fiduciary Deposit Supplement as if they were set out herein and the Deposit Agreement shall be read and construed, only in relation to the Deposit constituted hereby, as one document with this Fiduciary Deposit Supplement.

4. The Deposit

Subject to the terms and conditions of the Deposit Agreement, the Client agrees to make the Deposit on the Closing Date with the Fiduciary and the Fiduciary shall accept such amount as the full amount of the Deposit.

5. Fees and Expenses

Pursuant to Clause 5 of the Deposit Agreement and in consideration of the Client making the Deposit with the Fiduciary, the Fiduciary hereby agrees that it shall, subject to and to the extent that an equivalent amount is received from VTB pursuant to the relevant Loan Agreement, two Business Days before the Closing Date, pay to the Client, in Same-Day Funds, the amount of ● (which represents, *inter alia*, the full amount of the Fees, referred to in Clause 5 of the Deposit Agreement, that are payable on the Closing Date, though not in respect of any subsequent date), less the amount in respect of the Fiduciary Fees pursuant to Clause 5 of the Deposit Agreement.

6. Governing Law

This Fiduciary Deposit Supplement shall be governed by and construed in accordance with the laws of the Grand Duchy of Luxembourg and in particular the Trust and Fiduciary Contracts Act 2003.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion and amendment in accordance with the provisions of the relevant Pricing Supplement) will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Notes representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the “**Supplemental Trust Deed**”) supplemental to a trust deed (as amended or supplemented, the “**Principal Trust Deed**”) dated 8 December 2003, each made between VTB Capital S.A. (the “**Issuer**”) and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee and successors thereof for the holders of the Notes (the “**Noteholders**”). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the “**Trust Deed**”.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of making a fiduciary deposit, as specified hereon (the “**Deposit**”) with Deutsche Bank Luxembourg S.A. (the “**Fiduciary**”) under a deposit agreement (the “**Deposit Agreement**”) dated 8 December 2003, as supplemented on the Issue Date by a fiduciary deposit supplement (the “**Fiduciary Deposit Supplement**”) each between the Issuer and the Fiduciary (together, the “**Fiduciary Deposit Agreement**”). Under the terms of the Fiduciary Deposit Agreement, the Fiduciary will apply the Deposit for the sole purpose of financing a loan (the “**Loan**”) as specified hereon to JSC Vneshtorgbank (“**VTB**”). The Fiduciary and VTB have recorded the terms of the Loan in a facility agreement (the “**Facility Agreement**”) dated 8 December 2003, as supplemented on the Issue Date specified hereon by a loan supplement (the “**Loan Supplement**”), each between the Fiduciary and VTB (together, the “**Loan Agreement**”).

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Fiduciary Deposit Agreement. The obligation of the Fiduciary to make any payment under the Fiduciary Deposit Agreement of any amount equivalent to amounts of principal, interest and additional amounts (if any) are subject to receipt by the Fiduciary of such amounts under the terms of the Loan Agreement.

The Issuer (i) has charged by way of first fixed charge in favour of the Trustee certain of its rights and interests as depositor under the Fiduciary Deposit Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the “**Charge**”), (ii) has assigned absolutely to the Trustee certain other rights under the Fiduciary Deposit Agreement (other than any rights and benefits constituting Issuer Reserved Rights (as defined in the Trust Deed) which includes rights in respect of any future assignment by the Fiduciary of its rights in respect of the Loan Agreement to the Issuer (the “**Loan Assignment**”) and (iii) has assigned absolutely to the Trustee all of its rights and interests under the Loan Agreement if assigned to it pursuant to a Loan Assignment (such assignment to the Trustee of any rights under the Loan Agreement together with the rights assigned under the Fiduciary Deposit Agreement and the Charge, the “**Security Interests**”). In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed)

of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Fiduciary or, in the event of a Loan Assignment, VTB) pursuant to, a paying agency agreement (the “**Agency Agreement**”) dated 8 December 2003 and made between the Issuer, the Fiduciary, Citibank N.A., London Branch as principal paying agent, registrar and transfer agent (the “**Principal Paying Agent**”) and Deutsche Bank Luxembourg S.A. as payment agent and transfer agent (the “**Paying Agent**” or “**Transfer Agent**”), which shall include any additional or successor transfer agents or registrar), VTB and the Trustee.

Copies of the Trust Deed, the Loan Agreement, the Fiduciary Deposit Agreement, the Agency Agreement and the Pricing Supplement are available for inspection at the principal office of the Trustee, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent in Luxembourg.

The statements contained in these Terms and Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Deposit Agreement (the form of which is scheduled to and incorporated in the Trust Deed), the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed), the Pricing Supplement, the Fiduciary Deposit Supplement, the Loan Supplement and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to make the Deposit. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for making the Deposit and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Fiduciary Deposit Agreement.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement will be made pro rata among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker’s lien or to combine accounts or counterclaim that may arise out of other transactions among the Issuer, the Fiduciary and/or VTB.

Noteholders have notice of, and have accepted, these Terms and Conditions, the Pricing Supplement and the contents of the Trust Deed, the Fiduciary Deposit Agreement and the Loan Agreement, and have hereby accepted that:

- 1.1** neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by the Fiduciary and VTB of their respective obligations under the Fiduciary Deposit Agreement and the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Fiduciary under the Fiduciary Deposit Agreement or VTB under the Loan Agreement;
- 1.2** neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Fiduciary or VTB;

- 1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Fiduciary under or in respect of the Fiduciary Deposit Agreement or of VTB under or in respect of the Loan Agreement;
- 1.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any Paying Agent, Registrar or Transfer Agent of their respective obligations under the Agency Agreement;
- 1.5 the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Fiduciary of its obligations under the Fiduciary Deposit Agreement and by VTB of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Fiduciary has represented and warranted to the Issuer that the Fiduciary Deposit Agreement constitutes a legal, valid and binding obligation of the Fiduciary, and VTB has represented and warranted to the Issuer that the Loan Agreement constitutes a legal, valid and binding obligation of VTB; and
- 1.6 the Issuer and the Trustee shall be entitled to rely on (i) calendar quarterly Officer's Certificates (as defined in the Loan Agreement) as to whether or not an Event of Default or Potential Event of Default (each as defined in the Loan Agreement) has occurred and (ii) Officer's Certificates specifying the Principal Subsidiaries (as defined in the Loan Agreement) of VTB and shall not otherwise be responsible for investigating any aspect of the VTB's performance in relation thereto or the Fiduciary's performance of its obligations under the Fiduciary Deposit Agreement and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by VTB or payments under the Fiduciary Deposit Agreement are made by the Fiduciary to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Fiduciary Deposit Agreement or the Deposit or, in the event of a Loan Assignment, the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Fiduciary Deposit Agreement or the Loan Agreement or direct recourse to the Fiduciary or VTB except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Fiduciary Deposit Agreement or the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

2. Form, Denomination and Title

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon or integral multiples thereof, without interest coupons.

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3. Register, Title and Transfers

The Registrar will maintain a register (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the “holder” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “Noteholder” shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding.

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

A Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of a Transfer Agent, together with such evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

Subject to the last paragraph of this Condition, within five business days of the surrender of a Note in accordance with the immediately preceding paragraph above, the Registrar will register the transfer in question and deliver a new Note to each relevant holder at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “business day” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest or in the date of optional redemption in respect of the Notes.

4. Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not (and will not consent to any request of the Fiduciary to), without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Fiduciary Deposit Agreement or the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement, except as otherwise expressly provided in the Fiduciary Deposit Agreement and the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys (other than issuing any Series of Notes), engage in any other business (other than acquiring and holding the Security Interests in respect of each Series issuing Notes, making deposits with the

Fiduciary pursuant to the Deposit Agreement and performing any act incidental to or necessary in connection with the foregoing), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these conditions and the Trust Deed), issue any shares, give any guarantee or assume any other liability, or subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

5. Interest

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified hereon which shall be equal to the rate per annum at which interest under each of the Fiduciary Deposit and the Loan accrues. Accordingly, on each Interest Payment Date or as soon thereafter as the same shall be received by the Issuer, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer under the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan received by or for the account of the Issuer pursuant to the Loan Agreement, as the case may be.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon.

(b) **Interest on Floating Rate Notes:**

- (i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under each of the Fiduciary Deposit and the Loan accrues, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date or as soon thereafter as the same shall be received by the Issuer, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Fiduciary Deposit or, in the event of a Loan Assignment, the Loan received by or for the account of the Issuer pursuant to the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be.
- (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and as set out in the Fiduciary Deposit Agreement, or in the event of a Loan Assignment, the Loan Agreement.
- (c) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (d) **Calculations:** The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction as specified hereon and in the Fiduciary Deposit Agreement, or in the event of a Loan Assignment, the Loan Agreement, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.
- (e) **Publication of Rates of Interest and Interest Amounts:** As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Fiduciary Deposit Agreement and the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, the Fiduciary, VTB, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable as a consequence of amounts under the Fiduciary Deposit Agreement and the Loan Agreement becoming due and payable prior to the Repayment Date (as defined in the Loan Agreement), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.
- (f) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Fiduciary Deposit Agreement and the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The Trustee shall incur no liability in respect of such determination or calculation.

6. Redemption and Purchase

- (a) **Final Redemption:** Unless the Loan is previously prepaid or repaid pursuant to Clauses 5.2, 5.3 or 5.4 of the Facility Agreement, the Fiduciary will be required to repay the Deposit and VTB will be required to repay the Loan on the Repayment Date and, subject to such repayment, as set forth in the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement, all the Notes then remaining outstanding will on that date be redeemed or repaid by the Issuer in the relevant Specified Currency on the Redemption Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 per cent. of the principal amount thereof).
- (b) **Early Redemption:** If the Deposit or, in the event of a Loan Assignment, the Loan should become repayable in full (and be repaid in full) pursuant to the terms and conditions of the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be, prior to its Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Issuer Reserved Rights) following acceleration of the Deposit and the Loan, the Issuer shall pay an amount equal to and in the same currency as such amounts on the business day following receipt of such amounts, subject as provided in Condition 7.

- (c) **Redemption at the Option of Noteholders:** If a Put Option (as defined below) shall occur while a Note is outstanding, the holder of each such Note will have the option (unless, prior to the delivery of the Put Option Notice referred to below, the Issuer gives notice under Condition 6(b) to require the Issuer to redeem that Note) on the Put Settlement Date (as defined below) at its principal amount together with accrued interest and additional amounts as defined in Condition 8 (if any) to the Put Settlement Date.

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a **"Put Event Notice"**) to the Noteholders in accordance with Condition 14, specifying the details relating to the occurrence of the Put Event and the procedure for exercising the option contained in this Condition 6(c).

In order to exercise the option contained in the Condition 6(c), the holder of a Note must deliver no later than 30 days after the Put Event Notice is given (the **"Put Period"**), to the specified office of the Principal Paying Agent or any Paying Agent evidence satisfactory to the Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a **"Put Option Notice"**) specifying the principal amount of the Notes in respect of which such option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or the Paying Agent will provide such Noteholder with a receipt. Provided that the Notes that are the subject of any such Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from the Fiduciary or, in the event of a Loan Assignment, VTB and (ii) as provided in Condition 7) redeem all such Notes on the date falling five Business Days after the expiration of the Put Period (the **"Put Settlement Date"**). No Put Option Notice, once delivered in accordance with this Condition 6(c), may be withdrawn.

For the purposes of these Conditions, a **"Change of Control"** shall occur at any time that the Ministry of Property Relations of the Russian Federation and/or any other federal state agencies appropriately authorised to hold the shares of VTB (i) ceases to own or control (directly or indirectly) 50% plus one share of the issued and outstanding voting share capital of VTB; or (ii) no longer has the right to appoint or remove a majority of VTB's supervisory council.

"Put Option" means a Change of Control has occurred.

- (d) **Purchase:** The Facility Agreement provides that VTB or any of its Subsidiaries (as defined therein) may at any time and from time to time purchase Notes in the open market or by tender or by private agreement at any price. Such Notes may be held, sold in the open market or, at the option of VTB or such Subsidiary, surrendered by VTB or such Subsidiary, as the case may be, to the Issuer for cancellation, whereupon the Issuer shall instruct the Principal Paying Agent to cancel such Notes and notify the Fiduciary of such cancellation. Upon such cancellation by or on behalf of the Principal Paying Agent, each of the relevant Deposit and Loan shall be deemed to have been prepaid by the Fiduciary and VTB, respectively, in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest (if any) thereon and no further payments shall be made or required to be made by the Issuer in respect of such Notes.

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 Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the TARGET System (a **“Bank”**) and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

If the due date for payments of interest or principal is not a business day, a Noteholder shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, **“business day”** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as **“Financial Centres”** hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a business day on which the TARGET system is operating.

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will be a Paying Agent and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26–27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order

to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement.

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 7 of the Agency Agreement require the Fiduciary or VTB, as the case may be, to make all payments of principal and interest to be made pursuant to the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the "**Account**"). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

8. Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Russian Federation or Luxembourg or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall pay such additional payments ("additional amounts") as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from the Fiduciary under the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, from VTB under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from the Fiduciary or VTB, as the case may be, the Issuer will account to each Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be, on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer provided that no such additional amount will be payable in respect of any Note:

- 8.1** 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 Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement first becomes due but (ii) if the full amount payable by the Fiduciary or VTB, as the case may be, has not been received by, or for the account of, the Issuer pursuant to the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be, on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

At any time after the occurrence of an Event of Default (as defined in the Facility Agreement) or of either an Issuer Relevant Event (as defined in the Trust Deed) or a Fiduciary Relevant Event (as defined in the Fiduciary Deposit Agreement), the Trustee may, at its discretion and without notice and shall, if requested to do so by Noteholders owning 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, declare all amounts payable under the Fiduciary Deposit Agreement or, following a Loan Assignment, the Loan Agreement by the Fiduciary or VTB, as the case may be, to be due and payable (in the case of an Event of Default), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of an Issuer Relevant Event or a Fiduciary Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10. Meetings of Noteholders; Modification of Notes, Trust Deed, Fiduciary Deposit Agreement and Loan Agreement; Waiver; Substitution of the Issuer; Appointment/Removal of Trustees

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Fiduciary Deposit Agreement, the Loan Agreement or the Trust Deed. Noteholders will vote according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Fiduciary Deposit Agreement or the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed, the Fiduciary Deposit Agreement and the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders.

The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Terms and Conditions of the Notes or the Trust Deed, by the Fiduciary of the terms of the Fiduciary Deposit Agreement or by VTB of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee,

to do so would not be materially prejudicial to the interests of the Noteholders (as a class). Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of VTB shall, having obtained the consent of VTB (if such substitution is not to be made at the request of VTB) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed and as party to the Fiduciary Deposit Agreement, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Fiduciary Deposit Agreement being charged and assigned or, following a Loan Assignment, the substitute's rights under the Loan Agreement being assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. The Trustee shall also agree to any change of the Fiduciary in accordance with the terms of the Fiduciary Deposit Agreement.

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

The Trust Deed contains provision for the appointment or removal of a Trustee by a meeting of Noteholders passing an extraordinary resolution, provided that, in the case of the removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such retirement shall not become effective unless there remains a trustee in office after such retirement.

11. Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12. Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction. The Trustee is entitled to enter into contracts or transactions with the Issuer, the Fiduciary and/or VTB and any entity related to the Issuer, the Fiduciary and/or VTB without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Fiduciary Deposit Agreement, the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed, for the performance by the Fiduciary of its obligations under or in respect of the Fiduciary Deposit Agreement or for the performance by VTB of its obligations under or in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

13. Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of the Registrar in Luxembourg 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 approved by the Trustee, currently expected to be the *Luxemburger Wort*. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will enter into a fiduciary deposit agreement supplemental to the Fiduciary Deposit Agreement with the Fiduciary on substantially the same terms as the Fiduciary Deposit Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Deposit) and the Fiduciary will enter into a loan agreement supplemental to the Loan Agreement with VTB on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Loan). The Issuer will provide a further fixed charge in favour of the Trustee in respect of certain of its rights and interests under such fiduciary deposit agreement and will assign absolutely certain of its rights under such fiduciary deposit agreement and loan agreement which will secure both the Notes and such further Notes and which will supplement the Security Interests in relation to the existing Notes of such Series.

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.

TRANSFER RESTRICTIONS

Each purchaser of Notes and each subsequent purchaser of Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time 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 under the U.S. Securities Act of 1933 (“Regulation S”)) and (b) it is not an affiliate of the Issuer, VTB or a person acting on behalf of such an affiliate.
- (2) 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.
- (3) It understands that the Notes will be evidenced by a global Note and that Notes in definitive form will only be available to Noteholders in certain limited circumstances as described in “Summary of the Provisions Relating to the Notes in Global Form”.
- (4) It acknowledges that the Issuer, VTB, the Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is not longer accurate, it shall promptly notify the Issuer, VTB and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

Each Series of Notes will be evidenced on issue by a Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

Beneficial interests in a Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. By acquisition of a beneficial interest in a Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, if it determines to transfer such beneficial interest prior to the expiration of the 40 day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “Transfer Restrictions”.

No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in a Global Note will not be entitled to receive physical delivery of certificated Notes in definitive form (the “Definitive Notes”). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- *Payments.* Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.
- *Notices.* So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).
- *Meetings.* The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.
- *Trustee's Powers.* In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.
- *Redemption at the Option of Noteholders.* If a Put Option (as defined in the “Terms and Conditions of the Notes”) occurs, the Issuer must, upon becoming aware of the occurrence of a Change of Control, promptly give notice to the Noteholders in accordance with the “Terms and Conditions of the Notes” and the standard procedures of Euroclear and Clearstream, Luxembourg of such Change

of Control. For so long as all of the Notes are represented by the relevant Global Note and such Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg, such option of the Noteholders to require redemption of the Notes may be exercised by an accountholder (shown in the records of Euroclear and/or Clearstream, Luxembourg as the holder of Notes) giving notice to a Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg of the principal amount of the Notes in respect of which such option is to be exercised, not later than 30 days after the Issuer has given the notice of the Change of Control referred to above. Following presentation of the relevant Global Note to the Principal Paying Agent for notation, the Issuer shall (subject to certain limitations on the obligation of payment of the Issuer in Condition 7) redeem the relevant proportion of the Global Note five business days after the expiration of the 30 day period detailed above and the Paying Agent will mark down the Global Note in accordance with the terms of the Agency Agreement.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer or by any person(s) empowered by the board of directors of the Issuer to sign on behalf of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or the Transfer Agent and the Noteholders of its intention to exchange the relevant Global Note for definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for definitive Notes and the Issuer will, at the cost of VTB (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

Transfer of Definitive Notes

A Definitive Note is transferable by execution of the form of transfer endorsed thereon under the hand of the registered holder of such Definitive Note or, where the registered holder is a corporation, under its common seal or under the hand of two of its officers duly authorised in writing. The Definitive Notes to be transferred must be delivered for registration to the specified office of the Registrar or the Transfer Agent with the form of transfer endorsed thereon or attached thereto duly completed and executed and must be accompanied by such documents, evidence and information as may be required pursuant to the “Terms and Conditions of the Notes” and such other evidence as the Registrar may reasonably require to prove the title of the transferor or his right to transfer the Definitive Note. Where a Noteholder has transferred part only of his holding of Notes there shall be delivered to such Noteholder, without charge, a Definitive Note in

respect of the balance of such holding. Neither the Issuer nor the Registrar shall make any charge to the Noteholders for the registration of a transfer of any Note. No transfer of a Note may be effected otherwise than in accordance with the provisions of any restrictions on transfer specified in the legends set forth on the face of such Note.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in a Dealer Agreement dated December 8, 2003 (the “Dealer Agreement”) between the Issuer, VTB, the Fiduciary, the Permanent Dealers and the Arrangers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, inter alia, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer, the Fiduciary and VTB has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes 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. Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that:

- The Notes 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.
- Prior to the expiration of 40 days after the commencement of the offering of any Series of Notes, the Notes may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons and any such sales conducted by a broker/dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act. Thereafter, the Notes 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, or not subject to, the registration requirements of the Securities Act.
- Except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes of any Series (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of such Series as determined, and certified to the Principal Paying Agent by such Dealer (or, in the case of a Series of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases any 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.

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

This Offering Circular has been prepared by the Issuer and VTB for use in connection with the offer and sale of the Notes outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the

United States. Distribution of this Offering Circular by a non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is prohibited.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (i) in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date of the Notes will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (ii) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;
- (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (iv) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the such Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each Dealer has represented, warranted and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except in compliance with Russian law. The Notes may not be sold or offered to or for the benefit of any person (including legal entities) that are resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except in compliance with Russian law.

Since no Russian issue prospectus has been registered or is intended to be registered with respect to the Notes, no person should at any time carry out any activities in breach of the restrictions set out above.

Luxembourg

Each Dealer has represented, warranted and agreed that no public offerings or sales of the Notes or any distribution of any offering material relating to any Series of Notes will or may be made to the public in or from Luxembourg, except for the Series of Notes in respect of which the requirements of Luxembourg law concerning public offerings of securities in or from Luxembourg have been fulfilled. A listing of any Series of Notes on the Luxembourg Stock Exchange does not necessarily imply that a public offering in or from Luxembourg has been authorised.

General

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which they offer, sell or deliver Notes or distribute this Offering Circular (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or VTB.

No action has or will be taken in any jurisdiction by the Issuer, VTB or any of the Dealers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Dealer has undertaken to the Issuer and VTB that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

These selling restrictions may be modified by the agreement of the Issuer, VTB and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

TAXATION

The following is a general description of certain tax laws relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of every Series of Notes. Prospective purchasers of any Series of Notes are advised to consult their own tax advisors as to the consequences of the purchase, ownership and disposition of any Series of Notes in light of their particular circumstances, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of any Series Notes.

Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of any Series of Notes as well as taxation of interest payments on any corresponding Loan. The summary is based on the laws of Russia in effect on the date of this Offering Circular. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia, nor does the summary seek to address the availability of double tax treaty relief in respect of any Series of Notes, or practical difficulties involved in claiming such double tax treaty relief.

Prospective investors should consult their own tax advisors regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets. For the purposes of this summary, a “non-resident Noteholder” means:

- a physical person actually 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 its permanent establishment in Russia.

A resident Noteholder means any person not qualifying as a non-resident Noteholder.

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

Taxation of the Notes

Non-Resident Noteholders

A non-resident Noteholder which is a legal entity or organisation should not be subject to Russian tax on any gain on sale or other disposition of the Notes even if payment is received from a source within Russia, although there is some residual uncertainty regarding the treatment of the portion of the proceeds from disposition of the Notes that is attributable to accrued interest on the Notes. Such accrued interest may be distinguished from the total proceeds and taxed at a rate of 20%, even if the disposal results in a capital loss.

Withholding tax on interest may be reduced or eliminated in accordance with the provisions of an applicable double tax treaty. However, there is no assurance that advance treaty relief would be available and obtaining a refund can be extremely difficult, if not impossible. Non-resident holders that are legal persons or organisations should consult their own tax advisors with respect to this possibility.

A non-resident Noteholder who is a physical person should generally not be subject to any Russian taxes in respect of gains or other income realised on sale or other disposition of the Notes outside Russia. In certain circumstances, if the disposal proceeds are payable by a Russian legal entity or organisation, or by an

individual entrepreneur, the payer may be required to withhold tax at 30% from such gain or income. If the Notes are disposed of in Russia, gains or other income realised thereon are likely to be regarded for personal income tax purposes as Russian-source income, and, as such, will be subject to tax at the rate of 30%. In such a situation, there is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes, the currency of sale and Roubles. This tax may be reduced or eliminated pursuant to the provisions of an applicable double tax treaty, although, in practice, it is not certain that advance treaty relief will be available, whilst obtaining a refund of the taxes withheld can be extremely difficult, if not impossible. Non-resident holders who are physical persons should consult their own tax advisors with respect to this possibility.

Resident Noteholders

A resident Noteholder will be subject to all applicable Russian taxes in respect of gains from disposition of the Notes and interest received on the Notes.

Taxation of Interest on the Loan

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

If interest under a Loan becomes payable to the Issuer pursuant to a Loan Assignment, payments of interest on such an assigned Loan should not be subject to withholding tax under the terms of the double tax treaty between Russia and Luxembourg. If interest under a 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%.

For treaty relief from Russian withholding tax, preliminary approval from the Russian tax authorities is neither required nor possible. However, the Russian tax authorities may subsequently scrutinise the Issuer's or the Fiduciary's eligibility for treaty relief during tax audits.

If payments under any Loan are subject to any withholding of Russian tax (as a result of which the Issuer would reduce payments under the corresponding Series of Notes or the Fiduciary would reduce payments under the corresponding Deposit, as the case may be, in the amount of such withholding), VTB is obliged (subject to certain conditions) to increase payments (pay additional amounts) 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 gross-up provisions may not be enforceable under Russian law. If VTB is obliged to increase payments (pay additional amounts), it may (without premium or penalty), subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes of the corresponding Series and the corresponding Deposit would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of redemption.

No value-added tax will be payable in Russia in respect of interest and principal payments under each Loan.

Luxembourg

The following general summary is based upon the tax laws of Luxembourg as in effect on the date of this Offering Circular and is subject to any change that may come into effect after that date. Under the existing laws of Luxembourg:

- (a) All payments of interest and principal by the Issuer under the Notes will be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein to the extent that such interest has been negotiated at arm's length and is not profit participating;

- (b) A Noteholder who derives income from a Note or who realizes 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 January 1, 2005.

THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION

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, while banks provide a wide range of banking services. As of September 1, 2003, 1,707 banks and other non-bank credit organisations were registered in the Russian Federation; however, the banking licences of 370 of those had been revoked by the CBR. A majority (50.7% as of September 1, 2003) of operating Russian credit organisations are located in Moscow and the Moscow region.

According to the CBR, as of September 1, 2003, the total assets of the Russian banking sector were valued at RUR5 trillion and the five largest banks accounted for 43.5% of all banking sector assets in the Russian Federation. *Expert* magazine identifies Sberbank, VTB, Alfa Bank, Gazprombank and International Industrial Bank as the five largest banks by assets as of July 1, 2003.

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 September 1, 2003, 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 38.3% (RUR1.9 trillion) of the total liabilities of Russian credit organisations, while retail deposits accounted for 26.4% (RUR1.33 trillion). Loans to customers and other investments (other than in securities) comprised 53.9% (RUR2.7 trillion) of all assets of credit organisations, including 40.4% (RUR2 trillion) in loans to companies and other legal entities in the non-financial sector and 6.9% (RUR2346 billion) in loans to and deposits with banks.

According to the CBR, loans extended by Russian banks to non-financial sector companies rose from 13% of gross domestic product ("GDP") as of January 1, 2002 to 14.6% as of January 1, 2003. The share of loans to non-financial sector companies in the overall assets of the Russian banking sector rose from 37.2% as of January 1, 2002 to 38.4% as of January 1, 2003.

Loans extended by Russian banks to legal entities are often overcollateralised. According to *Expert* magazine, as of July 31, 2003, the aggregate average collateral ratio for loans provided by the ten largest Russian banks was 206.8%. According to the CBR (based on RAR financial statements of credit organisations), as of July 1, 2003, overdue loans were valued at RUR45.26 billion, accounting for 0.9% of all banking assets in Russia.

As of September 1, 2003, investments in securities by credit organisations (based on RAR accounts of credit organisations) represented 22.2% (RUR1.1 trillion), including 10.5% (RUR530.8 billion) in debt securities of the Russian Federation, of all bank assets in the Russian Federation.

According to the CBR, as of September 1, 2003, 1,210 operating credit organisations were profitable, while 117 were not (data for 10 operating credit organisations was not available).

Regulation of 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 license 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 September 1, 2003, 136 operating credit organisations registered by the CBR had not been authorised to provide banking services to individuals.

In addition to banking operations, credit organisations are permitted to enter into the following transactions: to give sureties for obligations of third parties contemplating payment in cash; to take assignments of rights to demand payment; to engage in trust management (which differs from an English law trust concept) of monetary funds and other property for individuals and legal entities; to engage in operations with precious stones and metals (in accordance with the Federal Law “On Precious Stones and Precious Metals” and subordinate legislation); to rent out special premises and safe deposit boxes to individuals and legal entities for safe keeping of documents and values; to finance leasing operations; and to provide IT and consultancy services. A credit organisation may enter into any other transactions in accordance with the relevant legislation of the Russian Federation.

Under the Banking Law a credit organisation cannot engage in production, commodities trading (excluding precious metals) or insurance activities.

Pursuant to the Law of the Russian Federation “On Currency Regulation and Currency Control” (the “Exchange Control 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 November 21, 2003 the State Duma passed the new Federal Law “On Currency Regulation and Currency Control” that will replace the Exchange Control Law. The new law was approved by the Federation Council, the upper chamber of the Russian parliament, on November 26, 2003 and was sent to the President of the Russian Federation for his assent. Once signed into law, most provisions of the new law should come into effect six months from the date of its official publication. Under the new law, it is proposed that Russian banks authorised to conduct transactions in foreign currencies will continue to act as “currency control agents”.

Securities dealers, brokers and custody services (other than when acting as a paying agent) are not covered by the banking licence and a credit organisation must obtain specific licenses from the Federal Securities Commission pursuant to the Federal Law “On the Securities Market” to perform such services. The operations of Russian banks in the securities markets are subject to the securities laws and regulations.

In August 2001 the Federal Law “On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means” (the “Money Laundering Law”) was adopted to comply with the requirements of the Financial Action Task Force on Money Laundering (FATF). The Money Laundering Law came into effect on February 1, 2002. Credit organisations are required to comply with the provisions of the Money Laundering Law relating to, amongst other things, customer identification, reporting of suspicious activities and having appropriate standards and procedures in place. Credit organisations are subject to specific insolvency procedures, which are set out in the Federal Law “On Insolvency of Credit Organisations” (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. In addition, certain credit organisations that experience financial difficulties may become subject to recovery procedures under the management of the Agency for the Restructuring of Credit Organisations (“ARCO”) pursuant to the provisions of the Federal Law “On Restructuring of Credit Organisations” (the “Bank Restructuring Law”). The Bank Restructuring Law applies to credit organisations experiencing financial difficulties that hold at least 1% of all retail deposits in the Russian Federation or at least 20% in any constituent subject of the Russian Federation, or at least 1% share in aggregate assets of credit organisations (excluding loans to other credit organisations) in the Russian Federation or at least 20% share in any constituent subject of the Russian Federation.

A private, self-regulatory body, the Association of Russian Banks, consisting of 476 banks and non-bank credit organisations (as of April 1, 2003) and established pursuant to the provisions of the Banking Law, offers technical support to its members and lobbies for the interests of commercial banks in various institutions (including the Federal Assembly (the Russian Parliament), the Government and the CBR).

The CBR and Its Role

The CBR's main aim is to protect the rouble and provide for its stability. The CBR is also responsible for the development and strength of the Russian banking system and regulates banking activity in the Russian Federation. The status of the CBR as the banking sector's regulator is determined by the Constitution of the Russian Federation and developed by the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" (the "CBR Law"). It issues licenses that authorise banks to perform a full range of banking operations either in both roubles and foreign currencies or only in roubles and also 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 of the Russian Federation is not liable for the CBR's obligations, nor is the CBR liable for the obligations of the Government of the Russian Federation, 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 August 1, 2003, the CBR's assets amounted to RUR2.5 trillion (U.S.\$83.3 billion at an exchange rate of U.S.\$1.00=RUR30) and its gold and hard currency reserves, as of September 1, 2003, amounted to U.S.\$62.8 billion.

The CBR is a separate legal entity and is financially independent from the Russian Government. Under the CBR Law, the CBR is prohibited from extending credits to the Government of the Russian Federation and regional and municipal governments for the purposes of budget deficit financing.

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 the Russian Federation (in some of the Russian republics the CBR's regional branches are called National Banks) and local branches. The Chairman of the CBR is nominated by the President of the Russian Federation and appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament).

The Chairman of the CBR can be replaced under the same procedure and has the right to participate in Government (Cabinet) meetings. Of the 12 members of the National Banking Council, two are appointed by the Federation Council (the upper chamber of the Russian Parliament), three are appointed by the State Duma from among its deputies, three are appointed by the President and three are appointed by the Government of the Russian Federation. The Chairman of the CBR is an *ex officio* member of the National Banking Council.

Under the CBR Law, the Banking Law and the Exchange Control 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.

Under current legislation, the CBR has the following major functions:

Function	Summary
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.
Implementing the federal budget and external 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. However, the CBR acts as a placement agent with respect to government securities issued by the Ministry of Finance, maintains budget accounts and acts as an agent for servicing of the Russian Federation domestic state debt.
Exchange control	The CBR regulates dealing and settlements in roubles, foreign currency operations in Russia and by Russian residents abroad, administers Russia's gold and currency reserves and establishes the regimes for rouble and foreign currency accounts of residents and non-residents in Russia. It also issues permits for performing capital flow operations.
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. 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 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 Federal Securities Commission issues permits to acting as a broker/dealer or a custodian in the Russian securities market.

Set out below are some of the principal features of the supervisory regime governing banks in Russia:

1. Licensing

A CBR licence must be obtained for any "banking activity" as defined in the Banking Law. Applicants must be incorporated within the Russian Federation, submit an application for state registration with an attached feasibility report 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 or a limited liability company. An application for a banking licence may be turned down if the founding documents do not comply with the requirements set out in the Banking Law and the CBR's regulations, the financial or banking records of the founders are unsatisfactory or proposed candidates for executive and chief accountant positions do not meet qualification requirements.
2. CBR Requirements

Pursuant to the CBR Law, the CBR has established a number of capital adequacy and similar requirements, as well as various rules on diversification of risks and on currency risks for credit organisations. The main regulation of the CBR in this area is Instruction No. 1 "On the Procedure for Regulating the Activities of Credit Organisations",

approved by the order of the CBR No. 02-430, dated October 1, 1997, with further amendments (“Instruction No. 1”).

3. Lending Limits

Under Instruction No. 1, a bank is not permitted to have exposure to any single borrower and related borrowers or to a single creditor in excess of 25% of its capital, to a shareholder (participant) of a bank in excess of 20% of its capital or to personnel such as its directors and officers in excess of 3% of its capital. These limits currently apply to banks, but are subject to further change and even abolishment due to the amended scope of mandatory economic ratios introduced by the CBR Law.

The CBR has published a consultation paper with the draft new version of the Instruction No. 1. It is proposed that under the new Instruction No. 1 there will be no regulation of bank’s exposure to a single creditor as well as to a shareholder (participant).

4. Capital Requirements

The CBR sets out minimum issued share capital requirements for banks. Currently the minimum issued share capital for newly-founded banks (including subsidiaries of foreign banks) is set to be at least euro 5 million.

Banks with asset-capital of euro 5 million or more are required to maintain a risk weighted capital-asset ratio of 10% and banks with asset-capital of less than euro 5 million a ratio of 11%, starting from February 1, 2000. The value of the assets of a bank is assessed by applying risk ratios to five different groups of risks.

5. Reporting Requirements

Banks must regularly submit to the CBR their balance sheets, together with financial statements showing their financial position. They must also inform the CBR when extending large loans (exceeding 5% of the bank’s capital).

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 legal entities and non-lending organisations within such alliances) 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 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.

6. Liquidity and Reserve Requirements

Banks and banking groups (i.e., alliances of banks in which one bank directly or indirectly controls decisions of the governing bodies of other banks within this alliance) are obliged under the CBR Law to “ensure a necessary level of liquidity”.

The key elements of current CBR reserve and liquidity requirements are as follows:

- Mandatory reserves deposited with the CBR in the amount of 10% in respect of funds in roubles taken from legal entities and funds in foreign currency taken from legal entities (other than banks) and individuals, and 7% in respect of funds taken from individuals in the form of rouble deposits. Mandatory reserves are held as non-interest-bearing deposits with the CBR.

- The ratio of liquid assets over on-demand deposits must be maintained at or above a minimum level, currently 20%.
- The ratio of long-term liquidity must not exceed 120%. Long-term liquidity is defined as a proportion of (a) the bank's long-term (more than one year) assets comprised of loans and deposits over (b) the bank's own funds (capital) and its total long-term liabilities comprised of loans, deposits and debt securities.

7. Accounting Practices

The CBR has established accounting policies for credit organizations and a standard format for the presentation of a bank's financial statements. A bank's financial statements and other accounting information must be prepared and submitted in accordance with the Directive of the CBR "On Preparation and Submitting of Accountancy by Credit Organisations to the CBR" No. 7-U, dated October 24, 1997 (as amended).

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" (*sbergatelnyie kassy*), which offered limited banking services to retail clients (mainly taking deposits and processing utility payments) throughout the country.

In 1987, with the relaxation of controls over companies and the implementation of "self-financing" system in the economy, which minimised reliance on state subsidiaries, the Soviet banking system was reorganised. A few specialised banks developed to service specific industries were established, namely Agroprombank (Farming Production Bank), Promstroybank (Production and Construction Bank), Zhilsotsbank (Bank for Housing Maintenance and Utilities Sector and Social Development), Vnesheconombank of the USSR (Bank for Foreign Economic Activity) and Sberbank of the USSR (Bank for Labour Savings and Lending to the Population). Vnesheconombank of the USSR had become full successor of Vneshtorgbank of the USSR pursuant to the Ministry's Council Resolution 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.

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 newly formed ARCO, a state corporation established in 1999 for ensuring the financial recovery of banks and protecting the interests of their creditors. 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.

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.

Banking Reform

At the end of 2001, the Government of the Russian Federation and the Central Bank issued a joint declaration entitled “The strategy of the development of the banking sector of the Russian Federation” (the “Declaration”) that set forth a strategy for banking reform in Russia and called 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 set forth in the Declaration envisages: (i) an increase of capital of the banking system; (ii) the adoption of IAS by all Russian banks; (iii) the gradual implementation of a mandatory system of insuring private depositors’ funds in the banks; and (iv) an increase in the interest of reputable foreign banks in their investments into the Russian banking sector.

The Government of the Russian Federation and the CBR have taken a number of steps to implement the Declaration. These include:

- The CBR is proposing to issue regulations setting out the requirements for IAS accounts to be prepared, audited and disclosed by credit organisations with effect from January 1, 2004 that would apply to the accounts of credit organisations for the periods ending September 30, 2004 and December 31, 2004.
- The draft Deposit Insurance Law that would establish a deposit insurance scheme for retail depositors has been passed and awaits approval by the Federation Council.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement

Pricing Supplement dated ●

JSC Vneshtorgbank

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]
by VTB Capital S.A.

for the purpose of financing a Deposit with Deutsche Bank Luxembourg S.A.

for the purpose of financing a Loan to JSC Vneshtorgbank ("VTB")
under a U.S.\$2,000,000,000 Programme for the Issuance of Loan Participation Notes

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 8 December 2003 [and the supplemental Offering Circular dated ●]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented].

[The following alternative language applies if the first Series of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Offering Circular dated 8 December 2003. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated 8 December 2003 [and the supplemental Offering Circular dated ●] save in respect of the Conditions which are extracted from the Offering Circular dated 8 December 2003 and are attached hereto.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

1. (i) Issuer: VTB Capital S.A.
- (ii) Fiduciary: Deutsche Bank Luxembourg S.A.
2. Series Number: ●
[(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.) ●]
3. Specified Currency: ●
4. Aggregate Principal Amount: ●
5. (i) Issue Price: ● per cent. of the Aggregate Principal Amount [plus accrued interest from *[insert date]* (*in the case of fungible issues only, if applicable*)]
- (ii) [Proceeds: ● (*Required only for listed issues*)]
- (iii) [Arrangement fee: ● (*Required only for listed issues*)]

6. Specified Denominations: ●*
7. (i) Issue Date: ●
- (ii) Interest Commencement Date : ●
8. Maturity Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
9. Interest Basis: [● per cent. Fixed Rate]
[Floating Rate]
(further particulars specified below)
10. Redemption/Payment Basis: Redemption at par
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12. Status and Form of the Notes: Senior, Registered
13. Listing: [Luxembourg/Other (specify)/None]
14. Method of distribution: [Syndicated/Non-syndicated]
15. Financial Centres (Condition 7): ●
16. Deposit: ●

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE DEPOSIT AND THE LOAN

17. Fixed Rate Note Provisions: *[Applicable/Not Applicable] (if not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: ● per cent. per annum payable [annually/semi-annually] in arrear
- (ii) Interest Payment Date(s): ● in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted]
- (iii) Fixed Coupon Amount [(s)]: ● per ● in principal amount
- (iv) Broken Amount: *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate]*
- (v) Day Count Fraction (Condition 5): ●
(Day count fraction should be Actual/Actual-ISMA for all fixed rate issues other than those denominated in U.S. dollars, unless the client requests otherwise)

* Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

- (vi) Determination Date(s) (Condition 5): ● in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]***
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
18. Floating Rate Note Provisions: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): ●
- (ii) Specified Interest Payment Dates: ●
- (iii) Business Day Convention: [Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day/Convention/other *(give details)*]
- (iv) Business Centre(s): ●
- (v) Manner in which the Rate(s) of Interest is/ are to be determined: [Screen Rate Determination/ISDA Determination/other *(give details)*]
- (vi) Interest Period Date(s): [Not Applicable/specify dates]
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): ●
- (viii) Screen Rate Determination: As set out in the attached Loan Supplement
- (ix) ISDA Determination: As set out in the attached Loan Supplement
- (x) Margin(s): [+/-] ● per cent. per annum
- (xi) Minimum Rate of Interest: ● per cent. per annum
- (xii) Maximum Rate of Interest: ● per cent. per annum
- (xiii) Day Count Fraction (Condition 5): ●
- (xiv) Rate Multiplier: ●
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Conditions: ●

PROVISIONS RELATING TO REDEMPTION

19. Final Redemption Amount of each Note: [● per Note of ● specified denomination/ Other]

** Only to be completed for an issue where Day Count Fraction is Actual/Actual-ISMA

20. Early Redemption Amount(s) of each Note payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date: [Principal Amount/Other]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Other terms or special conditions:¹ [Not Applicable/give details]

DISTRIBUTION

22. (i) If syndicated, names of Managers: [Not Applicable/give names]
(ii) Stabilising Agent (if any): [Not Applicable/give name]
(iii) Dealer's Commission: ●
23. If non-syndicated, name of Dealer: [Not Applicable/give name]
24. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

25. ISIN Code: ●
26. Common Code: ●
27. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
28. The Agents appointed in respect of the Notes are: ●

GENERAL

29. Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 10: [Not Applicable/give details]
30. The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of ●, producing a sum of (for Notes not denominated in U.S. dollars): [Not Applicable/U.S.\$ ●]

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$2,000,000,000 Programme for the Issuance of Loan Participation Notes of VTB Capital S.A. for the purpose of financing fiduciary deposits with Deutsche Bank Luxembourg S.A. for the purpose of financing loans to VTB Capital S.A. for the purpose of financing fiduciary deposits with Deutsche Bank Luxembourg S.A. for the purpose of financing loans to VTB.]

[STABILISING

In connection with this issue, [*insert name of Stabilising Agent*] (the "Stabilising Agent") or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no

obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.]

[MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There]² has been no significant change in the financial or trading position of the Issuer, VTB or of the Group since [*insert date of last audited accounts or interim accounts (if later)*] and no material adverse change in the financial position or prospects of the Issuer, VTB or of the Group since [*insert date of last published annual accounts.*]

RESPONSIBILITY

VTB accepts responsibility for the information contained in this Pricing Supplement other than in respect of the Issuer and the Fiduciary, for which the Issuer and the Fiduciary respectively, accept responsibility, which, when read together with the Offering Circular [and the supplemental Offering Circular] referred to above, contains all information that is material in the context of the issue of the Notes.

- [1. If full terms and conditions are to be used, please add the following here:

“The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary.”

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the pricing supplement.

2. If any change is disclosed in the Pricing Supplement, it will require approval by the Stock Exchanges. Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.]

GENERAL INFORMATION

- (1) VTB, the Fiduciary and the Issuer have obtained or will obtain all necessary consents, approvals and authorisations in Russia and Luxembourg in connection with any Loan, any Deposit and the issue and performance of the corresponding Series of Notes.
- (2) In connection with the application to list the Notes issued under the Programme on the Luxembourg Stock Exchange, a legal notice relating to the issue of the Notes and copies of the Articles of Incorporation of the Issuer and the charter of VTB will be deposited with the Register of Commerce and Companies in Luxembourg where such documents may be examined and copies obtained upon request.
- (3) The Luxembourg Stock Exchange has allocated the number 12953 to the Programme for listing purposes.
- (4) No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of Luxembourg for the maintaining of any Deposit or for the issue and performance of the corresponding Series of Notes.
- (5) Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position or prospects of VTB or VTB and its subsidiaries taken as a group since June 30, 2003 and no material adverse change in the financial or trading position or prospects of VTB or VTB and its subsidiaries taken as a group since June 30, 2003.
- (6) Neither VTB nor any of its subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Notes nor, so far as VTB is aware, is any such litigation or arbitration pending or threatened.
- (7) For so long as any Series of Notes is outstanding, copies (and English translations where the documents in question are not in English) of the latest annual report and consolidated audited annual accounts of VTB and the latest interim consolidated unaudited accounts of VTB prepared according to IFRS and the latest consolidated and unconsolidated audited annual accounts of VTB prepared according to Russian Accounting Regulations may be obtained free of charge, and copies of the Trust Deed in respect of the Notes (including the forms of the Global Note and definitive Notes), the Paying Agency Agreement, the relevant Fiduciary Deposit Agreement and the relevant Loan Agreement will be available 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).
- (8) The Fiduciary is a 100% group subsidiary of Deutsche Bank AG, whose principal office is located in Taunusanlage 12, D-60325, Frankfurt am Main, Germany. The Fiduciary was incorporated in the Grand Duchy of Luxembourg as a société anonyme, with unlimited duration on August 12, 1970, under the laws of Luxembourg and under the name Compagnie Financière de la Deutsche Bank S.A. The Fiduciary's business objectives, in accordance with its Articles of Association, are to transact banking and financial business for its own account and for the account of third parties and all activities directly or indirectly connected thereto.

The registered office of the Fiduciary is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg. The Fiduciary is registered with the Register of Commerce and Companies of Luxembourg under number B-9164. The share capital of the Fiduciary amounts to €215 million and is divided into 860,000 shares. The share capital is fully paid up.

The Fiduciary's current Board of Directors is as follows:

<u>Name</u>	<u>Principal activity (if any) of significance to the Fiduciary</u>
Ernst Wilhelm Contzen	Chief Executive Officer of the Fiduciary
Werner Helmut Steinmueller	Chief Operating Officer of CIB – Global Banking Division of Deutsche Bank AG
Detlef Bindert	Group Treasurer of Deutsche Bank AG
Pierre de Weck	Head of Private Wealth Management of Deutsche Bank AG

The business address of each of the directors is 2, Boulevard Konrad Adenauer, L-115 Luxembourg

- (9) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code and the International Securities Identification Number (ISIN) and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Pricing Supplement.

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Bank for Foreign Trade
Consolidated Balance Sheet as at 31 December 2002
(expressed in millions of US dollars – Note 3)

	Note	2002	2001
Assets			
Cash and short-term funds	5	643	628
Mandatory cash balances with local central banks		211	153
Trading securities	6	921	233
Due from other banks	7	1,246	574
Loans and advances to customers	8	3,016	2,198
Investment securities available for sale	9	961	1,987
Accrued interest income and other assets	10	144	237
Premises and equipment	11	130	118
Total assets		<u>7,272</u>	<u>6,128</u>
Liabilities			
Due to other banks	12	1,285	597
Customer accounts	13	2,437	1,783
Other borrowed funds	14	694	1,361
Debt securities in issue	15	460	365
Accrued interest expense and other liabilities	16	175	49
Deferred tax liability	22	27	88
Total liabilities		<u>5,078</u>	<u>4,243</u>
Minority interest	17	76	50
Shareholders' equity			
Share capital	18	2,153	2,153
Share premium		34	34
Accumulated deficit		(69)	(352)
Total shareholders' equity		<u>2,118</u>	<u>1,835</u>
Total liabilities, minority interest and shareholders' equity		<u>7,272</u>	<u>6,128</u>

Approved for issue by the Board of Directors and signed on its behalf on 18 April 2003.

A.L. Kostin
President – Chairman of the Board

K.D. Djimbinov
Acting Chief Accountant

The notes set out on pages F-6 to F-36 form an integral part of these consolidated financial statements.

Bank for Foreign Trade**Consolidated Statement of Income for the Year Ended 31 December 2002***(expressed in millions of US dollars – Note 3)*

	Note	2002	2001
Interest income	19	530	437
Interest expense	19	(182)	(149)
Net interest income		348	288
Release of provision/(provision for loan impairment)	7,8	36	(207)
Net interest income after provision for loan impairment		384	81
Gains less losses arising from trading securities		36	116
Gains less losses arising from investment securities available for sale		168	320
Gains less losses arising from dealing in foreign currencies		17	15
Gains less losses from derivative financial instruments		7	86
Foreign exchange translation losses net of gains		(23)	(17)
Fee and commission income	20	44	37
Fee and commission expense	20	(6)	(6)
Provision for losses on credit related commitments	26	–	(3)
Other operating income		20	26
Operating income		647	655
Operating expenses	21	(263)	(159)
Profit before taxation		384	496
Taxation	22	(106)	(170)
Profit after taxation		278	326
Minority interest	17	(17)	(16)
Net profit		261	310

The notes set out on pages F-6 to F-36 form an integral part of these consolidated financial statements.

Bank for Foreign Trade

Consolidated Statement of Cash Flows for the Year Ended 31 December 2002

(expressed in millions of US dollars – Note 3)

	Note	2002	2001
Cash flows from operating activities			
Interest received on loans		362	222
Interest received from securities		181	212
Interest paid		(166)	(143)
Income received on operations with securities		244	50
Income received on dealing in foreign currency		19	17
Fees and commissions received		44	37
Fees and commissions paid		(6)	(6)
Other operating income received		18	21
Operating expenses paid		(239)	(154)
Income tax paid		(121)	(100)
Operating profit before changes in operating assets and liabilities		336	156
Net cash decrease/(increase) in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with local central banks		(58)	22
Net (increase)/decrease in restricted cash	5	(17)	96
Net (increase)/ decrease in trading securities		(688)	201
Net (increase)/decrease in due from banks		(614)	29
Net increase in loans and advances to customers		(837)	(1,417)
Net decrease/(increase) in other assets		77	(20)
Net increase/(decrease) in due to banks		667	(14)
Net increase in customer accounts		654	478
Net increase/(decrease) in debt securities in issue		99	(140)
Net increase in other liabilities		74	17
Net cash used in operating activities		(307)	(592)
Cash flows from investing activities			
Purchase of investments		(13)	(51)
Disposal of investments		1	3
Increase in investment securities available for sale		(388)	(198)
Decrease in investment securities available for sale		1,458	–
Purchase of premises and equipment	11	(43)	(13)
Disposal of premises and equipment	11	1	–
Net cash from/(used in) investing activities		1,016	(259)
Cash flows from financing activities			
Increase in Central Bank of the Russian Federation funding		1,096	1,014
Decrease in Central Bank of the Russian Federation funding		(2,002)	–
Increase in other borrowed funds		65	74
Decrease in other borrowed funds		(51)	(10)
Issue of debentures		24	–
Redemption of debentures		(32)	–
Dividends paid		(20)	–
Increase in syndicated loan		225	–
Net cash (used in)/from financing activities		(695)	1,078
Effect of exchange rate changes on cash and cash equivalents		(16)	(7)
Net (decrease)/increase in cash and cash equivalents		(2)	220
Cash and cash equivalents at beginning of the year	5	489	269
Cash and cash equivalents at the end of the year	5	487	489

The notes set out on pages F-6 to F-36 form an integral part of these consolidated financial statements.

Bank for Foreign Trade**Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2002***(expressed in millions of US dollars – Note 3)*

	Share capital	Share premium	Accumulated deficit	Total shareholders equity
Balance as at 1 January 2001	2,153	34	(697)	1,490
Profit for the year	–	–	310	310
Other movements	–	–	35	35
Balance as at 31 December 2001	2,153	34	(352)	1,835
Profit for the year	–	–	261	261
Dividends declared and paid (Note 23)	–	–	(20)	(20)
Other movements	–	–	42	42
Balance as at 31 December 2002	2,153	34	(69)	2,118

The notes set out on pages F-6 to F-36 form 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, companies and other entities in which the Group, directly or indirectly, has the power to exercise control over financial and operating policies.

The Bank for Foreign Trade (the “Bank”), more commonly known as Vneshtorgbank, 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 29.

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.

The number of employees of the Group as at 31 December 2002 was 5,840.

In October 2002 the Central Bank of the Russian Federation (“CBRF”) transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation (Refer Note 18).

Also during the second half of 2002 a majority of new directors were appointed to the Board of Directors.

2. Operating Environment of the Group

The Group operates primarily within the Russian Federation. Whilst 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 collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The ongoing political stabilisation has been a positive contributing factor to the further development of the political and legal environment.

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

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

3. Basis of Presentation

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (“IFRS”), including International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board. 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 have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian Rouble. 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 (Refer Note 25). 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 and Euro's. 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.

Where necessary, corresponding figures have been adjusted to conform with changes in the current year presentation.

4. Significant Accounting Policies

Consolidated financial statements. Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest 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 presently exercisable or presently 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 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 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. The excess of the cost of an acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

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 year is recorded in the consolidated statement of income.

The line "Other movements" in the consolidated statement of changes in shareholders' equity includes the translation effect on equity, which arises for those subsidiaries whose measurement currency differs from the reporting currency of the Group (the US dollar), and other movements due to the acquisition and consolidation of certain subsidiaries.

Associates. Associates are entities over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognised 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 hence 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 fair value based on their market value. In determining market 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 realized 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 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 into 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 yield method.

Securities lent to counterparties continue to be recognised in the consolidated financial statements. Securities borrowed are not recognised in the consolidated financial statements, unless they are sold to third parties, in which case the 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 provisions 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 provision 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 provision 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 provision 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 provision 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. These 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 provision 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 provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the consolidated statement of income.

The Group does not enter into transactions for purchases of loans with third parties.

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 provisions are recorded against other credit related commitments when losses are considered probable.

Promissory notes purchased. Promissory notes purchased are included in trading securities, due from other banks or in loans and advances to customers, depending on their substance and are recognised, subsequently remeasured and accounted 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 on quoted bid prices 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 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.

Premises and equipment. Premises and equipment are stated at cost or revalued amounts less accumulated depreciation and provision 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

Bank for Foreign Trade

Notes to the Consolidated Financial Statements – 31 December 2002

(expressed in millions of US dollars – Note 3)

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 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 provision for any impairment in value. 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.

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

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

Operating leases. Where the Group is the lessee, payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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 yield 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 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 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 yield 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 gains 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.

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with taxation legislation currently in force in the respective territories that the Group operates. The income tax charge in the consolidated statement of income comprises current tax and changes in deferred tax. Current

tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Taxes, other than on income, are recorded within operating expenses.

Income and expense recognition. Interest income and expense are recognised in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income securities and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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 ruling 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 ruling 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 losses net of gains.

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 ruling at the date of the transactions. This method of translation leads to the translation of non-monetary assets and liabilities, existing as at 31 December 2002, at two different rates (e.g. 31 December 2001 and 31 December 2002). 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.

As at 31 December 2002 the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 =RR 31.78 (2001: USD 1 =RR 30.14).

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 trading in foreign currency, gains less losses arising from trading securities, and gains less losses arising from investment securities available for sale, depending on the related contracts.

The Group does not enter into derivative instruments for hedging purposes.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but for the account of third parties, are not reported on 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 pension schemes, social insurance and obligatory medical insurance funds in respect of its employees are expensed as incurred and included into 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, result 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

	2002	2001
Cash on hand	79	93
Cash balances with local central banks (other than mandatory reserve deposits).....	135	128
Correspondent accounts with other banks		
– Russian Federation.....	259	23
– Other countries	170	384
Total cash and short-term funds	643	628
Less: restricted cash (refer below).....	(156)	(139)
Total cash and cash equivalents	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 108 million (2001: USD 87 million) and cash placed by the Bank on nostro accounts with foreign and Russian banks in non-freely convertible currencies totalling

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

USD 48 million (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.

Currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 25.

6. Trading Securities

	2002	2001
USD denominated securities		
MinFin bonds (OVGVZ)	506	29
Russian corporate Eurobonds	105	20
Bills of exchange	53	–
Other	15	8
RR denominated securities		
Bills of exchange and debentures	68	59
Federal loan bonds (OFZ)	54	39
Other	25	9
Securities denominated in other currencies		
Securities issued by foreign governments	43	40
Russian corporate Eurobonds	19	–
Other	33	29
Total trading securities	921	233

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

Russian corporate Eurobonds are interest bearing securities issued by major Russian corporates, which are freely tradable internationally. These bonds have 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%.

USD and RR denominated bills of exchange and debentures represent securities issued primarily by Russian banks, large oil and gas companies and local authorities. These bills of exchange and debentures have maturity dates ranging from March 2003 to June 2007 and yields to maturity ranging from 5% to 18%.

Federal loan bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These OFZ bonds are issued at a discount to their nominal value, have maturity dates ranging from January 2003 to September 2008, coupon rates ranging from 10% to 14%, and yields to maturity ranging from 12% to 14%.

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 MinFin bonds (OVGVZ) are USD 234 million (2001: nil) of securities pledged under sale and repurchase agreements with other banks (Refer Notes 12 and 26). All sale and repurchase agreements mature within one month of their inception.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)***7. Due from Other Banks**

	2002	2001
Current term placements with other banks.....	1,165	581
Overdue placements with other banks	165	166
Reverse sale and repurchase agreements with other banks.....	35	–
Less: Provision for loan impairment	(119)	(173)
Total due from other banks.....	1,246	574

Due from other banks include Rouble and US dollar denominated loans to a Russian bank totalling USD 144 million (2001: USD 149 million). As at 31 December 2002 provision for impairment on these loans comprises USD 96 million (2001: USD 124 million). Subsequent to 31 December 2002, USD 48 million of these loans were repaid. See further disclosure about this Russian bank in Note 9.

Movements in the provision for loan impairment are as follows:

	2002	2001
Provision for loan impairment as at 1 January	173	176
(Release)/charge for provision for loan impairment during the year	(54)	26
Due from other banks written off during the year as uncollectable.....	–	(29)
Provision for loan impairment as at 31 December.....	119	173

As at 31 December 2002 the estimated fair value of due from other banks was USD 1 246 million (2001: USD 574 million) (Refer Note 27).

Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 25. The relevant information on related party balances is disclosed in Note 28.

8. Loans and Advances to Customers

	2002	2001
Current loans and advances	3,097	2,344
Rescheduled loans and advances	100	118
Overdue loans and advances	181	131
Less: Provision for loan impairment	(362)	(395)
Total loans and advances to customers.....	3,016	2,198

Included in loans and advances to customers is a deposit of USD 100 million (2001: USD 100 million) placed with a foreign bank for the purpose of financing Russian fishing enterprises, which has been fully provided against. In these consolidated financial statements this deposit has been treated as a loan to customers, that is the Russian fishing enterprises, following the concept of substance over form. The loan was originally financed by a deposit from a state-owned Russian bank, which is included in due to other banks (Refer Note 12). Both the loan and the deposit bear no interest.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

Movements in the provision for loan impairment are as follows:

	2002	2001
Provision for loan impairment as at 1 January	395	214
Charge of provision for loan impairment during the year	18	181
Loans and advances to customers written off during the year as uncollectable	(51)	–
Provision for loan impairment as at 31 December	362	395

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

	2002 Amount	%	2001 Amount	%
Energy	1,201	35	1,305	50
Manufacturing	972	29	460	18
Trade and commerce	357	11	194	8
Chemical	161	5	120	5
Finance	139	4	9	–
Telecommunications and media	130	4	63	2
Fishing	101	3	100	4
Construction	85	2	130	5
Transport	69	2	63	2
Government bodies	66	2	3	–
Other	97	3	146	6
Total loans and advances to customers	3,378	100	2,593	100

The Group has 9 borrowers with aggregated loan amounts above USD 50 million. The total amount of these loans is USD 1,607 million or 48% of the loan portfolio. Included in loans and advances are 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% p.a. Of this amount USD 310 million was repaid subsequent to year end. 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 (Refer Note 13).

As at 31 December 2002 the estimated fair value of loans and advances to customers was USD 3,016 million (2001: USD 2 198 million) (Refer Note 27).

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 25. The relevant information on related party balances is disclosed in Note 28.

9. Investment Securities Available for Sale

	2002	2001
Debt securities		
Eurobonds of the Russian Federation	756	1,517
MinFin bonds (OVGVZ)	93	431
Other	2	–
Equity securities		
Corporate shares	68	16
Other	42	23
Total investment securities available for sale	961	1,987

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 June 2003 to March 2030. The annual coupon rates on these bonds range from 5% to 12.75% p.a. and interest is payable semi-annually. The Group's investments in Eurobonds of the Russian Federation range from approximately 0.07% to 13.07% of the respective tranches' total nominal value issued. As the Group owns a significant share of certain tranches of these bonds, in case the Group wishes to liquidate its investment in a particular tranche or all of its Russian Federation Eurobonds' portfolio, market prices could be adversely affected.

In December 2001 the Bank entered a forward agreement with the CBRF to sell Eurobonds of the Russian Federation of tranches 18 and 28 with nominal value of USD 903 million for USD 777 million with delivery and settlement in February 2002 (Refer Note 26). Management believed that the fair value of these securities based on market quotations as at 31 December 2001 did not depict their true fair value, and, therefore, this block of securities had been fair valued by Management as at 31 December 2001 at USD 777 million, which represented the amount to be received in February 2002 on the sale of these bonds in accordance with this forward agreement. This agreement was settled in February 2002.

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

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 (Refer Note 14). 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 (Refer Notes 26 and 28).

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. As at 31 December 2002 the Group owned 19.9% (2001: 19.4%) of KAMAZ's and 8.3% (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 29 million. This represents 31.9% of the net assets of this bank. This associate is accounted for in these consolidated financial statements using the equity method.

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 (2001: nil). The Group had also issued loans to this bank in 2000. (Refer Note 7).

Included in investment securities available for sale are Eurobonds of the Russian Federation with fair value as at 31 December 2002 of USD 107 million (2001: nil) pledged under sale and repurchase agreements. (Refer Note 12 and 26). All sale and repurchase agreements mature within one month of their inception.

In addition, investment securities available for sale with fair value of USD 13 million (2001: USD 16 million) have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds. (Refer Note 26).

Currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 25.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)***10. Accrued Interest Income and Other Assets**

	2002	2001
Accrued interest income.....	60	88
Trade debtors and prepayments	33	26
Unsettled transactions.....	12	1
Precious metals.....	9	9
Balances arises from derivative financial instruments (Note 26)	8	88
Settlements on conversion operations	4	3
Prepaid taxes.....	7	8
Other	11	14
Total accrued interest income and other assets.....	144	237

Currency and maturity analysis of accrued interest income and other assets are disclosed in Note 25.

11. Premises and Equipment

	Premises	Office and computer equipment	Construction in progress	Total
Net book amount as at 31 December 2001	80	28	10	118
Cost or revalued amount				
Opening balance	86	63	10	159
Additions.....	11	32	–	43
Disposals	(2)	(8)	–	(10)
Closing balance.....	95	87	10	192
Accumulated depreciation				
Opening balance at 1 January 2002	6	35	–	41
Depreciation charge	3	9	–	12
Impairment charge (Note 21)	–	–	10	10
Disposals	–	(1)	–	(1)
Closing balance	9	43	10	62
Net book amount as at 31 December 2002.....	86	44	–	130

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

	2002	2001
Correspondent accounts and overnight deposits of other banks	495	341
Sale and repurchase agreements with other banks	273	–
Term deposits	517	256
Total due to other banks	1,285	597

Securities pledged against sale and repurchase agreements are MinFin bonds (OVGVZ) with a fair value of USD 234 million at 31 December 2002 (2001: nil) and Eurobonds of the Russian Federation with a fair value of USD 107 million at 31 December 2002 (2001: nil). As at 31 December 2002 these MinFin bonds (OVGVZ) bonds were recorded in the consolidated balance sheet within trading securities (Refer Note 6),

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

Eurobonds of the Russian Federation were recorded within investment securities available for sale (Refer Note 9).

Included in correspondent accounts and overnight deposits of other banks is a USD 100 million 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 (Refer Note 8).

As at 31 December 2002 the estimated fair value of due to other banks was USD 1 285 million (2001: USD 597 million) (Refer Note 27).

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 25. The relevant information on related party balances is disclosed in Note 28.

13. Customer Accounts

	2002	2001
State and public organisations		
Current/settlement accounts	249	246
Term deposits	7	6
Other legal entities		
Current/settlement accounts	802	632
Term deposits	835	675
Individuals		
Current/settlement accounts	103	73
Term deposits	441	151
Total customer accounts.....	2,437	1,783

Economic sector concentrations within customer accounts are as follows:

	31 December 2002		31 December 2001	
	Amount	%	Amount	%
Individuals.....	544	22	224	12
Energy.....	474	19	788	44
Trade.....	398	16	154	9
Government bodies.....	256	11	252	14
Manufacturing	255	10	95	5
Finance	166	7	32	2
Telecommunication and mass media	68	3	31	2
Transport	67	3	–	–
Foreign entities representative offices	66	3	30	2
Construction.....	19	1	–	–
Other	124	5	177	10
Total customer accounts.....	2,437	100	1,783	100

Included in customer accounts are:

- Restricted deposits amounting to USD 108 million (2001: USD 87 million), where matching deposits were placed by the Group on escrow accounts (Refer Note 5).
- 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).
- Deposits of USD 56 million (2001: USD 67 million) held as collateral against irrevocable commitments under import letters of credit (Refer Note 26).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

As at 31 December 2002 the estimated fair value of customer accounts was USD 2 437 million (2001: USD 1 783 million) (Refer Note 27).

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25.

14. Other Borrowed Funds

	2002	2001
CBRF funding	380	1,286
Syndicated loan	225	–
Revolving credit lines.....	89	74
Other borrowings	–	1
Total other borrowed funds	694	1,361

CBRF funding includes term deposits totalling USD 150 million with interest rates ranging from 3.8 to 3.9%, and was repaid in January and March 2003. As at 31 December 2001 included in CBRF funding was a deposit of USD 670 million with a fixed interest rate of 4% p.a., 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 OGVZ bonds with nominal value of USD 196 million (Refer Note 9 and 28). This deposit was repaid by the Group in August 2002.

In December 2002 the Group attracted a syndicated loan of USD 225 million from a syndicate of international banks. The loan was arranged by Citibank, N.A., London and Deutsche Bank AG, London and bears an interest rate of LIBOR plus 2.5-2.7% with maturities ranging from December 2003 to June 2004.

The Group has a revolving credit line opened with the European Bank for Reconstruction and Development (EBRD), which carries interest rate of LIBOR plus 2.5-3%.

Currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 25.

15. Debt Securities in Issue

	2002	2001
Promissory notes	432	327
Debentures and deposit certificates.....	28	38
Total debt securities in issue.....	460	365

In April 2002 the Group issued Russian Rouble denominated debentures, which are publicly traded in the Russian market. Debentures were issued at a discount to nominal value, and mature in April 2004. The market price of these securities as at 31 December 2002 represents 82.7% of their nominal value.

As at 31 December 2002 the estimated fair value of debt securities in issue was USD 458 million (2001: USD 363 million) (Refer Note 27).

Currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 25.

16. Accrued Interest Expense and Other Liabilities

	2002	2001
Taxation payable	45	2
Accrued interest expense	40	19
Trade creditors.....	37	10
Unsettled transactions.....	11	1
Provisions for credit related commitments (Note 26).....	10	10
Settlements on conversion operations	2	–
Balances arises from derivative financial instruments (Note 26)	1	2
Other	29	5
Total accrued interest expense and other liabilities	175	49

Currency and maturity analyses of accrued interest expense other liabilities are disclosed in Note 25.

17. Minority Interest

	2002	2001
Minority interest as at 1 January	50	109
Share of net profit	17	16
Other movements	9	(75)
Minority interest as at 31 December	76	50

The caption “Other movements” includes movements in the minority interest arising due to the acquisition of additional shares of Donau-bank, East-West United Bank and other Russian subsidiaries by the Group in 2001, and the translation effect on minority interest arising for subsidiaries whose operating currency differs from the reporting currency of the Group (US dollar).

18. Share Capital

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

	2002		2001	
	Number of of shares	Amount	Number of of shares	Amount
Ordinary shares	42,137,236	2,153	42,137,236	2,153
Total share capital	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.

In October 2002 the CBRF transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation.

19. Interest Income and Expense

	2002	2001
Interest income		
Loans and advances to customers.....	334	172
Securities.....	157	206
Due from other banks.....	39	59
Total interest income.....	530	437
Interest expense		
Customer accounts.....	(108)	(46)
Debt securities in issue.....	(31)	(29)
Due to banks and other borrowed funds.....	(43)	(74)
Total interest expense.....	(182)	(149)
Net interest income.....	348	288

20. Fee and Commission Income and Expense

	2002	2001
Commission on settlement transactions.....	22	19
Commission on cash transactions.....	9	8
Commission on guarantees issued.....	4	3
Commission on cash collection.....	1	1
Commission on transactions with securities.....	1	1
Other.....	7	5
Total fee and commission income.....	44	37
Commission on settlement transactions.....	(2)	(2)
Commission on cash transactions.....	(1)	(1)
Commission on cash collection.....	(1)	(1)
Other.....	(2)	(2)
Total fee and commission expense.....	(6)	(6)
Net fee and commission income.....	38	31

21. Operating Expenses

	2002	2001
Staff costs.....	117	79
Depreciation and other expenses related to premises and equipment.....	24	16
Taxes other than on income.....	23	16
Leasing and rent expenses.....	19	15
Administrative expenses.....	17	9
Charity.....	13	1
Impairment charge on premises and equipment (Note 11).....	10	–
Professional services.....	3	2
Other.....	37	21
Total operating expenses.....	263	159

22. Income Taxes

Income tax expense comprises the following:

	2002	2001
Current tax charge.....	167	82
Deferred taxation movement due to the origination and reversal of temporary differences	(61)	152
Effect of change in tax rate.....	–	(64)
Income tax expense for the year	106	170

The income tax rate applicable to the majority of the Group's income is 24% (2001: 43%). Effective 1 January 2001, the Russian statutory tax rate was increased from 38% to 43%. A 24% statutory income tax rate was enacted in August 2001 and became effective starting from 1 January 2002. The income tax rate applicable to the majority of subsidiaries income ranges from 4% to 34% (2001: from 4% to 43%). A reconciliation between the expected and the actual taxation charge is provided below.

	2002	2001
IFRS profit before taxation	384	496
Theoretical tax charge at the applicable statutory rate	92	203
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Non deductible expenses	114	99
– Income which is exempt from taxation	(75)	(11)
– Income on government securities taxed at different rates.....	(5)	(16)
– Other non-temporary differences.....	6	5
– Tax losses utilized.....	(26)	(15)
Effect of the change in tax rate	–	(64)
Non-recognised net deferred tax asset movement.....	–	(31)
Income tax expense for the year	106	170

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2001: 43%), except for income on Russian government securities which is taxed at 15% (2001: 15%).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

	2000	Movement	2001	Movement	2002
Tax effect of deductible temporary differences					
Provision for loan impairment.....	–	5	5	26	31
Fair valuation of securities.....	68	(17)	51	(42)	9
Accrued expenses.....	8	(3)	5	10	15
Gross deferred tax asset	76	(15)	61	(6)	55
Less: non-recognised deferred tax asset.....	(31)	31	–	–	–
Net deferred tax asset.....	45	16	61	(6)	55
Tax effect of taxable temporary differences					
Fair valuation of securities.....	(4)	(89)	(93)	26	(67)
Premises and equipment.....	(13)	4	(9)	3	(6)
Accrued income.....	(17)	(10)	(27)	27	–
Fair valuation of derivative financial instruments	–	(20)	(20)	20	–
Provision for loan impairment.....	(11)	11	–	(9)	(9)
Gross deferred tax liability	(45)	(104)	(149)	67	(82)
Total net deferred tax liability	–	(88)	(88)	61	(27)

The Group's subsidiaries have approximately USD 502 million (2001:USD 479 million) of tax losses available for relief against future profits. These tax loss carry forwards have not been recognised as a deferred tax asset due to uncertainty surrounding the Group's ability to utilise these tax losses in the future.

23. Dividends

In 2002 the Bank declared and paid dividends in the amount of USD 20 million (2001: nil). All dividends are declared and paid in Russian Roubles.

24. 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 2002.

	Russia	Europe	Total
Total revenues	652	170	822
Segment results	288	96	384
Taxation.....	–	–	(106)
Profit after taxation	–	–	278
Minority interest.....	–	–	(17)
Net profit			261
Segment assets	5,932	1,340	7,272
Segment liabilities	4,080	998	5,078
Other segment items			
Capital expenditure.....	42	1	43
Depreciation.....	11	1	12
Impairment charge.....	(10)	–	(10)
Other non-cash income (expenses)/income.....	(31)	34	3

The Group has one reportable business segment, which is commercial banking. The summary information of this business segment as at 31 December 2002 is presented below:

	Commercial banking
Operating income.....	647
Segment assets.....	7,272
Credit related commitments.....	1,763
Capital expenditure.....	43

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

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 as at 31 December 2001 is presented below:

	Commercial banking
Operating income.....	655
Segment assets.....	6,128
Credit related commitments.....	789
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.

25. 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.

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 revolving basis and 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 Assets/Liabilities Committee and Credit Committee.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

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 primary 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 Assets/Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2002. 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 2002, the Group has the following positions in currencies:

	USD	RR	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	275	166	136	66	643
Mandatory cash balances with					
local central banks	–	203	8	–	211
Trading securities	679	147	82	13	921
Due from other banks	830	205	180	31	1,246
Loans and advances to customers	2,299	662	55	–	3,016
Investment securities available					
for sale	901	29	31	–	961
Accrued interest income and other					
assets	72	41	19	12	144
Premises and equipment	–	117	11	2	130
Total assets	5,056	1,570	522	124	7,272

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

	USD	RR	Euro	Other currencies	Total
Liabilities					
Due to other banks	955	178	86	66	1,285
Customer accounts	1,432	761	228	16	2,437
Other borrowed funds	694	–	–	–	694
Debt securities in issue	172	193	95	–	460
Accrued interest expense and other liabilities	73	63	23	16	175
Deferred tax liability	–	18	9	–	27
Total liabilities	3,326	1,213	441	98	5,078
Net balance sheet position	1,730	357	81	26	2,194
Credit related commitments (Note 26)	1,309	15	88	351	1,763
Off-balance sheet net notional position (Note 26)	(282)	4	247	38	7

At 31 December 2001, the Group had the following positions in currency

	USD	RR	Euro	Other currencies	Total
Net balance sheet position	1,366	426	101	(8)	1,885
Credit related commitments (Note 26)	644	73	48	24	789
Off-balance sheet net notional position (Note 26)	(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.

The table below shows assets and liabilities as at 31 December 2002 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature; for example, certain loans are frequently renewed and accordingly short-term loans can have a longer term duration.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

The liquidity position of the Group as 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	–	–	–	–	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 as						
at 31 December 2002	853	901	1,124	1,887	2,194	–

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

The liquidity position of the Group as 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 as						
at 31 December 2001	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. 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 less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these deposits provide a long-term and stable source of funding for the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

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. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	On Demand and 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 gap	829	39	336	701	289	2,194
Cumulative gap as at						
31 December 2002	829	868	1,204	1,905	2,194	–

As at 31 December 2001 the Group's interest rate sensitivity analysis based on the repricing of the Group's assets and liabilities did not differ significantly from the maturity analysis.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

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.

	2002				2001			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Cash and cash equivalents	1%	0%	1%	1%	1%	0%	1%	0%
Debt trading securities	10%	13%	7%	5%	3%	15%	4%	–
Due from other banks	4%	9%	4%	2%	4%	14%	4%	3%
Loans and advances to customers	9%	21%	10%	–	10%	21%	7%	7%
Debt investment securities								
available for sale	9%	–	–	–	8%	–	–	–
Liabilities								
Due to other banks	1%	9%	3%	2%	4%	20%	4%	1%
Customer accounts	6%	6%	2%	2%	4%	7%	6%	1%
Other borrowed funds	3%	–	–	–	4%	–	–	–
Debt securities in issue	7%	9%	7%	–	6%	6%	–	–

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

26. Contingencies, Commitments and Derivative Financial Instruments

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

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

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

Capital commitments. As at 31 December 2002 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 2003 and 2004.

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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

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:

	2002	2001
Export letters of credit.....	1,088	360
Undrawn credit lines.....	292	102
Guarantees issued.....	226	216
Import letters of credit.....	123	69
Commitments to extend credit	44	52
Less: provision for losses on credit related commitments.....	(10)	(10)
Total credit related commitments	1,763	789

Commitments under import letters of credit collateralised by customer deposits of USD 56 million (2001: USD 67 million) (Refer Note 13).

Movements in the provision for losses on credit related commitments are as follows:

	2002	2001
Provision for losses on credit related commitments at 1 January.....	10	7
Provision for losses on credit related commitments during the period	–	3
Provision for losses on credit related commitments at 31 December		
(Note 16).....	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 on 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 2002. These contracts were mainly entered into in December 2002 and settled early in January 2003.

Bank for Foreign Trade

Notes to the Consolidated Financial Statements – 31 December 2002

(expressed in millions of US dollars – Note 3)

The table below includes contracts outstanding as 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 as 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	–	–
– purchase of foreign currency.....	–	–	–	26	–	–
– sale of investment securities available for sale (Refer Note 9)	777	–	–	–	–	–
Spot						
– sale of foreign currency.....	17	–	–	–	–	–
Option						
– sale of investment securities available for sale (Refer Note 9)	196	–	85	–	–	–
Swap						
– sale of foreign currency.....	–	–	–	24	–	3
– purchase of foreign currency.....	–	–	–	119	(2)	–
Total	990	–	85	170	(2)	3

As at 31 December 2001 the Group had an outstanding forward agreement with CBRF for the sale of investment securities available for sale (Eurobonds of the Russian Federation). 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 (Refer Note 9).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

OVGZ 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 corresponding deposit (Refer Note 14). 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 (Refer Notes 9 and 28).

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:

	2002 Nominal Value	2001 Nominal value
MinFin bonds (OVGVZ)	6,252	5,189
Eurobond of the Russian Federation	858	2,040
Other	260	353

Assets pledged. As at 31 December 2002, the Group has USD 13 million (2001: USD 16 million) of securities pledged as collateral (Refer Note 9). The Bank, also, pledged securities with the fair value of USD 341 million (2001: nil) under sale and repurchase agreements with other banks. (Refer Notes 6 and 9). All these operations were performed by the Bank in the normal course of business.

27. Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 2, the Russian Federation has shown signs of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investment securities available for sale are carried on the balance sheet at their fair value. The fair value of these assets were determined by Management on the basis of market quotations.

Due from other banks. Management has estimated that as at 31 December 2002 and as at 31 December 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 advance to customers. Management has estimated that as at 31 December 2002 and as at 31 December 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.

Borrowings. Management has estimated that as at 31 December 2002 and as at 31 December 2001 the fair values of borrowings were not materially different from 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.

The fair value of derivatives is disclosed in Note 26.

28. 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 outstanding balances at the year end and income and expense items for the year with related parties (excluding the major shareholder) are as follows:

	2002	2001
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 (Refer Note 9).....	–	111
Deposits		
Customer accounts and due to other banks	–	2

The outstanding balances at the year-end and interest income and expense as well as other transactions for the year with the major shareholder (commencing October 2002: the Ministry of Property Relations of the Russian Federation; prior to October 2002: the CBRF) are as stated in the table below:

	2002	2001
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 (Refer Notes 10 and 26).....	–	85
Guarantees received.....	–	9
Deliverable forward on investment securities (Refer Note 26).....	–	777
Investment securities pledged	–	13
Dividends paid.....	20	–

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 31 December 2002***(expressed in millions of US dollars – Note 3)*

In 2002 the total remuneration of the directors and key management personnel, including pension contributions, and discretionary compensation amounts to USD 10 million (2001: USD 6 million).

The decrease in related party transactions resulted from the change in ownership of the Group (Refer Note 1) in October 2002.

29. 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	
			2001	2002
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%
East-West United Bank	Banking	Luxembourg	58.0%	53.0%
Bank “Zabaikalsky”	Banking	Russia	99.9%	99.9%
VOK Vneshtorgbank	Banking	Russia	99.4%	99.4%
Novosibirskvneshtorgbank	Banking	Russia	97.5%	97.5%
Ulyanovskvneshtorgbank	Banking	Russia	60.4%	60.4%
Multicarta Ltd	Plastic cards	Russia	50.0%	50.0%
Euroleasing, GMBH	Leasing	Germany	60.0%	60.0%
Rafinco Co., NY	Trading	USA	100.0%	100.0%
ITC Consultancy	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%
Associates				
Ost –West Handelsbank	Banking	Germany	29.9%	31.9%

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 cash payment of Euro 1 million (USD equivalent is USD 1 million), thus increasing its share in Ost-West Handelsbank to 31.9%

Report of Independent Auditors

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

We have audited the consolidated balance sheet of the Bank for Foreign Trade (the “Bank”) and its subsidiaries (together the “Group”) as of 30 June 2003, and the related consolidated statements of income, cash flows, and changes in shareholders’ equity for the six month period 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 for the year ended 31 December 2002 and for the six month period ended 30 June 2002, were audited by other auditors whose reports dated 18 April 2003 and 20 September 2002 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 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 30 June 2003, and the consolidated results of their operations and their cash flows for the six month period then ended in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board.

Ernst & Young (CIS) Limited

10 October 2003

Bank for Foreign Trade
Consolidated Balance Sheet as at 30 June 2003
(expressed in millions of US dollars – Note 3)

	Note	30 June 2003	31 December 2002
Assets			
Cash and short-term funds	5	619	643
Mandatory cash balances with local central banks		317	211
Trading securities	6	848	921
Due from other banks	7	1,560	1,246
Loans and advances to customers	8	3,802	3,016
Investment securities available for sale	9	1,173	961
Investment securities held to maturity		5	–
Accrued interest income and other assets	10	233	144
Premises and equipment	11	248	130
Total assets		8,805	7,272
Liabilities			
Due to other banks	12	1,410	1,285
Customer accounts	13	3,009	2,437
Other borrowed funds	14	390	694
Debt securities in issue	15	1,338	460
Accrued interest expense and other liabilities	16	323	175
Deferred tax liability	22	32	27
Total liabilities		6,502	5,078
Minority interest	17	88	76
Shareholders' equity			
Share capital	18	2,153	2,153
Share premium		34	34
Retained earnings / (Accumulated deficit)		28	(69)
Total shareholders' equity		2,215	2,118
Total liabilities, minority interest and shareholders' equity		8,805	7,272

Approved for issue by the Management Board and signed on its behalf on 10 October 2003.

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

The notes set out on pages F-42 to F-72 form an integral part of these consolidated financial statements.

Bank for Foreign Trade**Consolidated Statement of Income for six months period ended 30 June 2003***(expressed in millions of US dollars – Note 3)*

	Note	30 June 2003	30 June 2002
Interest income	19	294	250
Interest expense	19	(156)	(59)
Net interest income		138	191
(Provision) / Release of provision for loan impairment	7, 8	(75)	39
Net interest income after provision for loan impairment		63	230
Gains less losses arising from trading securities		84	14
Gains less losses arising from investment securities available for sale		100	135
Gains less losses arising from dealing in foreign currencies		8	10
Gains less losses from derivative financial instruments	26	11	(30)
Foreign exchange translation gains less losses		15	(28)
Fee and commission income	20	32	19
Fee and commission expense	20	(2)	(3)
Provision for losses on credit related commitments	26	–	2
Other operating income		23	26
Operating income		334	375
Operating expenses	21	(163)	(91)
Profit before taxation		171	284
Taxation	22	(43)	(110)
Profit after taxation		128	174
Minority interest	17	(9)	(19)
Net profit		119	155

The notes set out on pages F-42 to F-72 form an integral part of these consolidated financial statements.

Bank for Foreign Trade**Consolidated Statement of Cash Flows for six months period ended 30 June 2003***(expressed in millions of US dollars – Note 3)*

	Note	30 June 2003	30 June 2002
Cash flows from operating activities			
Interest received		298	263
Interest paid		(111)	(53)
Income received on operations with securities		262	34
Income received on dealing in foreign currency		13	6
Fees and commissions received		32	19
Fees and commissions paid		(2)	(3)
Other operating income received		23	8
Operating expenses paid		(143)	(85)
Income tax paid		(53)	(118)
Operating profit before changes in operating assets and liabilities		319	71
Net cash (decrease)/increase in operating assets			
Net increase in mandatory cash balances with local banks		(93)	(14)
Net decrease/(increase) in restricted cash		60	(13)
Net decrease/(increase) in trading securities		78	(72)
Net (increase)/decrease in investment securities available for sale		(266)	820
Net increase in due from banks		(276)	(331)
Net increase in loans and advances to customers		(808)	(409)
Net increase in other assets		(46)	(27)
Net cash (decrease)/increase in operating liabilities			
Net increase in due to banks		75	158
Net increase in customer accounts		521	342
Net increase/(decrease) in debt securities in issue		750	(16)
Net increase in other liabilities		61	3
Net cash from operating activities		375	512
Cash flows from investing activities			
Net cash outflow on acquisition of subsidiary		–	(1)
Purchase of subsidiary		(40)	–
Purchase of investment securities held to maturity		(5)	
Purchase of premises and equipment	11	(82)	(8)
Net cash used in investing activities		(127)	(9)
Cash flows from financing activities			
Increase in Central Bank of the Russian Federation funding		110	281
Decrease in Central Bank of the Russian Federation funding		(380)	(870)
Increase in other borrowed funds		8	–
Decrease in other borrowed funds		(42)	(49)
Issue of debentures		66	24
Redemption of debentures		–	(32)
Dividends paid		–	(20)
Net cash used in financing activities		(238)	(666)
Effect of exchange rate changes on cash and cash equivalents		18	(11)
Net increase/(decrease) in cash and cash equivalents		28	(174)
Cash and cash equivalents at beginning of the year	5	487	489
Cash and cash equivalents at the end of the period	5	515	315

The notes set out on pages F-42 to F-72 form an integral part of these consolidated financial statements.

Bank for Foreign Trade**Consolidated Statement of Changes in Shareholders' Equity for the period ended 30 June 2003***(expressed in millions of US dollars – Note 3)*

	Share capital	Share premium	Retained Earnings/ (Accumulated deficit)	Total shareholders equity
Balance as at 1 January 2002	2,153	34	(352)	1,835
Profit for the period	–	–	155	155
Dividends declared and paid (Note 23)	–	–	(20)	(20)
Other movements	–	–	19	19
Balance as at 30 June 2002	2,153	34	(198)	1,989
Balance as at 1 January 2003	2,153	34	(69)	2,118
Profit for the period	–	–	119	119
Dividends declared (Note 23)	–	–	(53)	(53)
Other movements	–	–	31	31
Balance as at 30 June 2003	2,153	34	28	2,215

The notes set out on pages F-42 to F-72 form 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, companies and other entities in which the Group, directly or indirectly, has the power to exercise control over financial and operating policies.

The Bank for Foreign Trade (the “Bank”), more commonly known as Vneshtorgbank, 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 29.

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.

The number of employees of the Group as at 30 June 2003 was 6,557 (31 December 2002: 5,840).

In October 2002 the Central Bank of the Russian Federation (“CBRF”) transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation (Refer Note 18).

Also during the second half of 2002 a majority of new directors were appointed to the Management Board.

2. Operating Environment of the Group

The Group operates primarily within the Russian Federation. Whilst 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 collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The ongoing political stabilisation has been a positive contributing factor to the further development of the political and legal environment.

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

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

3. Basis of Presentation

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (“IFRS”), including International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board. 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 have been prepared from those accounting records and adjusted as necessary to comply with IFRS.

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian Rouble. 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 (Refer Note 25). 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.

Where necessary, corresponding figures have been adjusted to conform with changes in the current period presentation.

4. Significant Accounting Policies

Consolidated financial statements. Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest 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 presently exercisable or presently 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 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 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. The excess of the cost of an acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded separately from liabilities and shareholders' equity and is affected by the foreign currency translation adjustment applicable to the minority shareholders' interest in the subsidiary. Minority interest related to operational results of the current period is recorded in the consolidated statement of income.

The line "Other movements" in the consolidated statement of changes in shareholders' equity includes the translation effect on equity, which arises for those subsidiaries whose measurement currency differs from the reporting currency of the Group (the US dollar), and other movements due to the acquisition and consolidation of certain subsidiaries.

Associates. Associates are entities over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognised 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 hence 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 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.

All related realized 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 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 into trading securities or investment securities available for sale as appropriate. The corresponding liability is presented within due to other banks or other borrowed funds. Securities purchased under agreements to resell ("reverse repo") are recorded as due from other banks or loans and advances to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties continue to be recognised in the consolidated financial statements. Securities borrowed are not recognised in the consolidated financial statements, unless they are sold to third parties, in which case the results of purchase and sale are recorded within gains less losses arising from trading securities in the consolidated statement of income. The obligation to return the securities is recorded at fair value as a trading liability.

Originated loans and advances and allowances for loan impairment. Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recognised when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less allowance for loan impairment. Amortised cost is based on

the fair value of cash consideration given to originate those loans determinable by reference to market prices at the origination date.

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

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in 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.

The Group does not enter into transactions for purchases of loans with third parties.

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 allowance are recorded against other credit related commitments when losses are considered probable.

Promissory notes purchased. Promissory notes purchased are included in trading securities, due from other banks or in loans and advances to customers, depending on their substance and are recognised, subsequently remeasured and accounted 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 on quoted bid prices 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 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 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.

Investments securities held to maturity. This classification includes investment securities which Management intends to hold till its 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. Amortised cost is based on the fair value of

expected future cash inflows discounted at the market rate on acquisition. 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 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. 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 as at the date of the transaction is recorded as goodwill and recognised as an asset in the 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 income statements.

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

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

Operating leases. Where the Group is the lessee, payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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 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 gains or losses arising from early retirement of debt in the consolidated statement of income.

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

Dividends. Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Group entities are the basis for profit distribution and other appropriations.

Taxation. Taxation has been provided for in the consolidated financial statements in accordance with taxation legislation currently in force in the respective territories that the Group operates. The income tax charge in the consolidated statement of income comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Taxes, other than on income, are recorded within operating expenses.

Income and expense recognition. Interest income and expense are recognised in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupons earned on fixed income securities and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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 ruling 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 ruling 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 ruling at the date of the transactions. This method of translation leads to the translation of non-monetary assets and liabilities, existing as at 30 June 2003, at two different rates (e.g. 31 December 2002 and 30 June 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 statements of changes in shareholders' equity.

As at 30 June 2003 the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1=RR 30.3483 (as at 31 December 2002: USD 1=RR 31.7844).

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.

The Group does not enter into derivative instruments for hedging purposes.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but for the account of third parties, are not reported on 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 pension schemes, social insurance and obligatory medical insurance funds in respect of its employees are expensed as incurred and included into 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, result 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

	30 June 2003	31 December 2002
Cash on hand	103	79
Cash balances with local central banks (other than mandatory reserve deposits)	55	135
Correspondent accounts with other banks		
– Russian Federation.....	122	259
– Other countries	339	170
Total cash and short-term funds	619	643
Less: restricted cash (refer below).....	(104)	(156)
Total cash and cash equivalents	515	487

Restricted cash balances represent the balances on escrow accounts placed by the Bank in foreign banks on behalf of its customers totalling USD 47 million (31 December 2002: USD 108 million) and cash placed by the Bank on nostro accounts with foreign and Russian banks in non-freely convertible currencies totalling USD 57 million (31 December 2002: USD 48 million). For the purposes of the consolidated statement of cash flows, restricted cash is not considered to be cash and cash equivalents.

Currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 25.

6. Trading Securities

	30 June 2003	31 December 2002
USD denominated securities		
MinFin bonds (OVLGVZ)	411	506
Russian corporate Eurobonds	104	105
Bills of exchange	–	53
Other	19	15
RR denominated securities		
Bills of exchange and debentures	148	68
Federal loan bonds (OFZ).....	101	54
Other	36	25
Securities denominated in other currencies		
Securities issued by foreign governments	14	43
Russian corporate Eurobonds	2	19
Other	13	33
Total trading securities	848	921

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%. These bonds have maturity dates ranging from May 2006 to May 2011, and yields to maturity ranging from 4% to 6%.

Russian corporate Eurobonds are interest bearing securities issued by major Russian corporates, which are freely tradable internationally. These bonds have maturity dates ranging from February 2004 to March 2013, coupon rates ranging from 8% to 13% and yields to maturity ranging from 6% to 9%.

Bills of exchange and debentures represent securities issued primarily by Russian banks, large oil and gas companies and local authorities. These bills of exchange and debentures have maturity dates ranging from July 2003 to August 2007 and yields to maturity ranging from 7% to 15%.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

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 July 2003 to August 2012, coupon rates ranging from 10% to 14%, and yields to maturity ranging from 4% to 8%.

Included in securities issued by foreign governments are Turkish government bonds, which have annual coupon rate of 9% and maturity in February 2010.

Included in MinFin bonds (OVGVZ) are USD nil (31 December 2002: USD 234 million) of securities pledged under sale and repurchase agreements with other banks (Refer Notes 12 and 26). All sale and repurchase agreements mature within one month of their inception.

7. Due from Other Banks

	30 June 2003	31 December 2002
Current term placements with other banks.....	1,402	1,165
Reverse sale and repurchase agreements with other banks.....	163	35
Overdue placements with other banks.....	113	165
Less: Provision for loan impairment	(118)	(119)
Total due from other banks.....	1,560	1,246

Due from other banks include Rouble denominated loans to a Russian bank totalling USD 96 million (31 December 2002: USD 144 million). As at 30 June 2003 allowance for impairment on these loans comprises USD 96 million (31 December 2002: USD 96 million). See further disclosure about this Russian bank in Note 9.

Movements in the allowance for loan impairment are as follows:

	30 June 2003	30 June 2002
Allowance for loan impairment as at 1 January	119	173
Release of allowance for loan impairment during the period	(1)	(10)
Allowance for loan impairment as at 30 June.....	118	163

As at 30 June 2003 the estimated fair value of due from other banks was USD 1,560 million (31 December 2002: USD 1,246 million) (Refer Note 27).

Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 25.

8. Loans and Advances to Customers

	30 June 2003	31 December 2002
Current loans and advances	3,954	3,097
Rescheduled loans and advances	102	100
Overdue loans and advances	183	181
Less: Allowance for loan impairment	(437)	(362)
Total loans and advances to customers.....	3,802	3,016

Included in loans and advances to customers is a deposit of USD 100 million (31 December 2002: USD 100 million) placed with a foreign bank for the purpose of financing Russian fishing enterprises, which has been fully provided against. In these consolidated financial statements this deposit has been treated as a loan to customers, that is the Russian fishing enterprises, following the concept of substance over form.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

The loan was originally financed by a deposit from a state-owned Russian bank, which is included in due to other banks (Refer Note 12). Both the loan and the deposit bear no interest.

Movements in the allowance for loan impairment are as follows:

	30 June 2003	30 June 2002
Allowance for loan impairment as at 1 January	362	395
Charge/(release) of allowance for loan impairment during the period	76	(29)
Loans and advances to customers written off during the period as uncollectable.....	(1)	–
Allowance for loan impairment as at 30 June.....	<u>437</u>	<u>366</u>

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

	30 June 2003		31 December 2002	
	Amount	%	Amount	%
Manufacturing	1,317	31	703	21
Energy.....	655	15	1,201	36
Finance	563	13	139	4
Trade and commerce.....	307	7	357	11
Mining	251	6	183	5
Chemical	206	5	161	5
Food and Agriculture.....	175	4	104	3
Telecommunications and media	153	4	130	4
Transport	152	4	79	2
Construction.....	132	3	85	2
Fishing	106	3	101	3
Government bodies	89	2	66	2
Other	133	3	69	2
Total loans and advances to customers	<u>4,239</u>	<u>100</u>	<u>3,378</u>	<u>100</u>

The Group has 16 borrowers with aggregated loan amounts above USD 50 million. The total amount of these loans is USD 1,694 million or 40% of the loan portfolio. Included in loans and advances are loans to a large corporate customer totalling USD 240 million (6% of the loan portfolio) with maturity dates from March 2005 to March 2006 and a fixed interest rate of 8.4% p.a.

As of 30 June 2003 the total gross amount of impaired loans, on which interest was not accrued, was USD 281 million. Unrecognised interest related to such loans amounted to USD 3 million.

As at 30 June 2003 the estimated fair value of loans and advances to customers was USD 3,802 million (31 December 2002: USD 3,016 million) (Refer Note 27). Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 25.

9. Investment Securities Available for Sale

	30 June 2003	31 December 2002
Debt securities		
Eurobonds of the Russian Federation.....	437	756
MinFin bonds (OVGYZ)	197	93
Bills of exchange of Russian companies and banks	171	-
Bonds of Russian companies and banks	172	-
State bonds of foreign countries.....	53	-
Other	32	2
Equity securities		
Corporate shares.....	70	68
Other	41	42
Total investment securities available for sale.....	1,173	961

Eurobonds of the Russian Federation are US dollar denominated securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. The Group's portfolio of Eurobonds consists of 8 tranches of securities with maturity dates ranging from March 2004 to March 2030. The annual coupon rates on these bonds range from 5% to 13% p.a. and interest is payable semi-annually. The Group's investments in Eurobonds of the Russian Federation range from approximately 0.03% to 1.93% of the respective tranches' total nominal value issued.

MinFin bonds (OVGYZ) are interest bearing securities denominated in USD, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to their nominal value and carry an annual coupon of 3%. The bonds have maturity dates ranging from May 2006 to May 2011 and yields to maturity ranging from 4% to 6%.

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. As at 30 June 2003 the Group owned 19.9% (31 December 2002: 19.9%) of KAMAZ's and 8.3% (31 December 2002: 8.3%) 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 34 million (31 December 2002: 29 million). This represents 31.9% of the net assets of this bank. This associate is accounted for in these consolidated financial statements using the equity method.

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). The Group had also issued loans to this bank in 2000. (Refer Note 7). Most-Bank is not consolidated into Group financial statements as the Group does not exercise control over its financial and operating activities.

Included in investment securities available for sale are Eurobonds of the Russian Federation with fair value as at 30 June 2003 of USD nil million (31 December 2002: USD 107 million) pledged under sale and repurchase agreements. (Refer Note 12 and 26). All sale and repurchase agreements mature within one month of their inception.

In addition, investment securities available for sale with fair value of USD 17 million (31 December 2002: USD 13 million) have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds. (Refer Note 26).

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

Currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 25.

10. Accrued Interest Income and Other Assets

	30 June 2003	31 December 2002
Accrued interest income.....	53	60
Trade debtors and prepayments	53	33
Unsettled transactions.....	26	12
Precious metals.....	14	9
Balances arising from derivative financial instruments (Note 26)	11	8
Settlements on conversion operations	6	4
Prepaid taxes.....	22	7
Goodwill.....	20	–
Other	28	11
Total accrued interest income and other assets.....	233	144

Currency and maturity analysis of accrued interest income and other assets are disclosed in Note 25.

11. Premises and Equipment

	Premises	Office and computer equipment	Construction in progress	Total
Net book amount as at 31 December 2002.....	86	44	–	130
Cost or revalued amount				
Opening balance at 1 January 2003.....	95	87	–	182
Acquisitions of subsidiary.....	11	36	2	49
Additions	63	9	10	82
Disposals	(6)	(5)	–	(11)
Translation difference.....	1	2	–	3
Closing balance as at 30 June 2003.....	164	129	12	305
Accumulated depreciation				
Opening balance at 1 January 2003.....	9	43	–	52
Depreciation charge	2	10	–	12
Disposals	(3)	(5)	–	(8)
Translation difference.....	-	1	–	1
Closing balance as at 30 June 2003.....	8	49	–	57
Net book amount as at 30 June 2003.....	156	80	12	248

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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)***12. Due to Other Banks**

	30 June 2003	31 December 2002
Correspondent accounts and overnight deposits of other banks	618	495
Sale and repurchase agreements with other banks	–	273
Term deposits	792	517
Total due to other banks	1,410	1,285

Securities pledged against sale and repurchase agreements are MinFin bonds (OVGVZ) with a fair value of USD nil at 30 June 2003 (31 December 2002: USD 234 million) and Eurobonds of the Russian Federation with a fair value of USD nil at 30 June 2003 (31 December 2002: USD 107 million). As at 31 December 2002 these MinFin bonds (OVGVZ) bonds were recorded in the consolidated balance sheet within trading securities (Refer Note 6), Eurobonds of the Russian Federation were recorded within investment securities available for sale (Refer Note 9).

Included in correspondent accounts and overnight deposits of other banks is a USD 100 million 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 (Refer Note 8).

As at 30 June 2003 the estimated fair value of due to other banks was USD 1,410 million (31 December 2002: USD 1,285 million) (Refer Note 27).

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 25.

13. Customer Accounts

	30 June 2003	31 December 2002
State and public organisations		
Current/settlement accounts	196	249
Term deposits	18	7
Other legal entities		
Current/settlement accounts	897	802
Term deposits	1,154	835
Individuals		
Current/settlement accounts	131	103
Term deposits	613	441
Total customer accounts.....	3,009	2,437

Bank for Foreign Trade
Notes to the Consolidated Financial Statements – 30 June 2003
(expressed in millions of US dollars – Note 3)

Economic sector concentrations within customer accounts are as follows:

	30 June 2003		31 December 2002	
	Amount	%	Amount	%
Individuals.....	744	25	544	22
Manufacturing	630	21	255	10
Finance	437	15	166	7
Trade	381	13	398	16
Government bodies	214	7	256	11
Energy.....	188	6	474	19
Transport	116	4	67	3
Construction.....	49	2	19	1
Foreign entities representative offices	45	1	66	3
Telecommunication and mass media	17	-	68	3
Other	188	6	124	5
Total customer accounts.....	3,009	100	2,437	100

Included in customer accounts are:

- Restricted deposits amounting to USD 47 million (31 December 2002: USD 108 million), where matching deposits were placed by the Group on escrow accounts (Refer Note 5).
- Deposits of USD 23 million (31 December 2002: USD 56 million) held as collateral against irrevocable commitments under import letters of credit (Refer Note 26).

As at 30 June 2003 the estimated fair value of customer accounts was USD 3,009 million (31 December 2002: USD 2,437 million) (Refer Note 27).

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25.

14. Other Borrowed Funds

	30 June 2003	31 December 2002
CBRF funding	110	380
Syndicated loans.....	233	225
Revolving credit lines.....	47	89
Total other borrowed funds	390	694

As at 31 December 2002 CBRF funding includes term deposits totalling USD 150 million with interest rates ranging from 3.8 to 3.9% which was repaid in January and March 2003.

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.

The Group has a revolving credit line opened with the European Bank for Reconstruction and Development (EBRD), which carries interest rate of LIBOR plus 2.5-3%.

Syndicated loans and revolving credit lines have certain covenants. The Group is in compliance with all of such covenants.

Currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 25.

15. Debt Securities in Issue

	30 June 2003	31 December 2002
Promissory notes	1,209	432
Debentures and deposit certificates	129	28
Total debt securities in issue.....	1,338	460

In April 2002 and February 2003 the Group issued second and third tranches of Russian Rouble denominated debentures, which are publicly traded in the Russian market. The second tranche of debentures with face value of USD 33 million was issued at a discount to nominal value, and mature in April 2004. The market price of these securities as at 30 June 2003 represents 94.1% of their nominal value. The third tranche of debentures with face value USD 66 million was issued at nominal value with coupon rate from 14% to 15.5% and mature in February 2006. The market price of these securities as at 30 June 2003 represents 112.2% of their nominal value.

As at 30 June 2003 the estimated fair value of debt securities in issue was USD 1,348 million (31 December 2002: USD 458 million) (Refer Note 27).

Currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 25.

16. Accrued Interest Expense and Other Liabilities

	30 June 2003	31 December 2002
Trade creditors.....	84	37
Dividends payable (Note 23).....	53	-
Accrued interest expense	52	40
Unsettled transactions.....	47	11
Taxation payable	41	45
Other reserves	26	21
Allowance for credit related commitments (Note 26)	10	10
Settlements on conversion operations	5	2
Balances arising from derivative financial instruments.....	-	1
Other	5	8
Total accrued interest expense and other liabilities	323	175

Currency and maturity analyses of accrued interest expense other liabilities are disclosed in Note 25.

17. Minority Interest

	30 June 2003	30 June 2002
Minority interest as at 1 January.....	76	50
Share of net profit	9	19
Other movements	3	3
Minority interest as at 30 June	88	72

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).

18. Share Capital

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

	30 June 2003		31 December 2002	
	Number of of shares	Amount	Number of of shares	Amount
Ordinary shares	42,137,236	2,153	42,137,236	2,153
Total share capital	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.

In October 2002 the CBRF transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation.

19. Interest Income and Expense

	30 June 2003	30 June 2002
Interest income		
Loans and advances to customers	198	123
Securities	58	91
Due from other banks	38	36
Total interest income	294	250
Interest expense		
Customer accounts	(74)	(29)
Debt securities in issue	(56)	(22)
Due to banks and other borrowed funds	(26)	(8)
Total interest expense	(156)	(59)
Net interest income	138	191

20. Fee and Commission Income and Expense

	30 June 2003	30 June 2002
Commission on settlement transactions	13	9
Commission on cash transactions	5	4
Commission on guarantees issued	6	2
Other	8	4
Total fee and commission income	32	19
Commission on settlement transactions	(1)	(2)
Other	(1)	(1)
Total fee and commission expense	(2)	(3)
Net fee and commission income	30	16

21. Operating Expenses

	30 June 2003	30 June 2002
Staff costs	72	46
Taxes other than on income	20	9
Depreciation and other expenses related to premises and equipment	16	8
Administrative expenses	10	7
Leasing and rent expenses	9	8
Movements in other reserves	8	–
Professional services	1	2
Other	27	11
Total operating expenses	163	91

22. Income Taxes

Income tax expense comprises the following:

	30 June 2003	30 June 2002
Current tax charge	38	131
Deferred taxation movement due to the origination and reversal of temporary differences	5	(21)
Income tax expense for the year	43	110

The income tax rate applicable to the majority of the Group's income is 24%. The income tax rate applicable to subsidiaries income ranges from 4.25% to 34%. A reconciliation between the expected and the actual taxation charge is provided below.

	30 June 2003	30 June 2002
IFRS profit before taxation	171	284
Theoretical tax charge at the applicable statutory rate	47	78
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	31	64
- Income which is exempt from taxation	(4)	(22)
- Income on government securities taxed at different rates	(4)	(3)
- Other non-temporary differences	5	6
- Tax losses utilized	(13)	(38)
- Translation effect	(19)	25
Income tax expense for the year	43	110

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

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%, except for income on Russian government securities which is taxed at 15%.

	31 December 2002	Movement	30 June 2003
Tax effect of deductible temporary differences			
Provision for loan impairment.....	31	(5)	26
Fair valuation of securities.....	9	(9)	-
Accruals.....	15	(8)	7
Gross deferred tax asset	55	(22)	33
Net deferred tax asset.....	55	(22)	33
Tax effect of taxable temporary differences			
Fair valuation of securities.....	(67)	25	(42)
Accruals.....	-	(1)	(1)
Premises and equipment.....	(6)	(9)	(15)
Other	(9)	2	(7)
Gross deferred tax liability	(82)	17	(65)
Total net deferred tax liability	(27)	(5)	(32)

The Group's subsidiaries have approximately USD 543 million (31 December 2002: USD 502 million) of tax losses available for relief against future profits. The Group also has negative valuation of securities of USD 97 million. These tax loss 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.

23. Dividends

During the period ended 30 June 2003 the Bank declared dividends in the amount of USD 53 million for the year 2002 (2002: USD 20 million). Dividends were paid in Russian roubles in July 2003.

24. Analysis by Segment

In accordance with IAS 14, “Segment Reporting”, the Group’s primary format for reporting segment information is geographical segments and the secondary format is business segments. Segment information for the two main reportable geographical segments of the Group, Russia and Europe, is set out below for the period ended 30 June 2003.

	Russia	Europe	Total
Operating Income	247	87	334
Segment results	113	58	171
Taxation			(43)
Profit after taxation			128
Minority interest			(9)
Net profit			119
Segment assets	6,600	2,205	8,805
Segment liabilities	4,899	1,603	6,502
Other segment items			
Capital expenditure	77	5	82
Depreciation	11	1	12
Other non-cash (expenses)/income	(59)	(8)	(67)

The Group has one reportable business segment, which is commercial banking. The summary information of this business segment as at 30 June 2003 is presented below:

	Commercial Banking
Operating income	334
Segment assets	8,805
Credit related commitments	3,814
Capital expenditure	82

Segment information for the periods ended 30 June 2002 / 31 December 2002 is set out below:

	Russia	Europe	Total
Operating income	231	144	375
Segment results	149	135	284
Taxation			(110)
Profit after taxation			174
Minority interest			(19)
Net profit			155
Segment assets	5,932	1,340	7,272
Segment liabilities	4,080	998	5,078
Other segment items			
Capital expenditure	7	1	8
Depreciation	3	1	4
Other non-cash (expenses)/income	(49)	54	5

The summary information of the business segment for the periods ended 30 June 2002 / 31 December 2002 is presented below:

	Commercial Banking
Operating income.....	375
Segment assets.....	7,272
Credit related commitments.....	1,763
Capital expenditure	8

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.

25. 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.

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 revolving basis and 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

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 Assets/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 30 June 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 30 June 2003, the Group has the following positions in currencies:

	USD	RR	Euro	Other currencies	Total
Assets					
Cash and short-term funds.....	324	155	68	72	619
Mandatory cash balances with local central banks.....	–	312	5	–	317
Trading securities.....	534	286	16	12	848
Due from other banks.....	1,023	289	219	29	1,560
Loans and advances to customers.....	2,679	1,009	104	10	3,802
Investment securities available for sale.....	970	76	124	3	1,173
Investment security held to maturity.....	–	–	–	5	5
Accrued interest income and other assets.....	59	128	31	15	233
Premises and equipment.....	2	228	16	2	248
Total assets.....	5,591	2,483	583	148	8,805
Liabilities					
Due to other banks.....	1,016	138	174	82	1,410
Customer accounts.....	1,680	1,042	275	12	3,009
Other borrowed funds.....	382	–	–	8	390
Debt securities in issue.....	624	609	105	–	1,338
Accrued interest expense and other liabilities.....	99	175	31	18	323
Deferred tax liability.....	–	14	18	–	32
Total liabilities.....	3,801	1,978	603	120	6,502
Net balance sheet position.....	1,790	505	(20)	28	2,303
Credit related commitments (Note 26).....	3,207	134	143	330	3,814
Off-balance sheet net notional position (Note 26).....	(527)	130	363	45	11

At 31 December 2002, the Group had the following positions in currency

	USD	RR	Euro	Other currencies	Total
Net balance sheet position.....	1,730	357	81	26	2,194
Credit related commitments (Note 26).....	1,309	15	88	351	1,763
Off-balance sheet net notional position.....	(282)	4	247	38	7

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

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.

The table below shows assets and liabilities as at 30 June 2003 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature; for example, certain loans are frequently renewed and accordingly short-term loans can have a longer term duration.

The liquidity position of the Group as at 30 June 2003 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.....	515	–	–	–	104	619
Mandatory cash balances with local central banks.....	191	82	26	5	13	317
Trading securities.....	848	–	–	–	–	848
Due from other banks.....	1,283	180	21	72	4	1,560
Loans and advances to customers.....	503	1,070	795	1,426	8	3,802
Investment securities available for sale.....	1,062	–	–	–	111	1,173
Investment securities held to maturity.....	–	–	–	5	–	5
Accrued interest income and other assets.....	147	58	8	–	20	233
Premises and equipment.....	–	–	–	–	248	248
Total assets.....	4,549	1,390	850	1,508	508	8,805
Liabilities						
Due to banks.....	1,031	292	35	52	–	1,410
Customer accounts.....	1,646	850	285	180	48	3,009
Other borrowed funds.....	115	156	110	9	–	390
Securities issued.....	325	308	332	373	–	1,338
Accrued interest expense and other liabilities.....	219	68	12	14	10	323
Deferred tax liability.....	–	–	32	–	–	32
Total liabilities.....	3,336	1,674	806	628	58	6,502
Net liquidity gap.....	1,213	(284)	44	880	450	2,303
Cumulative liquidity gap as at 30 June 2003.....	1,213	929	973	1,853	2,303	

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

The liquidity position of the Group as 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 as at						
31 December 2002	853	901	1,124	1,887	2,194	–

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. 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 less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these deposits provide a long-term and stable source of funding for the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on 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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

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 as at 30 June 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.

	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.....	515	–	–	–	104	619
Mandatory cash balances with local central banks.....	191	82	26	5	13	317
Trading securities.....	848	–	–	–	–	848
Due from other banks.....	1,283	180	21	72	4	1,560
Loans and advances to customers.....	505	1,155	794	1,340	8	3,802
Investment securities available for sale.....	1,062	–	–	–	111	1,173
Investment securities held to maturity.....	–	–	–	5	–	5
Accrued interest income and other assets.....	133	58	8	–	34	233
Premises and equipment.....	–	–	–	–	248	248
Total assets.....	4,537	1,475	849	1,422	522	8,805
Liabilities						
Due to banks.....	1,031	309	35	35	–	1,410
Customer accounts.....	1,646	850	285	180	48	3,009
Other borrowed funds.....	115	261	5	9	–	390
Securities issued.....	325	308	332	373	–	1,338
Accrued interest expense and other liabilities.....	219	68	12	14	10	323
Deferred tax liability.....	–	–	–	–	32	32
Total liabilities.....	3,336	1,796	669	611	90	6,502
Net gap.....	1,201	(321)	180	811	432	2,303
Cumulative gap as at 30 June 2003.....	1,201	880	1,060	1,871	2,303	

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

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 gap.....	829	39	336	701	289	2,194
Cumulative gap as at 31 December 2002.....	829	868	1,204	1,905	2,194	–

Bank for Foreign Trade
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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.

	30 June 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	5%	13%	9%	4%	10%	13%	7%	5%
Due from other banks	3%	2%	3%	1%	4%	9%	4%	2%
Loans and advances to customers	10%	18%	9%	5%	9%	21%	10%	–
Debt investment securities								
available for sale	9%	–	9%	8%	9%	–	–	–
Liabilities								
Due to other banks	2%	2%	3%	0%	1%	9%	3%	2%
Customer accounts	4%	6%	2%	3%	6%	6%	2%	2%
Other borrowed funds	4%	–	–	3%	3%	–	–	–
Debt securities in issue	7%	13%	7%	2%	7%	9%	7%	–

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

26. Contingencies, Commitments and Derivative Financial Instruments

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

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

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

Capital commitments. As at 30 June 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 2003 and 2004.

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.

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

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

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

Outstanding credit related commitments are as follows:

	30 June 2003	31 December 2002
Export letters of credit.....	1,573	1,088
Guarantees issues.....	1,344	226
Undrawn credit lines.....	661	292
Import letters of credit.....	165	123
Commitments to extend credit	81	44
Less: allowance for losses on credit related commitments	(10)	(10)
Total credit related commitments	3,814	1,763

Commitments under import letters of credit collateralised by customer deposits of USD 23 million (31 December 2002: USD 56 million) (Refer Note 13).

Movements in the allowance for losses on credit related commitments are as follows:

	30 June 2003	30 June 2002
Allowance for losses on credit related commitments at 1 January.....	10	10
Provision for losses on credit related commitments during the period	–	(2)
Allowance for losses on credit related commitments at 30 June (Note 16).....	10	8

As at 30 June 2003 the Group had guarantees issued for two Russian companies of USD 566 million (42% of the guaranties issued) and USD 500 million (37% of the guaranties issued) respectively.

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 on 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

Bank for Foreign Trade

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and covers the contracts with a maturity date subsequent to 30 June 2003. These contracts were mainly entered into in June 2003 and settled early in July 2003.

The table below includes contracts outstanding as at 30 June 2003.

	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
<i>Deals entered into in 2003:</i>						
Spot						
- sale of foreign currency	27	–	–	1	–	–
- purchase of foreign currency	16	–	–	7	–	–
- sale of precious metals	-	–	–	2	–	–
- purchase of precious metals	1	–	–	8	–	–
- sale of securities	11	–	–	-	–	–
- purchase of securities	38	–	3	-	–	–
Deliverable forwards						
- sale of securities	60	–	4	7	–	–
- purchase of securities	62	–	–	54	–	–
Swap						
- sale of precious metals	–	–	–	9	–	–
- purchase of precious metals	–	–	–	1	–	–
- sale of foreign currency	137	–	–	64	(1)	1
- purchase of foreign currency	21	–	–	438	(4)	8
Total	373	–	7	591	(5)	9

The table below includes contracts outstanding as at 30 June 2002.

	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
Spot						
- sale of foreign currency	13	-	-	8	-	-
- purchase of foreign currency	12	-	-	13	-	-
- sale of precious metals	-	-	-	10	-	-
- purchase of precious metals	-	-	-	8	-	-
- sale of securities	11	-	-	11	-	-
- purchase of securities	4	-	-	12	-	-
Deliverable forwards						
- purchase of foreign currency	-	-	-	11	-	-
Option						
- sale of investment securities available for sale	196	-	61	-	-	-
Swap						
- sale of foreign currency	6	-	-	24	-	-
- purchase of foreign currency	5	-	-	95	(6)	-
Total	237	-	61	192	(6)	-

Bank for Foreign Trade**Notes to the Consolidated Financial Statements – 30 June 2003***(expressed in millions of US dollars – Note 3)*

Movements in the fair value of option to sell investment securities available for sale were as follows:

	2002
Fair value as at 1 January	85
Change in fair value.....	(24)
Fair value as at 30 June	61

As at 30 June 2002 the principal amount of this put option totaled USD 196 million (1 January 2002: USD 196 million) and the fair value was USD 61 million (1 January 2002: USD 85 million)

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:

	30 June 2003 Nominal Value	31 December 2002 Nominal value
MinFin bonds (OVGVZ)	4,399	6,252
Eurobond of the Russian Federation	2,147	858
Other	1,037	260

Assets pledged. As at 30 June 2003, the Group has USD 17 million (31 December 2002: USD 13 million) of securities pledged as collateral (Refer Note 9). The Bank, also, pledged securities with the fair value of USD nil million (31 December 2002: of USD 341 million) under sale and repurchase agreements with other banks. (Refer Notes 6 and 9). All these operations were performed by the Bank in the normal course of business.

27. Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 2, the Russian Federation has shown signs of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investment securities available for sale are carried on the balance sheet at their fair value. The fair value of these assets were determined by Management on the basis of market quotations.

Due from other banks. Management has estimated that as at 30 June 2003 and as at 31 December 2002 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 advance to customers. Management has estimated that as at 30 June 2003 and as at 31 December 2002 the fair value of loans and advances to customers was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Borrowings. Management has estimated that as at 30 June 2003 and as at 31 December 2002 the fair values of borrowings were not materially different from 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.

The fair value of derivatives is disclosed in Note 26.

28. Related Party Transactions

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

Banking transactions are entered into in the normal course of business with shareholders, non-consolidated subsidiaries and associates. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. Transactions are priced predominantly at market rates.

The interest income and expense as well as other transactions for the period with the major shareholder (commencing October 2002: the Ministry of Property Relations of the Russian Federation; prior to October 2002: the CBRF) are as stated in the table below:

	30 June 2003	30 June 2002
Interest income	–	1
Interest expense	–	(10)
Balances arising from derivative financial instruments.....	–	61
Dividends declared (Note 23)	(53)	(20)
Dividends (USD per share).....	1.26	0.47

The Group did not have any balances outstanding with related parties as at 30 June 2003 and 31 December 2002 respectively.

In the period ended 30 June 2003 the total remuneration of the directors and key management personnel, including pension contributions, and discretionary compensation amounts to USD 11 million (30 June 2002: USD 2 million).

29. 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 2002	30 June 2003
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%
East-West United Bank	Banking	Luxembourg	53.0%	53.0%
Bank “Zabaikalsky”	Banking	Russia	99.9%	99.9%
VOK Vneshtorgbank	Banking	Russia	99.4%	99.4%
Novosibirskvneshtorgbank	Banking	Russia	97.5%	97.5%
Ulyanovskvneshtorgbank	Banking	Russia	60.4%	60.4%
Multicarta Ltd	Plastic cards	Russia	50.0%	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%
Associates				
Ost –West Handelsbank	Banking	Germany	31.9%	31.9%

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 cash payment of Euro 1 million (USD equivalent is USD 1 million), thus increasing its share in Ost-West Handelsbank to 31.9%.

30. Acquisition of Subsidiary

In April 2003 the Group acquired 100% of ZAO “Almaz-Press” share capital for cash payment of USD 41 million and recognised goodwill in amount of USD 20 million (Refer Note 10).

31. Subsequent Events

The management of the Group has approved Euro Medium-Term Note borrowings program for USD 3,000 million. The first bond issue within the Euro Medium-Term Note program in the amount of USD 500 million is planned for December 2003.

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