

IMPORTANT: You must read the following before continuing. The following applies to the preliminary prospectus (the “document”) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the document. In accessing the document, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. The document has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein. In particular, this document refers to certain events as having occurred that have not occurred at the date it is made available but that are expected to occur prior to publication of the prospectus to be published in due course. The document is an advertisement and not a prospectus and investors should not subscribe for or purchase securities except on the basis of information in the prospectus. Copies of the prospectus will, following publication, be published and made available to the public in accordance with the applicable rules. Although it is intended that the prospectus will be approved by the UK Financial Services Authority as a prospectus prepared in accordance with the Prospectus Rules made under section 73A of the Financial Services and Markets Act 2000, this document has not been so approved. Similarly, although it is intended that the prospectus will be made available to the public in accordance with the Prospectus Rules, this document has not been made available in accordance therewith.

THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS DOCUMENT MAY ONLY BE DISTRIBUTED TO PERSONS LOCATED OUTSIDE THE UNITED STATES OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

INFORMATION CONTAINED IN THIS DOCUMENT DOES NOT CONSTITUTE AN ADVERTISEMENT OF THE GDRs IN RUSSIA AND MUST NOT BE PASSED ON TO THIRD PARTIES OR OTHERWISE BE MADE PUBLICLY AVAILABLE IN RUSSIA. THE GDRs HAVE NOT BEEN AND WILL NOT BE REGISTERED IN RUSSIA AND ARE NOT INTENDED FOR “PLACEMENT” OR “PUBLIC CIRCULATION” IN RUSSIA.

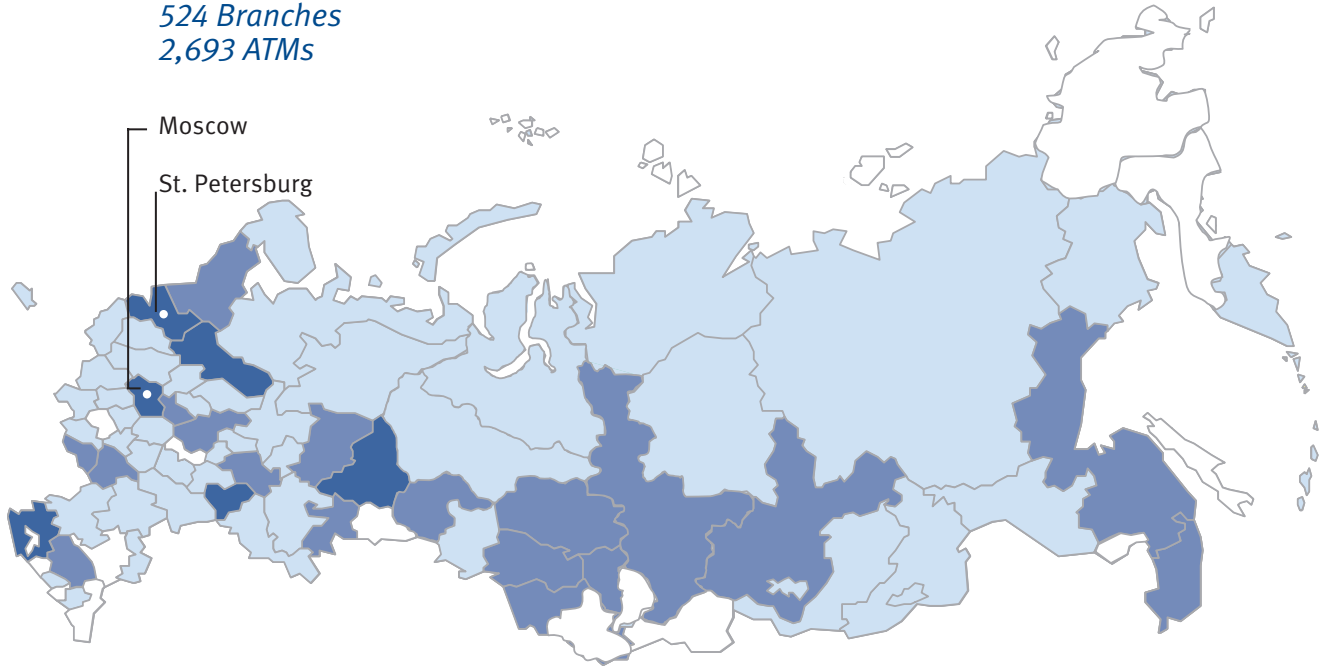
Confirmation of your representation: In order to be eligible to view this document or make an investment decision with respect to the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of JSC VTB Bank in such jurisdiction. Under no circumstances shall this document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the document.

This document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the underwriters, as named in this document, nor any person who controls an underwriter nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from Citigroup Global Markets Limited, Deutsche Bank AG, Goldman Sachs International or Renaissance Securities (Cyprus) Limited.



Extensive Distribution Network throughout Russia

524 Branches
2,693 ATMs

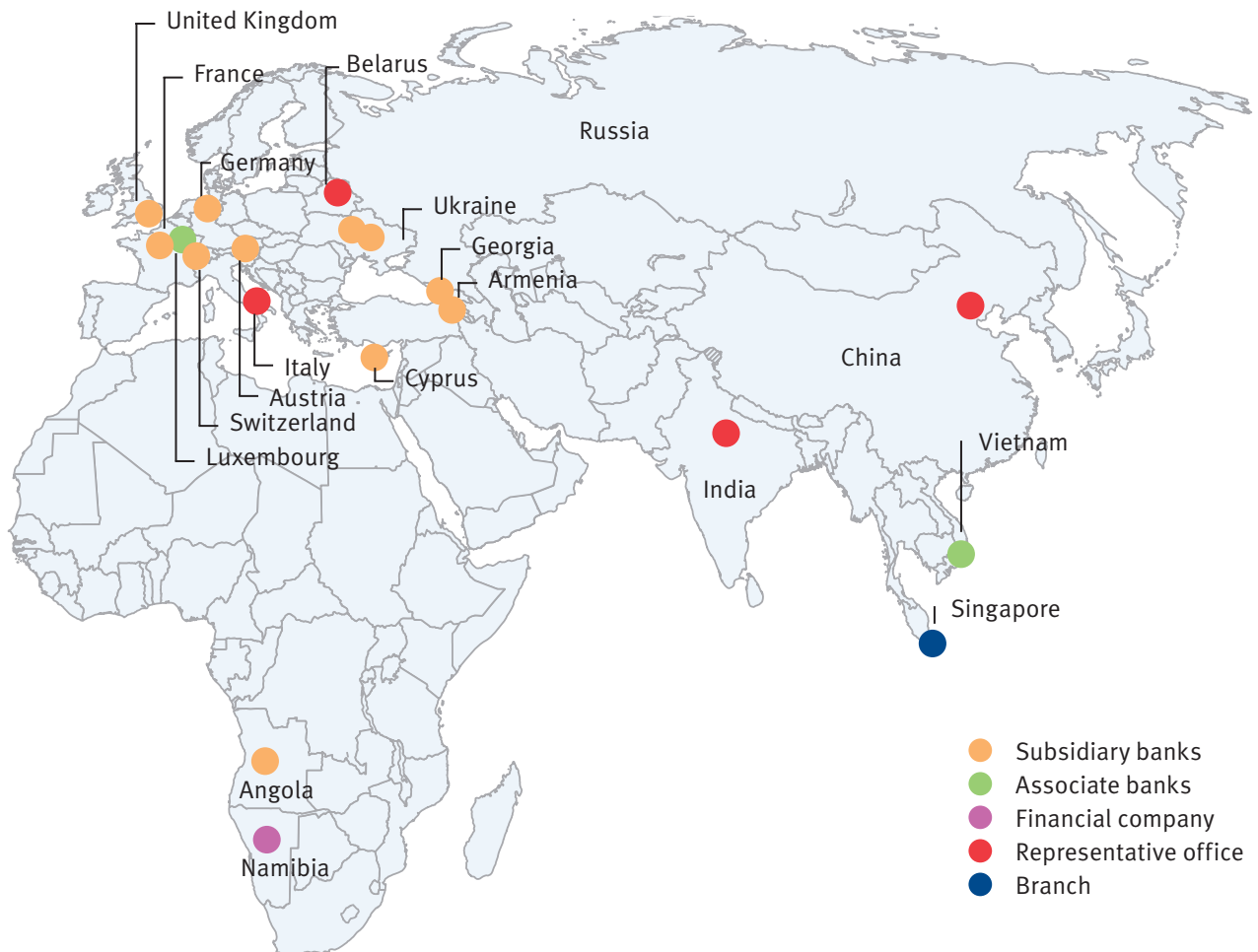


Number of Branches

- 1–5
- 6–15
- more than 15

Branches include branch offices, sub-branches and outlets.

Broad International Presence



- Subsidiary banks
- Associate banks
- Financial company
- Representative office
- Branch

The information contained in this preliminary prospectus is not complete and may be changed. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted. This preliminary prospectus is an advertisement and not a prospectus for purposes of applicable measures implementing the Prospectus Directive. Investors should not subscribe for any transferable securities referred to herein except on the basis of information contained in the final form prospectus prepared pursuant to the Prospectus Directive which, if published, can be obtained at the registered office of JSC VTB Bank at 29 Bolshaya Morskaya Street, St. Petersburg 190000, Russian Federation, and otherwise as required by the Prospectus Directive.

PRELIMINARY PROSPECTUS DATED APRIL 25, 2007
SUBJECT TO COMPLETION



(incorporated as an open joint stock company under the laws of the Russian Federation)

Global Offering of up to 1,734,333,866,664 Shares
in the form of Shares and Global Depositary Receipts

(subject to a repurchase option in respect of up to Shares in the form of GDRs)

JSC VTB Bank (“VTB”), an open joint stock company incorporated under the laws of the Russian Federation (“Russia”), is offering up to 1,734,333,866,664 ordinary shares (the “Shares”), each with a nominal value of RUR 0.01, in the form of Shares and global depositary receipts (the “GDRs”) and together with the Shares, the “Securities”) in the Global Offering (as defined below). Each GDR represents an interest in 2,000 Shares. The Shares are being issued through an open subscription (the “Open Subscription”).

VTB’s shareholders of record as of February 16, 2007, have statutory pre-emption rights under Russian law to subscribe for ordinary shares *pro rata* to their existing shareholding as at that date. See “The Offering—Pre-emptive Rights.” To the extent not subscribed for by VTB’s existing shareholders, the Shares will be offered (i) in an offering to retail investors in Russia as more fully described under “Subscription and Sale” (the “Retail Offering”) and (ii) in an institutional offering (a) in the form of Shares outside the United States to certain persons in offshore transactions in reliance on Regulation S (“Regulation S”) under the United States Securities Act of 1933, as amended (the “Securities Act”), and in the United States to qualified institutional buyers (“QIBs”), as defined in, and in reliance on, Rule 144A (“Rule 144A”) under the Securities Act and (b) in the form of GDRs outside the United States and Russia to certain persons in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A (the “Institutional Offering”) and, together with the Retail Offering, the “Global Offering”).

Russian securities legislation does not permit VTB to sell more than 70% of the total number of ordinary shares authorised in the Global Offering in the form of GDRs. VTB has applied to the Russian Federal Service for Financial Markets (the “FSFM”) for permission to place up to 1,214,033,706,664 Shares in the form of GDRs.

VTB has applied to the United Kingdom Financial Services Authority (the “FSA”), in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “FSMA”), for the GDRs to be admitted to the Official List of the FSA and to the London Stock Exchange plc (the “LSE”) to admit the GDRs for trading under the symbol “VTBR” on its market for listed securities through its International Order Book (the “IOB”) (collectively, the “Admission”). VTB’s application to the FSA covers the listing of up to GDRs, consisting of up to GDRs to be issued in the Global Offering on or about May , 2007 (the “Closing Date”) and up to additional GDRs to be issued from time to time against the deposit of additional ordinary shares with The Bank of New York (the “Depositary”). The IOB is a regulated market for purposes of Investment Services Directive 93/22/EC. VTB expects that conditional dealings in the GDRs through the IOB will commence on a “when and if issued” basis on or about May , 2007 and that unconditional trading in the GDRs through the IOB will commence on or about the Closing Date. All dealings in the GDRs before commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. VTB has also applied for the GDRs being offered and sold in the United States (the “Rule 144A GDRs”) to be designated as eligible for trading on the PORTAL MarketSM, a subsidiary of the Nasdaq Stock Market, Inc. (“PORTAL”). VTB expects trading in the GDRs on PORTAL to commence on or about the Closing Date.

The Shares have been admitted to trading on the quotation lists “V” of the Russian Trading System (the “RTS”) and the Moscow Interbank Currency Exchange (“MICEX”), and the Shares have been registered with the Central Bank of Russia (the “CBR”) under registration number 10401000B0001D. A statutory Russian prospectus for the Shares was registered by the CBR on April 2, 2007. Under Russian law, trading in the Shares is not permitted until a report on the results of their issue (the “Placement Report”) has been registered with the CBR. VTB expects trading in the Shares on the RTS and MICEX to commence shortly after registration of the Placement Report. Prior to the Closing Date, there has not been any public market for the Shares or the GDRs.

The issuance and sale of the Shares and the GDRs will be subject to cancellation if the CBR fails to register the Placement Report within 75 calendar days after the Closing Date, or such later date as may be agreed between VTB and the Joint Bookrunners (as defined in “Subscription and Sale”). In the event of such cancellation, VTB will, as soon as practicable thereafter, refund the gross proceeds received from the sale of the Shares, including the Shares underlying the GDRs, without interest, to all holders of Shares, including the Depositary, regardless of the then-prevailing market price of the Shares or GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented if there is a change in such regulations or practices. Upon payment of such amounts to the Depositary in respect of the Shares underlying the GDRs, the Depositary will cancel the GDRs and refund such amounts to the GDR holders *pro rata*, subject to a fee of no more than \$0.05 per GDR, pursuant to the terms of the Deposit Agreement dated April 23, 2007 between VTB and the Depositary (the “Deposit Agreement”). See “Registration of Placement Report” and “Terms and Conditions of the Global Depositary Receipts—Deposit Agreement.”

This prospectus (the “Prospectus”), upon approval by the FSA, is a prospectus relating to VTB prepared in accordance with the prospectus rules of the FSA (the “Prospectus Rules”) made under section 73A of the FSMA.

AN INVESTMENT IN THE SECURITIES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS.” The Shares and the GDRs are of a specialist nature and should only be purchased and traded by investors who are particularly knowledgeable in investment matters.

Offer Price Range: 11.30 Kopecks to 13.90 Kopecks per Share implying a price range of \$8.77 to \$10.79 per GDR
(based on the ruble/US dollar exchange rate in effect on April 25, 2006 of RUR 25.78 to \$1.00 as quoted by the CBR)

The Global Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Securities have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Securities may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Information set forth in this Prospectus does not constitute an advertisement of the GDRs in Russia and must not be passed on to third parties or otherwise be made publicly available in Russia. The GDRs have not been and will not be registered in Russia and are not intended for “placement” or “public circulation” in Russia. For a description of these and certain further restrictions on transfers of the Securities, see “Transfer Restrictions.”

I.T.C. Consultants (Cyprus) Ltd, a wholly owned subsidiary of VTB (“ITC”), has granted the Underwriters, acting through the Stabilisation Manager, an option (the “Repurchase Option”), exercisable at any time during the Stabilisation Period, to require ITC to purchase up to Shares in the form of GDRs held by the Stabilisation Manager as a result of stabilisation transactions at the price at which such Shares in the form of GDRs were purchased by the Stabilisation Manager in the relevant stabilisation transaction. ITC will hold any Shares in the form of GDRs it acquires pursuant to the Repurchase Option in treasury.

VTB may withdraw the Global Offering at any time, and VTB and the Underwriters reserve the right to reject any offer to purchase the Securities, in whole or in part, and to sell to any prospective investor less than the full amount of the Securities sought by such investor. The GDRs will be issued in global form. The Rule 144A GDRs will be evidenced by a Master Rule 144A Global Depositary Receipt (the “Master Rule 144A GDR”) registered in the name of Cede & Co., as nominee for The Depositary Trust Company (“DTC”) in New York. The GDRs being offered and sold outside the United States (the “Regulation S GDRs”) will be evidenced by a Master Regulation S Global Depositary Receipt (the “Master Regulation S GDR” and, together with the Master Rule 144A GDR, the “Master GDRs”) registered in the name of The Bank of New York Depositary (Nominees) Limited, as common depositary for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”). Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. Delivery of the GDRs will be made through DTC with respect to the Rule 144A GDRs and through Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs, in each case on or about the Closing Date.

Joint Global Coordinators

Citi

Deutsche Bank

Goldman Sachs International

Joint Bookrunners

Citi

Deutsche Bank

Goldman Sachs International

Renaissance Capital

The date of this Prospectus is May , 2007.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Each prospective investor, by accepting delivery of this Prospectus, agrees that this Prospectus is being furnished by VTB solely for the purpose of enabling a prospective investor to consider the purchase of the Securities. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Securities is prohibited, except to the extent that such information is otherwise publicly available.

This Prospectus is issued in compliance with the listing rules of the FSA (the “**Listing Rules**”), which are compliant with the provisions of Directive 2003/71/EC (the “**Prospectus Directive**”). VTB accepts responsibility for the information provided in this Prospectus. VTB declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

VTB has included its own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed exclusively to a third party source, to a certain degree subjective. While VTB believes that its own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by VTB appropriately reflects the industry and the markets in which it operates, there is no assurance that VTB’s own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The contents of the websites of any of VTB and its subsidiaries (collectively, the “**Group**”) do not form any part of this Prospectus.

None of the Underwriters makes any representation or warranty, express or implied, as to the accuracy or completeness of information set forth in this Prospectus. None of the Underwriters assumes any responsibility for the accuracy or completeness of the information set forth in this Prospectus. Each person contemplating making an investment in the Securities must make its own investigation and analysis of the Group and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to such person in connection with such investment.

The information set forth in this Prospectus is only accurate as of its date. The Group’s business, financial and legal condition may have changed since that date.

No person is authorised to give any information or to make any representation in connection with the Global Offering other than as contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by VTB or any of the Underwriters.

No prospective investor should consider any information in this Prospectus to be investment, legal, tax or other advice. Each prospective investor should consult its own counsel, accountant and other advisers for such advice. None of VTB or any of the Underwriters makes any representation to any offeree or purchaser of the Securities regarding the legality of an investment in such Securities by such offeree or purchaser.

Each of the Underwriters is acting solely for VTB and no one else in connection with the Global Offering and is not, and will not be, responsible to any other person for providing advice in respect of the Global Offering or for providing the protections afforded to their respective clients. The Underwriters and certain related entities may acquire a portion of the Securities for their own accounts.

In connection with the Global Offering, each of the Underwriters and any affiliate acting as an investor for its own account may take up the Securities and in that capacity may retain, purchase or sell for its own account the Securities and any of VTB’s other securities or related investments and may offer or sell the Securities or other investments otherwise than in connection with the Global Offering. Accordingly, references in this document to the Securities being offered or placed should be read as including any offering or placement of securities to the Underwriters and any affiliate acting in such

capacity. None of the Underwriters intends to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by the FSMA or the regulatory regime established thereunder, each of the Underwriters accepts no responsibility whatsoever for the contents of this Prospectus nor for any other statement made or purported to be made by it or any of them or on its or their behalf in connection with VTB, the Group or the Securities. Each of the Underwriters accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

In connection with the Global Offering, Deutsche Bank AG, London Branch (the “**Stabilising Manager**”) (or any agent, affiliate or other person acting for the Stabilising Manager) may effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might have otherwise prevailed in the open market. However, the Stabilising Manager (or any agent, affiliate or other person acting for the Stabilising Manager) has no obligation to do so. Such stabilisation, if commenced, may begin on the date of adequate public disclosure of the Offer Price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 days after the date of such adequate public disclosure of the Offer Price. Neither the Stabilising Manager nor any of its agents intends to disclose the extent of any such stabilisation transactions otherwise than in accordance with any legal or regulatory obligation to do so. Neither the Stabilising Manager nor any of the Underwriters nor any of their respective agents will effect any stabilisation activity with respect to the Shares.

The distribution of this Prospectus and the offer and sale of the Securities may be restricted by law in certain jurisdictions. None of VTB or any of the Underwriters is making an offer to sell any Securities to or is soliciting an offer to buy Securities from any person in any jurisdiction except where such an offer or solicitation is permitted. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is unauthorised or is unlawful. VTB and the Underwriters each require persons into whose possession this Prospectus comes to inform themselves about and to observe such restrictions. None of VTB or any of the Underwriters has taken any action that would permit, other than as part of the Global Offering, an offering of or relating to the Securities in any jurisdiction that requires action for that purpose. Further information with regard to restrictions on offers and sales of the Securities is set forth under “Subscription and Sale” and “Transfer Restrictions.”

NOTICE TO CERTAIN INVESTORS

Notice to United States Investors

The Securities offered hereby have not been registered with, or approved or disapproved by, the United States Securities and Exchange Commission (the “SEC”) or any state securities commission in the United States or any other United States regulatory authority. Furthermore, the foregoing authorities have not passed on or endorsed the merits of the Global Offering or the adequacy or accuracy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.

Notice to New Hampshire Residents

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

Notice to European Economic Area Investors

This Prospectus has been prepared on the basis that all offers of Securities other than the Global Offering contemplated in this Prospectus in the United Kingdom once this Prospectus has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive as implemented in the United Kingdom, will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the European Economic Area (the “**EEA**”), from the requirement to produce a prospectus for offers of the Securities. Accordingly, any person making or intending to make any offer within the EEA of the Securities should only do so in circumstances in which no obligation arises for VTB or any of the Underwriters to produce a prospectus for such offer. Neither VTB nor any of the Underwriters has authorised, nor do they authorise, the making of any offer of the Securities through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of the Securities contemplated in this Prospectus.

Each person in a Member State of the EEA which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) who receives any communication in respect of, or who acquires any Securities, to whom any offer is made under the Global Offering will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive; and in the case of any Securities acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Securities acquired by it in the Global Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Bookrunners has been given to the offer or resale; or where the Securities have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Securities to it is not treated under the Prospective Directive as having been made to such persons. VTB, the Underwriters and their affiliates, and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Bookrunners of such fact in writing may, with the consent of the Joint Bookrunners, be permitted to subscribe for or purchase the Securities.

The Underwriters may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this representation, the expression an “**offer of Securities to the public**” in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Notice to United Kingdom Investors

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”); or (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order and other persons to whom it may lawfully be communicated (such persons collectively being referred to as “**relevant persons**”). The Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

Notice to Russian Investors

No Underwriter may offer, transfer or sell the GDRs as part of their initial distribution in Russia, or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law.

The GDRs have not been and will not be registered in Russia and are not intended for “placement” or “public circulation” in Russia. This Prospectus does not constitute an advertisement of the GDRs in Russia.

Notice to Investors in Certain Other Countries

For information to investors in certain other countries, see “Subscription and Sale—Selling Restrictions.”

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- statements relating to the Group’s plans, objectives or goals, including those related to its strategy;
- statements relating to future economic performance; and
- assumptions underlying 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. Prospective investors 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:

- the health of the Russian economy, including the Russian banking sector;
- political stability in Russia;
- the effects of, and changes in, the policies of the government of Russia and regulations promulgated by the CBR;
- the effects of changes in laws, regulations, taxation or accounting standards or practices in the jurisdictions where the Group conducts its operations;
- the Group’s ability to implement successfully its business strategy, including expansion in various geographic and business areas;
- fluctuations in prices for securities issued by Russian entities and for precious metals;
- inflation, interest rate and exchange rate fluctuations in Russia in the jurisdictions in which the Group conducts its operations;
- the effects of competition in the geographic and business areas in which the Group conducts its operations;
- the Group’s ability to increase market share for its products and services and control expenses;
- the Group’s ability to fund operations and capital needs through borrowings or otherwise;
- the effect of the Group’s restructuring and/or re-branding of its Russian, CIS and European banking operations;
- the Group’s ability to carry out planned upgrades to its IT systems;
- the Group’s ability to attract and/or retain qualified personnel;
- acquisitions or divestitures by the Group; and
- the Group’s ability to manage successfully the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. 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.

AVAILABLE INFORMATION

For so long as any of the Securities are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, VTB will, during any period in which it is neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934 (the “**Exchange Act**”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

VTB is an open joint stock company incorporated under the laws of Russia, and none of the members of VTB’s supervisory council (the “**Supervisory Council**”) or VTB’s management board (the “**Management Board**”) are residents of the United Kingdom or the United States. As a result, it may not be possible for security holders to:

- effect service of process within the United Kingdom or the United States upon VTB or the members of its Supervisory Council or Management Board; or
- enforce against such persons judgments obtained in the courts of the United Kingdom or the United States.

Russian courts may not enforce any judgment obtained in a court in a country other than Russia unless:

- there is a treaty in effect between such country and Russia providing for the recognition and enforcement of court judgments; or
- Russia adopts a federal law providing for the recognition and enforcement of foreign court judgments.

No such treaty exists between Russia and the United Kingdom or the United States. Even if there were such a treaty, Russian courts could nonetheless refuse to recognise or enforce a foreign court judgment on the grounds set forth in such treaty and in Russian law in effect on the date on which such recognition or enforcement is sought. Moreover, Russia has adopted no such federal law.

In September 2002, the new Arbitration Procedural Code of Russia entered into force, setting forth procedures for the recognition and enforcement of judgments and grounds for refusal of such recognition and enforcement in the event that such a treaty or federal law were adopted. However, Russian procedural law may change further, and other grounds for refusal of the recognition and enforcement of foreign court judgments could arise in the future.

The Deposit Agreement provides that actions brought by any party thereto be referred to arbitration in London, England, in accordance with the rules of the London Court of International Arbitration. Each of the United Kingdom, the United States and Russia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”). Consequently, Russian courts should generally recognise and enforce in Russia an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention, subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and law. However, it may be difficult to enforce arbitral awards in Russia due to:

- the inexperience of Russian courts in enforcing international commercial arbitral awards;
- official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors; and
- the Russian courts’ inability or unwillingness to enforce such orders.

VTB has appointed Clifford Chance Secretaries Limited as its agent for service of process in the United Kingdom in any suit, action or proceeding with respect to the GDRs. However, a Russian court may not give effect to such appointment.

TABLE OF CONTENTS

	<u>Page</u>
IMPORTANT INFORMATION ABOUT THIS PROSPECTUS	ii
NOTICE TO CERTAIN INVESTORS	iii
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	v
AVAILABLE INFORMATION	vii
LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES	vii
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	1
SUMMARY	4
RISK FACTORS	10
THE OFFERING	34
REGISTRATION OF PLACEMENT REPORT	39
USE OF PROCEEDS	40
CAPITALISATION	41
DIVIDEND POLICY	42
DILUTION	43
THE BANKING SECTOR IN RUSSIA	44
BUSINESS	47
RISK MANAGEMENT	67
SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA	81
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	83
MANAGEMENT AND CORPORATE GOVERNANCE	116
PRINCIPAL SHAREHOLDERS	127
RELATED PARTY TRANSACTIONS	128
BANKING REGULATION IN RUSSIA	130
DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LAW	136
TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS	150
SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM ...	168
TAXATION	170
TRANSFER RESTRICTIONS	183
SUBSCRIPTION AND SALE	188
SETTLEMENT AND DELIVERY	194
INFORMATION RELATING TO THE DEPOSITARY	198
LEGAL MATTERS	198
INDEPENDENT AUDITORS	198
GENERAL INFORMATION	199
SUMMARY OF CERTAIN DIFFERENCES BETWEEN IFRS AND US GAAP	201
INDEX TO FINANCIAL STATEMENTS	F-1

VTB was incorporated in Russia on October 17, 1990, and its registered office is located at 29 Bolshaya Morskaya Street, St. Petersburg 190000, Russian Federation. The telephone number of the registered office is +7 (812) 314-6059. VTB's head office (the "**Head Office**") is located at 6 Lesnaya Street, Moscow 125047, Russian Federation. The telephone number of the Head Office is +7 (495) 739-7799. VTB is registered in the Unified State Register of Legal Entities under principal state registration number 1027739609391.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The Group's audited consolidated financial statements in respect of the financial years ended December 31, 2006, 2005 and 2004 (the "**Annual Financial Statements**") have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board. The US dollar is the reporting currency for the Group, as further described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations and Capital Structure—Exchange Rate Fluctuations and Reporting Currency." Accordingly, the financial statements included herein are presented in US dollars.

The Annual Financial Statements have been audited by CJSC Ernst & Young Vneshaudit ("**Ernst & Young**"), independent auditors, who have expressed an unqualified opinion on those statements, as stated in their report appearing herein. The address of Ernst & Young is Sadovnicheskaya Naberezhnaya 77, Building 1, Moscow 115035, Russian Federation. Ernst & Young is a member of the Institute of Professional Accountants and Auditors of Russia.

Reclassification

As of January 1, 2006, the Group adopted revised IAS 39 requirements. As a result, when preparing the audited consolidated financial statements in respect of the year ended December 31, 2006, the Group made several reclassifications to its balance sheet as of December 31, 2005 for comparison purposes. The Group also reclassified certain line items in its statement of income for the year ended December 31, 2005 to conform to the 2006 presentation. The Group additionally made certain reclassifications within the statement of cash flows for the year ended December 31, 2005 to conform to the 2006 presentation. The Group has issued its three-year Annual Financial Statements containing the relevant reclassifications, for comparison and classification purposes based on the accounting policies specified in IFRS effective on January 1, 2006. The discussion and analysis below on the Group's 2006, 2005 and 2004 financial information include the reclassified historical financial information, as described above. For an explanation of the reclassifications, see Note 3 to the Annual Financial Statements.

Certain Definitions

In this Prospectus, all references to:

"**Acquired Subsidiaries**" are to VTB Europe, VTB France, VTB Germany, EWUB and ICB (each, as defined below);

"**CBR**" are to the Central Bank of Russia;

"**CEE**" are to the following Central & Eastern European countries: Albania, Bosnia & Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Slovakia, Slovenia and Serbia;

"**CIS**" are to the Commonwealth of Independent States and its member states (excluding Russia) as of the date of this Prospectus, being Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;

"**EEA**" are to the European Economic Area;

"**EU**" are to the European Union;

"**EWUB**" are to East-West United Bank S.A.;

"**Government**" are to the federal government of the Russian Federation;

"**Group**" are to VTB and its subsidiaries collectively;

"**ICB**" are to OJSC Industry & Construction Bank (to be rebranded as VTB North-West);

"**RAS**" are to Russian Accounting Standards;

"**RCB-Cyprus**" are to Russian Commercial Bank (Cyprus) Ltd.;

"**RKB-Zurich**" are to Russische Kommerzbank AG;

“**Russia**” are to the Russian Federation;

“**Slavneftebank**” are to CJSC Slavneftebank;

“**Vneshtorgbank (Ukraine)**” are to JSC Vneshtorgbank (Ukraine);

“**VTB**” are to JSC VTB Bank (formerly OJSC Vneshtorgbank) as a standalone entity;

“**VTB Armenia**” are to CJSC “VTB Bank (Armenia)” (formerly Armsberbank);

“**VTB Austria**” are to VTB Bank (Austria) AG (formerly Donau-Bank AG, or “**Donau-Bank**”);

“**VTB Capital (Namibia)**” are to VTB Capital Namibia (Pty) Ltd;

“**VTB Europe**” are to VTB Bank Europe Plc (formerly Moscow Narodny Bank Ltd, or “**MNB**”);

“**VTB France**” are to VTB Bank (France) SA (formerly Banque Commerciale pour l’Europe du Nord-Eurobank, or “**BCEN-Eurobank**”);

“**VTB Georgia**” are to JSC “VTB Bank (Georgia)” (formerly JSC “United Georgian Bank”, or “**UGB**”);

“**VTB Germany**” are to VTB Bank (Deutschland) AG (formerly Ost-West Handelsbank AG, or “**OWH**”);

“**VTB Ukraine**” are to JSC VTB Bank in Ukraine (formerly JSCB “Mriya”); and

“**VTB24**” are to JSC Bank VTB24 (formerly JSC Vneshtorgbank Retail Financial Services).

Certain Currencies

In this Prospectus, all references to:

“**US dollar**” or “**\$**” are to the lawful currency of the United States;

“**RUR**”, “**ruble**” and “**kopecs**” are to the lawful currency of Russia;

“**EUR**,” “**euro**” or “**€**” are to the single currency of the participating Member States in the third stage of the European and Economic Monetary Union pursuant to the Treaty establishing the European Community, as amended from time to time;

“**GBP**” are to the lawful currency of Great Britain; and

“**CHF**” are to the lawful currency of Switzerland.

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Exchange Rate Information

The table below sets forth, for the periods and dates indicated, the high, low, period end and period average exchange rate between the ruble and the US dollar, based on the official exchange rate quoted by the CBR for the relevant period. Fluctuations in the exchange rate between the ruble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

These rates may also differ from the actual rates used in the preparation of the Annual Financial Statements and other financial information presented in this Prospectus.

	RUR per \$1.00			
	High	Low	Period end	Period average ⁽¹⁾
Year				
2002	31.86	30.14	31.78	31.35
2003	31.88	29.25	29.45	30.68
2004	29.45	27.75	27.75	28.81
2005	29.00	27.46	28.78	28.29
2006	28.78	26.18	26.33	27.18
Month				
January 2007	26.58	26.45	26.53	26.48
February 2007	26.55	26.16	26.16	26.33
March 2007	26.24	25.97	26.01	26.11
April 2007 (through April 24)	26.01	25.72	25.76	25.87

(1) The average for the relevant period is based on the average of the exchange rates on each day for which the CBR quotes the ruble to US dollar exchange rate.

The exchange rate on April 25, 2006 as quoted by the CBR was RUR25.7760 = \$1.00. No representation is made that the ruble or US dollar amounts referred to herein could have been or could be converted into rubles or US dollars, as the case may be, at these rates, at any particular rate or at all.

Industry and Market Data

In this Prospectus, VTB refers to information regarding the Group’s business, the business of its competitors and the market in which the Group operates and competes. VTB obtained this information in part from various third party sources and in part from its own internal estimates. VTB has obtained market and industry data relating to its business from providers of industry and market data, namely the CBR, Rosstat, Cbonds, Interfax Information Services (“**Interfax**”) and Ratings RBC.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. VTB has relied on the accuracy of the information from industry publications, surveys and forecasts without carrying out an independent verification thereof and cannot guarantee their accuracy or completeness. VTB confirms that such third party information has been accurately reproduced, and as far as VTB is aware and is able to ascertain from information published by such third parties, no facts have been omitted from the information in this Prospectus that would render it inaccurate or misleading.

In addition, in many cases, VTB has made statements in this Prospectus regarding the Russian banking industry and its position in this industry based on the Group’s own experience and investigation of market conditions. VTB cannot assure you that any of its assumptions are accurate or correctly reflect its position in the industry, and its statements have not been verified by any independent sources. See “Risk Factors—Risks Relating to the Group’s Business and Industry—The lack of availability and reliability of statistical information in Russia makes business planning inherently uncertain and may impair the ability of the Group to plan effective strategies” and “—Risks Relating to the Group’s Business and Industry—The Group has not independently verified information regarding its competitors and official data from Government agencies and the CBR.”

This Prospectus includes statistical information on the Group’s branch network. For purposes of compiling and presenting the data in this Prospectus, the definition of a “branch” includes all branches, sub-branches and outlets. As of December 31, 2006, 151 of VTB’s 524 branches were full-scale branches.

SUMMARY

This summary must be read as an introduction to this Prospectus, and any decision to invest in the Securities should be based on a consideration of the Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the EEA, no civil liability will attach to the responsible persons in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the EEA, the plaintiff may, under the national laws of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Overview

The Group is a leading Russian universal banking group offering a wide range of banking services and products across Russia, certain CIS countries and in selected countries in Western Europe, Asia and Africa. The Group focuses on providing banking products and services to Russian and CIS clients through its domestic and foreign operations and to foreign clients doing business primarily related to, or in, Russia and the CIS through its foreign banking subsidiaries and representative offices. The Group is the second largest banking group in Russia by assets, total loans and total deposits. *Global Finance* magazine recognised VTB in 2006 as the best commercial bank in Russia. As of December 31, 2006, the Group had \$52,403 million in total assets and \$6,992 million in total equity (including minorities) and generated \$1,179 million of net profit (including minorities) for the year ended December 31, 2006.

Prior to the Global Offering, the Russian Federation, acting through the Federal Property Agency, owned 99.9% of VTB's ordinary shares and is, and will continue after the Global Offering to be, the controlling shareholder of the Group.

The Group has three principal areas of business:

- *Corporate banking*, which provides a broad range of commercial banking services and products, including corporate lending, foreign trade transactions, syndicated loans, deposit and settlement services, as well as custody services to large- and medium-sized corporations and financial institutions;
- *Retail banking*, which provides financial services, including deposit accounts, lending and certain ancillary services, to individuals and small-sized corporations; and
- *Investment banking*, which provides debt capital markets underwriting, project financing and advisory services, merger and acquisition financing and advisory services, portfolio management services and also manages the Group's proprietary trading activities.

Competitive Strengths

The Group believes that its business is characterised by the following competitive strengths:

- Significant scale and strong market position;
- Demonstrated ability to achieve superior growth with strong returns;
- Extensive distribution network, with broad coverage throughout Russia;
- Broad corporate client base and well established relationships with leading Russian companies across all economic sectors;
- A leading provider of retail banking services in Russia;
- Management team with extensive experience in the financial services sector; and
- Recognised and trusted brand.

Strategy

The Group's strategy is to seek to:

- Consolidate its position as a leader in the Russian corporate banking sector;

- Develop selected investment banking products and services;
- Aggressively grow the Group's market share in the attractive Russian retail banking sector;
- Expand the Group's international presence;
- Continue to integrate and enhance operating efficiencies within the Group; and
- Centralise and upgrade the Group's IT systems and infrastructure to support its growing business operations.

Risk Factors

An investment in the Securities involves a high degree of risk. Among the risks relating to the Group are:

- The Group may fail to properly manage its growth or integrate its acquired banks;
- The planned merger of VTB and ICB may be delayed or fail to occur;
- The integration of the Group's Russian retail operations in VTB24 may not be successful;
- The restructuring of the Group's Western European banking operations may not yield expected benefits;
- The interests of VTB's principal shareholder may conflict with those of other shareholders;
- VTB's management has recognised a material weakness in the Group's internal controls;
- The Group's IT systems may be insufficient to support its operations;
- The successful implementation of the Group's expansion and integration strategy requires an upgrade of its IT systems;
- The growth of the Group's loan portfolio has increased its credit exposure and will require additional monitoring by management;
- VTB is not able to monitor and control procedures relating to the loan portfolio on a Group-wide basis;
- The Group is exposed to substantial credit risk from both corporate customers and individuals;
- The lack of reliable information about borrowers in Russia could result in VTB not becoming aware of events of default of its borrowers in a timely manner;
- The Group may be unable to reduce the concentrations in its loan portfolio;
- A decline in the value or illiquidity of the collateral securing the Group's loans may adversely affect its loan portfolio;
- It may be difficult for the Group to enforce security and/or guarantees under Russian law;
- The Group has significant off-balance sheet credit related commitments;
- The Group's financial condition and operating results could be affected by market risks;
- The Group is affected by changes in the value of the ruble against other currencies;
- The Group faces significant competition in Russia and the other markets in which it operates;
- The Group's banking business entails operational risks;
- The Group may face liquidity risks;
- The loss of senior management may adversely affect the Group's ability to implement its strategy;
- The Group may be unable to recruit or retain experienced and/or qualified personnel;
- Some interested party transactions of Russian banks in the Group require the approval of disinterested directors or disinterested shareholders;
- The Group may be unable to meet its regulatory requirements relating to capital adequacy;

- The Group may fail to comply with applicable legal requirements; and
- The Group has not independently verified information regarding its competitors and official data from Government agencies and the CBR.

Risks Relating to Russia and the CIS

- Political and governmental instability could adversely affect the value of investments in Russia;
- Domestic political conflicts could create an uncertain operating environment;
- Economic instability in Russia could adversely affect the Group's business;
- Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity;
- Government action could create a difficult business climate in Russia;
- Shareholder liability under Russian law could cause the Group to be liable for the obligations of its subsidiaries;
- There are weaknesses in legal protections for minority shareholders and in corporate governance standards under Russian law;
- Russian tax law is not fully developed and is subject to frequent changes;
- Crime and corruption could create a difficult business climate in Russia;
- Emerging markets such as Russia are subject to greater risks than more developed markets;
- Russian regulation of banking and financial activity has been undergoing significant changes;
- The rights of the Group's shareholders, the Russian public reporting requirements and the Russian accounting regulations which the Group is subject to differ significantly from those applicable to comparable companies in other jurisdictions;
- The lack of availability and reliability of statistical information in Russia makes business planning inherently uncertain; and
- The Group faces risks associated with doing business in other CIS countries and emerging markets.

Risks Relating to the Securities and the Trading Market

- Failure to register the Placement Report could result in the Shares being cancelled;
- Russian law may consider the Depositary the beneficial owner of the Shares underlying the GDRs;
- An active trading market for the Securities may not develop;
- Future sales of the Securities may affect their market price;
- Following the Global Offering, you may not be able to deposit Shares in the GDR facility to receive GDRs;
- The Deposit Agreement for the GDRs limits GDR holders' voting rights with respect to the Shares;
- GDR holders may be unable to repatriate distributions made on the Shares;
- GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid to the Depositary;
- Russian resident holders of the GDRs may suffer from an increased effective rate of tax on dividends due to the lack of clarity in the Russian tax law in respect of beneficial ownership;
- Non-resident investors may be subject to Russian tax withheld at source on trades of the Shares or GDRs through or to certain Russian payors; and
- VTB may be classified as a passive foreign investment company.

Summary of the Global Offering

Owner	Ordinary shares owned immediately prior to the Global Offering		Ordinary shares owned immediately after the Global Offering ⁽²⁾		Ordinary shares owned immediately after the expiry of the Stabilisation Period ⁽³⁾			
	Number	Percent	Number	Percent	Direct		Indirect ⁽⁴⁾	
					Number	Percent	Number	Percent
The Russian Federation, acting through the Federal Property Agency	5,209,084,700,000	99.9%		%		%		%
Other ⁽¹⁾	2,027,700,000	0.1%		%		%		%
Free float (including GDR holders)	—	—		%		%		%
Total	<u>5,211,122,400,000</u>	<u>100.0%</u>		<u>100.0%</u>		<u>%</u>		<u>%</u>

(1) Comprising 60 entities and individuals.

(2) Prior to any exercise of the Repurchase Option.

(3) Assuming the Repurchase Option is exercised in full, following which the number of Shares available to the public will be reduced by .

(4) Refers to Shares held in treasury by ITC, and therefore held indirectly through interests in VTB.

Summary Consolidated Financial and Operating Data

The financial data set forth below as of and for the years ended December 31, 2006, 2005 and 2004 have been derived from the Annual Financial Statements. The financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Annual Financial Statements and related notes included elsewhere in this Prospectus and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	For the year ended December 31,		
	2006	2005	2004
	(\$ millions)		
Summary Income Statement Data			
Net interest income (before provision for loan impairment)	1,745	910	583
Provision for loan impairment	(442)	(103)	(196)
Net interest income (after provision for loan impairment)	1,303	807	387
Net fee and commission income	351	168	106
Gains less losses from available-for-sale financial assets ⁽¹⁾	348	—	—
Gains less losses from financial assets at fair value through profit or loss	187	261	(5)
Foreign exchange translation gains less losses	265	(8)	114
Income arising from non-banking activities	111	155	141
Other	245	140	186
Operating income	2,810	1,523	929
Staff costs and administrative expenses	(1,370)	(739)	(514)
Expenses arising from non-banking activities	(90)	(111)	(114)
Other ⁽²⁾	54	30	—
Profit before taxation	1,404	703	301
Net profit	1,179	511	208
Including net profit attributable to minority interests	42	12	3

(1) Includes gains from the sale of shares in OJSC KamAZ and IMB (net of commission) in 2006. See Note 11 to the Annual Financial Statements.

(2) Represents profit from disposal of subsidiaries in 2006 and the excess of fair value of acquired net assets over costs for 2005.

	As of December 31,		
	2006	2005	2004
	(\$ millions)		
Summary Balance Sheet Data			
Loans and advances to customers, net	29,262	19,925	10,169
Securities portfolio ⁽¹⁾	8,957	7,291	3,103
Cash and short-term funds, mandatory cash balances with central banks	4,229	3,096	1,752
Due from other banks, net	6,813	4,141	2,023
Other	3,142	2,270	763
Total assets	52,403	36,723	17,810
Customer deposits	19,988	12,767	6,024
Debt securities issued	11,565	7,241	3,948
Due to other banks	7,587	6,629	3,254
Other borrowed funds	4,468	2,937	1,729
Subordinated debt	1,169	1,161	—
Other	634	719	146
Total liabilities	45,411	31,454	15,101
Equity attributable to shareholders of the Parent	6,604	4,920	2,628
Minority interest	388	349	81
Total equity	6,992	5,269	2,709
Total liabilities and equity	52,403	36,723	17,810

(1) Comprises financial assets at fair value through profit or loss, financial assets available for sale, financial assets held-to-maturity and financial assets pledged under repurchase agreements and loaned financial assets.

	As of and for the year ended December 31,		
	2006	2005	2004
	(percentages)		
Summary Financial Ratios			
Profitability indicators			
Net interest margin ⁽¹⁾⁽²⁾	4.6%	4.7%	4.7%
Net fee and commissions income to operating income	12.5	11.0	11.4
Cost to income ⁽³⁾	50.8	54.0	65.2
Return on average equity ⁽²⁾⁽⁴⁾	19.7	17.7	8.2
Return on average assets ⁽²⁾⁽⁴⁾	2.6	2.4	1.5
Asset quality			
Overdue loans as % of gross customer loans	1.3%	1.1%	2.6%
Overdue and rescheduled loans as % of gross customer loans	1.8	1.4	3.4
Allowances as % of overdue and rescheduled loans	181.9	211.8	151.5
Group capital adequacy indicators⁽⁵⁾			
Tier 1 ratio	11.6%	11.8%	12.0%
Total capital ratio	14.0	14.1	12.0

(1) Represents the ratio of net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets.

(2) Average balances represent quarterly average for 2005 and 2006 and semi-annual average for 2004. For 2005, average balances exclude the impact of consolidation of the Acquired Subsidiaries in December 2005, as the impact on the income statement was not material for the year.

(3) Staff costs and administrative expenses divided by operating income excluding income arising from non-banking activities.

(4) Represents ratio of net profit expressed as a percentage of average equity (including minorities) or assets, respectively.

(5) Calculated in accordance with the Bank for International Settlements ("BIS") methodology prior to introduction of Basel II.

RISK FACTORS

An investment in the Securities involves a high degree of risk. Investors should carefully consider the following information about these risks, together with the information contained in this Prospectus, before they decide to buy the Securities. The actual occurrence of any of the following risks could adversely affect the Group's operating results and financial condition. In that case, the value of the Securities could also decline and investors could lose all or part of their investment.

The risks and uncertainties discussed below are those that the Group believes are material, but these risks and uncertainties may not be the only ones that the Group faces. Additional risks and uncertainties, including those of which the Group's management is not currently aware or deems immaterial, may also have an adverse effect on the Group's operating results and financial condition or result in other events that could lead to a decline in the value of the Securities.

Risks Relating to the Group's Business and Industry

The Group may fail to properly manage its growth or integrate its acquired banks

The Group's banking operations have experienced significant growth in recent years as the Russian banking market has continued to expand. For the period from December 31, 2004 to December 31, 2006, the Group's total assets grew from \$17,810 million to \$52,403 million, total gross loans to customers grew from \$10,722 million to \$30,235 million and total customer deposits grew from \$6,024 million to \$19,988 million. During the last three years, the Group has made a number of significant acquisitions, including Guta Bank (now VTB24) in July 2004, a controlling interest in ICB in December 2005, as well as acquisitions and/or the establishment of banking operations in the CIS and Western Europe. The Group may also make significant acquisitions in the future. This growth has required and will continue to require significant allocation of capital and management resources, further development of the Group's financial, internal controls and information technology systems, continued upgrading and streamlining of its risk management systems and additional training and recruitment of management and other key personnel. At the same time, the Group must maintain a consistent level of client services and current operations to avoid loss of business or damage to its reputation.

There can be no assurance that the Group will be able to sustain its current levels of growth in the future. In addition, there can be no assurance that the Group will be able to fully integrate its acquired or newly established subsidiaries in line with its strategy. Future acquisitions could also give rise to similar integration risks, as well as financial risks.

The planned merger of VTB and ICB may be delayed or fail to occur

On September 22, 2006, the extraordinary general meeting of shareholders of ICB approved the merger with VTB. VTB intends to take similar steps and to complete the merger with ICB as soon as possible. The merger is currently expected to take place by the end of 2007, and will require significant managerial resources of both entities. See "Business—Principal Business Activities—Industry & Construction Bank."

Under Russian law, such mergers would be considered a reorganisation and the merged entities would be required to notify their creditors of this reorganisation within a 30-day period following the adoption of a corporate decision by the last entity taking part in such merger. Russian law also provides that, for a period of 30 days after such notice, any creditors of the merged entities would have a right to accelerate the merged entities' indebtedness and demand reimbursement for applicable losses. Furthermore, the shareholders of the merged entities which voted against the merger or did not take part in the voting would receive the right to put their shares to the relevant merged entities. In the event that all or part of the indebtedness of VTB and/or ICB is accelerated or a significant number of shares are put to ICB, VTB and/or ICB may not have the ability to raise the funds necessary for the repayment and repurchase of shares and the Group's business, financial condition or results of operations could be materially adversely affected.

Furthermore, completion of the merger is subject to a number of conditions, including corporate and governmental approvals. Moreover, third-party (e.g., creditor) consents and notifications may be required. The Group's business, results of operations and prospects may be materially adversely affected if the merger is delayed or fails to occur.

The integration of the Group's Russian retail operations in VTB24 may not be successful in the short term or at all

The Group is in the process of integrating within VTB24 the substantial majority of the Russian retail and small business banking operations of VTB. After the completion of the merger of ICB with VTB, the Group also plans to integrate ICB's retail banking operations within VTB24. VTB24's corporate operations (except small business services and a portion of its legacy short-term corporate loan book, which will remain at VTB24 until it matures in order to support VTB24's asset base as its retail banking operations continue to grow) are being transferred to VTB. The Group expects that the restructuring will be substantially complete by the end of 2007. See "Business—Strategy—Aggressively grow the Group's market share in the attractive Russian retail banking sector" and "Business—Principal Business Activities—Retail Banking."

The transfer of the retail accounts from VTB and ICB to VTB24 requires instructions from accountholders to close their accounts at VTB and ICB, as the case may be, and open new accounts at VTB24. The Group anticipates that some accountholders will choose not to open new accounts at VTB24 and the resulting loss in accounts could result in a significant decrease in the Group's retail business and reduce the benefits of the restructuring. See "Business—Principal Business Activities—Retail Banking."

The restructuring of the Group's retail business also includes the expansion of VTB24's branch network and the rollout of a new retail IT platform to support the expected growth of the Group's retail banking operations. The restructuring will involve substantial capital expenditure and an increase in operating expenses. The benefits of the restructuring may not be realised by the Group in the short term or at all, which may adversely affect the Group's financial performance and results of operations.

VTB24 plans to significantly increase its retail and small business lending volume, which will require a significant increase in its capital base and funding. Should such funding not be available from third party sources at terms that are acceptable to VTB, or from VTB itself, the Group's retail strategy, financial performance and results of operations may be adversely affected.

The restructuring of the Group's Western European banking operations may not yield benefits in line with the Group's strategic expectations

The Group is in the process of restructuring its Western European banking operations by consolidating the majority of its current Western European subsidiary banks under its UK subsidiary bank, VTB Europe. VTB expects that the restructuring will be substantially completed by 2010. See "Business—Strategy—Expand the Group's international presence" and "Business—Foreign Banking Operations—Foreign Banks—Western Europe."

In order to implement the restructuring, VTB Europe will need to increase its capital, as well as receive regulatory approvals in the jurisdictions of the subsidiary banks involved in the restructuring, as well as the approval of the FSA. There can be no assurance that VTB Europe will receive the necessary regulatory approvals for such restructuring or that it will be adequately capitalised in order to complete the restructuring as planned.

In addition, this process will involve significant expenses, and the anticipated benefits may not be realised in the short term, or at all, which may adversely affect VTB Europe's, and therefore the Group's, financial performance and results of operations.

The interests of VTB's principal shareholder may conflict with those of other shareholders

Immediately prior to the Global Offering, the Russian Federation, acting through the Federal Property Agency, owned 99.9% of VTB's issued and outstanding ordinary shares. Immediately after the Global Offering, the Russian Federation will own approximately % of VTB's issued and outstanding ordinary shares, assuming the Repurchase Option is not exercised. Of the eleven seats on VTB's Supervisory Council, six are held by representatives of various Government ministries and agencies, one is held by representatives of each of the CBR and the Russian President, one is held by VTB's Chairman and Chief Executive Officer, and two are held by independent directors.

As the Group's largest shareholder, the Russian Federation has been and will continue to be able to exercise significant control over the Group's activities and may from time to time take actions in relation to the business of the Group, including with regard to the nature of proprietary investments

and the acquisition and disposal of businesses, that may not be in the best interest of the Group or its minority shareholders and may adversely affect the value of the Securities.

In addition, certain members of the Supervisory Council are also members of the supervisory council of Sberbank, which could give rise to conflicts of interests. See “—There are weaknesses in legal protections for minority shareholders and in corporate governance standards under Russian law” and “Management and Corporate Governance.”

VTB’s management has recognised a material weakness in the Group’s internal controls over the closing process relating to the preparation of VTB’s consolidated IFRS annual and interim financial statements

VTB’s external auditors have identified, and VTB’s management has recognised, a material weakness in the Group’s internal control over the closing process relating to the preparation of VTB’s consolidated IFRS annual and interim financial statements. This is largely driven by a shortage of sufficient qualified IFRS trained accounting personnel, which is a function of a severe lack of qualified IFRS trained personnel in the Russian market, and the limitations of the RAS accounting system employed by VTB, VTB24 and ICB to collect and produce information ready for use by VTB in connection with the preparation of its consolidated IFRS annual and interim financial statements. Under International Standard on Auditing No. 315, a material weakness in internal control is one that could have a material effect on the consolidated IFRS annual or interim financial statements.

Management believes that it compensates for this material weakness in internal control over financial reporting by following a standard procedure of gathering data and transforming quarterly and annual statutory balances into IFRS based financial information and performing reviews of this transformation. The practical implication of this is that additional work is required for the verification of such data by VTB. See “Risk Management—Risk Management and Internal Control System—Credit Risk Management—Monitoring Process” and “Related Party Transactions.” This is a laborious process, but VTB believes that it has produced reliable IFRS results because VTB has not had to restate its consolidated IFRS annual and interim financial statements in the past due to an error or misstatement in the original published financial statements. VTB has also not missed a deadline for IFRS financial reporting in respect of (i) its regulatory obligations to report under IFRS since 2004 (when the relevant regulation came into effect), (ii) in respect of its contractual commitments to deliver IFRS financial statements since 1997 (when its external IFRS reporting obligations first arose) or (iii) since 2003 under its \$10 billion programme for the issuance of loan participation notes (the “**Programme**”) pursuant to which it is required to report under IFRS on a quarterly basis.

VTB’s independent auditors considered this material weakness in determining the nature, timing and extent of the procedures it performed in its audit of VTB’s Annual Financial Statements, and it did not affect their audit report on the Annual Financial Statements.

While VTB is taking steps to address this material weakness, it may not be successful in remedying it in a timely fashion to prevent the above stated deficiencies in the Group’s internal control over financial reporting in the future. In addition, the Group’s rapid growth and acquisition strategy will place additional strain on its accounting personnel and management information and financial reporting systems, and may make it more difficult for VTB to remedy this material weakness. Although VTB believes that the foregoing weakness is not expected to prevent VTB from being able to produce its consolidated IFRS annual or interim consolidated financial statements in a timely fashion under its applicable legal and contractual periodic reporting obligations, if VTB is unable to remedy this material weakness or prevent future weaknesses, it may not be able to prevent or detect a material misstatement in such financial statements. Any such misstatement in its financial statements or the perceived weaknesses in the quality of its accounting personnel and its management information and/or financial reporting systems may have a material adverse effect on, among other things, its ability to pursue its strategies, maintain its competitive strengths or raise debt or equity financing in the future, which could have a material adverse effect on its business, financial condition, results of operations, prospects or the trading price of the Securities. Notwithstanding the above, VTB believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA’s Disclosure and Transparency Rules as a listed entity.

The Group’s IT systems may be insufficient to support its operations

Although the Group has been upgrading its IT systems for a number of years, these systems are currently significantly less developed in certain respects than those of banks in more developed countries. Currently, the banking subsidiaries of the Group each have separate IT systems, which are

managed largely on an independent basis. With limited exceptions, there is currently no functional integration between the IT systems of the banks in the Group. See “Business—Information Technology.”

The core IT system at the Group’s Head Office was developed in-house at the time when the Group concentrated on servicing foreign trade and large company customers out of the Head Office. The core IT system was not intended to support branches and a large number of corporate and retail banking customers, as it is currently required to do. The Group is in the process of replacing its core IT system, but there can be no assurance that the new core IT system will be able to fully support the operations of the Group, nor is there certainty as to when the implementation of this system will be complete. See “Business—Information Technology.”

The Group’s IT system does not allow for real-time Group-wide financial reporting. For financial reporting purposes, IFRS and local-GAAP based financial information is collected by the Group from VTB and its subsidiaries and thereafter consolidated, subject to certain semi-automated procedures to transform such data into the Group’s consolidated IFRS accounts. Deficiencies in the existing financial reporting system prevent the Group from generating certain information pursuant to Industry Guide 3 under the Securities Act (Statistical Disclosure by Bank Holding Companies). Furthermore, a number of the Group’s operations, such as retail transactions and trade finance operations, are not sufficiently automated, and information with respect to such transactions is not readily available and is often difficult to interpret.

The Group plans to implement a data warehouse that will store information on various banking operations. However, there can be no assurance that this warehouse will be implemented on a timely basis or that once this warehouse is put in place, it will significantly improve Group-wide management and financial reporting. See “Business—Information Technology.”

Lack of immediately available consolidated financial and operating data may hinder the ability of the Group’s management to make decisions, to react promptly to changes in market conditions and to detect fraud and non-compliance with internal procedures. See “—The Group’s banking business entails operational risks.” In addition, the lack of a robust, well-integrated IT system increases the Group’s operational risks and the costs of further business development. The inability of the Group’s current IT systems to adequately support its operations may have a material adverse effect on its ability to monitor and manage its operations and financial performance.

A successful implementation of the Group’s expansion and integration strategy requires an upgrade of its IT systems

The Group is seeking to significantly expand its business in Russia, as well as to transfer VTB’s retail and small business operations to VTB24 and further consolidate the Group’s European banking operations under VTB Europe. The Group’s IT systems must be upgraded to support these strategies. Currently, VTB’s and VTB24’s IT systems are not compatible, which is complicating the transfer of VTB’s retail operations to VTB24’s IT systems and VTB24’s corporate operations to VTB’s IT systems. In addition, VTB’s and ICB’s IT systems are not currently compatible, which could complicate the transfer of information from ICB to VTB after their merger is complete. See “—The Group’s IT systems may be insufficient to support its operations” and “Business—Strategy.”

With the assistance of outside consultants, VTB has formulated an IT development strategy that provides for an upgrade of VTB’s IT systems during the next several years. The progress of the upgrade depends on a number of factors, including the availability of financing, proper project management and the attention and involvement of VTB’s senior management. Although the Group intends to use VTB24’s current IT system to support its Russian retail operations, it has engaged outside consultants to develop more sophisticated retail IT systems that will replace VTB24’s current IT system. See “Business—Information Technology.” However, there can be no assurance that the envisioned upgrades will take place as planned or that they will eliminate all of the deficiencies of the existing IT infrastructure. In addition, complications arising during or from the transfer of operations between VTB’s and VTB24’s IT systems, and of operations between ICB and VTB, may result in delays and/or data losses.

If VTB is unable to upgrade its and VTB24’s IT systems as planned, the implementation of the Group’s strategy for the development of its Russian operations may be impaired. Without support from upgraded IT systems, VTB and VTB24 may be unable to compete effectively with other Russian banks

that are expanding their operations in the Russian regions and enhancing the efficiency of their branches and the quality of their products and services.

The Group also plans to integrate the IT systems of its Russian bank subsidiaries with those of its non-Russian subsidiary banks. However, there can be no assurance that this integration will occur or that it will be successful. The Group's failure to upgrade its IT systems could have a material adverse effect on its business, financial condition and results of operations.

The growth of the Group's loan portfolio has increased its credit exposure and will require additional monitoring by management

As a result of the significant growth in the Group's total gross customer loan portfolio from \$10,722 million as of December 31, 2004 to \$30,235 million as of December 31, 2006, the Group's credit exposure has increased significantly. This increase will require continued and improved monitoring by management of credit quality and the adequacy of the Group's provisioning levels. See "Risk Management." The anticipated further increase in lending in line with the Group's overall growth strategy may further increase credit risk. In particular, the growth of the Group's retail banking business could result in a higher level of impaired loans and, as a result, higher levels of provisioning, as retail customers are more likely to default on their loans. Continued growth of the Group's loan portfolio could put additional pressure on the Group's loan monitoring and control procedures. See "—The Group is exposed to substantial credit risk from both corporate customers and individuals, and the increasing proportion of loans made to individuals and small businesses may adversely affect the overall credit quality of its loan portfolio."

The Group's failure to manage its growing loan portfolio while maintaining the quality of its assets through effective credit risk policies could require further provisioning and have a material adverse effect on the Group's financial condition or results of operations.

VTB is not able to monitor and control procedures relating to the loan portfolio on a Group-wide basis, because the loan portfolio cannot be accurately consolidated due to limitations in the Group's operational reporting systems

There is no consolidated Group-wide loan database. There are also no limits for Group-wide exposure to a single borrower or group of related borrowers on a consolidated basis. While most of the Group's subsidiaries periodically provide to VTB lists of their largest borrowers, certain of the European subsidiaries typically are unable to provide the names of such borrowers due to local market data protection regulations. Decisions regarding the extension of significant credit by the Group's banking subsidiaries are made with the knowledge of VTB by way of its representation on the boards of such subsidiaries. However, the Group's operational reporting IT systems do not enable VTB to monitor the loan portfolios of its subsidiaries in the aggregate on a daily basis. There is therefore a risk of incorrect assessment of credit exposure and concentration limits which may result in credit being extended to a single borrower or group of related borrowers without the Group entity that extends the credit or VTB knowing the extent to which the Group is already exposed to such borrower or group of related borrowers. This could have a material adverse effect on the Group's financial condition and results of operations.

The Group is exposed to substantial credit risk from both corporate customers and individuals, and the increasing proportion of loans made to individuals and small businesses may adversely affect the overall credit quality of its loan portfolio

The Group is exposed to substantial credit risk from both corporate customers and individuals. Many businesses in the Russian Federation have limited experience operating in competitive market conditions as compared to their Western counterparts. In addition, the Group may not be able to accurately assess default risk on loans provided to corporate customers due to the unpredictability of economic conditions in Russia and abroad. While the Group requires periodic disclosure of its corporate customers' financial statements, such financial statements may not always present a meaningful indication of each customer's consolidated financial condition due to disclosure and accounting regulations in relevant countries, including Russia. Furthermore, the Group's corporate customers typically do not have extensive or externally verified credit histories. Therefore, in spite of the Group's credit risk evaluation procedures, the Group may be unable to correctly evaluate the current financial condition of each prospective corporate borrower and to accurately determine the ability of such corporate borrower to repay.

Furthermore, many of the Group's large corporate customers engage in the production and/or export of oil, gas, iron ore, metals and other raw materials, and their financial condition 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 affect the financial condition of such customers and may result in, among other things, a decrease in the funds that these customers hold on deposit with the Group, a reduction in the volume of foreign currency and/or foreign trade operations in which these customers engage, defaults, or the need to increase the security underlying the obligations of the customers to the Group.

The Group also intends to increase its lending to individuals and small businesses. These customers generally have less capital and liability management experience than larger customers and are more sensitive to economic downturns. In addition, the availability of accurate and comprehensive financial and general credit information on individuals and small businesses in Russia is even more limited than in the case of larger corporate customers, which makes it more difficult for the Group to accurately assess the credit risk associated with such lending.

A significant number of the Group's corporate borrowers and/or guarantors could experience poor financial performance, or the Group may fail to analyse the credit risk of such customers. In addition, the Group's strategy to significantly increase the size of its retail banking operations may require the extension of credit to individuals and small businesses that do not already have an established credit history with the Group. If the overall credit quality of the Group's loan portfolio were to decline, the Group would be subject to increased risk of impaired loans, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The lack of reliable information about borrowers in Russia could result in VTB not becoming aware of events of default of its borrowers in a timely manner

Due to lack of frequent and reliable information on borrowers in Russia, VTB historically has had to rely, to a large extent, on statutory financial statements of its borrowers to evaluate their financial performance and monitor credit quality. The limited scope of the assessment and monitoring procedures based on such statutory financial statements, together with insufficient internal coordination of the collection of information from borrowers and the analysis of such information by the relevant departments within VTB, have in the past resulted in VTB not being aware, in some cases, of events of default or potential events of default on a timely basis. This, in part, contributed to the increase in overdue loans and provisions for loan impairment in prior years and, in particular, in 2006. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years Ended December 31, 2006, 2005 and 2004—Provision for Loan Impairment." VTB has taken, and continues to take, steps to coordinate and accelerate data collection and analysis to prevent such deficiencies in its internal procedures in the future. However, the general limitations of frequent and reliable information about borrowers in Russia may result in VTB not becoming aware of events of default of its borrowers, which could have a material adverse effect on its financial condition and results of operations.

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

The Group's loan portfolio has relatively high industry concentrations. As of December 31, 2006, the finance, manufacturing, and trade and commerce sectors accounted for 17%, 13% and 16%, respectively, of the Group's gross loan portfolio (excluding loans to banks and off-balance sheet credit-related commitments). An economic downturn affecting any of these sectors (whether in Russia or globally) may negatively impact the financial condition of the Group's customers operating in these sectors, thereby reducing demand for the Group's banking products and services and increasing the likelihood of payment defaults.

As of December 31, 2006, total loans extended to the Group's ten largest groups of interrelated borrowers amounted to \$5,342 million, representing 18% of the Group's gross loan portfolio (excluding loans to banks and off-balance sheet credit related commitments). The Group's financial condition is sensitive to downturns in the sectors in which its largest borrowers operate, as well as to adverse changes in such borrowers' business and financial condition.

Although the Group continues to take measures to diversify its loan portfolio, there can be no assurance that it will be able to achieve or maintain a greater level of diversification in its loan portfolio. The Group's failure to do so may have a material adverse effect on its business, financial condition, results of operations or prospects.

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

A substantial portion of the Group's loans to corporate customers and individuals is secured by collateral such as real property, land leasing rights, production equipment, vehicles, aeroplanes, ships, securities, precious metals, raw materials and inventory. Downturns in the relevant markets or a general deterioration of economic conditions may result in declines in the value of collateral securing a number of loans to levels below the amounts of the outstanding principal and accrued interest on those loans. If collateral values decline, they may not be sufficient to cover uncollectible amounts on the Group's secured loans which may require the Group to reclassify the relevant loans, establish additional allowances for loan impairment and increase reserve requirements. See "Risk Management—Risk Management and Internal Control System—Credit Risk Management—Credit Policies and Procedures." A failure to recover the expected value of collateral may expose the Group to losses, which may materially adversely affect the Group's financial condition and results of operations.

It may be difficult for the Group to enforce security and/or guarantees under Russian law

The Group enters into security arrangements for loans made to its corporate and retail customers. See "Risk Management—Risk Management and Internal Control System—Credit Risk Management—Credit Policies and Procedures." Under Russian law, collateral (which includes, among others, pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the secured or guaranteed obligation becomes void. Furthermore, enforcement of security under Russian law may require a court order and, in the case of pledges and mortgages, a public sale of the collateral. A court in certain circumstances may delay such public sale for a period of up to one 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. Russian law has no pledge perfection system for collateral other than mortgages and shares in Russian joint stock companies, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. Therefore, the Group may have difficulty foreclosing on collateral or enforcing other security when clients default on their loans, which may adversely affect the Group's financial condition and results of operations.

A substantial portion of the Group's loans to its corporate and retail customers is guaranteed by individuals and other corporate customers. In addition, a substantial portion of the Group's loans to corporate customers is assured by the borrower's agreement that a certain volume of its cash receivables will flow through accounts over which the Group has direct debit rights. However, if the guarantor's financial condition deteriorates or if the borrower does not honour an assurance arrangement, the Group may not be able to recover on guarantees or assurance arrangements which may lead to losses, materially adversely affecting its financial condition and results of operations. See "Risk Management—Risk Management and Internal Control System—Credit Risk Management—Credit Policies and Procedures."

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

As part of its business, the Group issues guarantees and letters of credit. As of December 31, 2006, the Group had issued guarantees amounting to \$3,164 million and import letters of credit amounting to \$999 million. In particular, guarantees issued to one of the Group's clients as of that date accounted for 25% (\$806 million) of the total guarantees issued by the Group. As of that date, the Group also had undrawn credit lines and commitments to extend credit amounting to \$5,758 million. All such credit related commitments are classified as off-balance sheet items in VTB's consolidated IFRS financial statements. Although the Group has established allowances for its off-balance sheet credit related commitments, there can be no assurance that these allowances will be sufficient to cover the actual losses that the Group may potentially incur on its credit related commitments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Contingencies, Commitments and Derivative Financial Instruments" and "Risk Management—Risk Management and Internal Control System—Credit Risk Management—Credit Policies and Procedures."

The Group's financial condition and operating results could be affected by market risks

The Group's financial condition and operating results could be affected by market risks that are outside the Group's control, including, without limitation, volatility in interest rates, prices of securities and currency exchange rates.

Fluctuations in interest rates could adversely affect the Group's operations and financial condition in a number of different ways. An increase in interest rates generally may decrease the value of the Group's fixed rate loans and raise the Group's funding costs. Such an increase could also generally decrease the value of fixed rate debt securities in the Group's securities portfolio. In addition, an increase in interest rates may reduce overall demand for new loans and increase the risk of customer default, while general volatility in interest rates may result in a gap between the Group's interest-rate sensitive assets and liabilities. As a result, the Group may incur additional costs and expose itself to other risks by adjusting such asset and liability positions through the use of derivative instruments. Interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, including the CBR, domestic and international economic conditions and political factors. There can be no assurance that the Group will be able to protect itself from the adverse effects of future interest rate fluctuations. Any fluctuations in market interest rates could lead to a reduction in net interest income and adversely affect the Group's financial condition and results of operations.

The Group's financial condition and operating results are also affected by changes in market values in the Group's securities portfolio. As of December 31, 2006, the value of the Group's equity position was \$2,245 million, which represented 32% of the Group's total equity at that date and which reflected in part the Group's \$1,402 million equity position in the European Aeronautic Defense and Space Company ("EADS"). The Group engages in significant proprietary trading operations, primarily consisting of transactions in securities, and the Group has in the past derived a significant portion of its operating income, and also incurred significant losses, from such operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Group's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility. Although the Group has put in place limits for its trading securities portfolio, securities transactions and single issuer limits, market price fluctuations, particularly affecting the Group's Russian corporate and government debt securities and Russian equity securities, may adversely affect the value of the Group's securities portfolio. See "Risk Management—Risk Management and Internal Control System—Market Risk Management."

The Group also trades in foreign currencies on behalf of its clients and for its own account and maintains open currency positions, which give rise to currency risks. The Group has put in place limits aimed at reducing currency risks and adheres to the CBR limits on open currency positions. Future changes in currency exchange rates may adversely affect the Group's financial condition and results of operations.

The Group is affected by changes in the value of the ruble against other currencies, particularly the US dollar

The Group's presentation currency and VTB's functional currency is the US dollar. Monetary assets and liabilities originally denominated in rubles are translated into US dollars at the relevant balance sheet date. Gains and losses arising from such translations are reflected in the Group's income statement as foreign translation gains less losses. In 2003, VTB began to shift to ruble-denominated assets, such as ruble-denominated loans and Russian corporate and government securities. A significant shift to ruble-denominated assets took place in 2004 and continued through 2006. As a result of this shift, the Group's ruble net balance sheet position (the excess of ruble-denominated assets over ruble-denominated liabilities) grew from \$3,472 million as of December 31, 2004 to \$4,922 million as of December 31, 2006. Having a large net ruble balance sheet position tends to result in foreign exchange translation gains at the balance sheet date at the end of a period when the US dollar depreciates against the ruble in nominal terms and in foreign exchange translation losses at the balance sheet date at the end of a period when the US dollar appreciates against the ruble in nominal terms. Further appreciation of the US dollar against the ruble may result in foreign exchange translation losses which may negatively affect the Group's results of operations and financial condition.

Should the increased demand for rubles in the Russian economy result in the actual and forecasted pre-eminence of VTB's ruble operations, VTB's management may conclude, in 2007 or later, that VTB's functional currency should be the ruble. This determination could have a material effect on the

financial condition and results of operations on the Group's consolidated IFRS financial statements. The nature and extent of this accounting effect would depend on the currency composition of the Group's balance sheet at the time of, and subsequent to, such determination and movements in exchange rates.

The Group faces significant competition in Russia and other markets where it operates

The Russian market for financial services is highly competitive. The Group faces competition from both domestic and, to a lesser degree, foreign banks. According to the CBR, as of December 31, 2006, 1,189 banks were operating in Russia. In the Russian corporate banking market, the Group principally competes with Sberbank, Gazprombank, Alfa Bank and Bank of Moscow, as well as a number of other national and regional banks and certain of the world's largest international banks. In the Russian retail banking market, the Group's principal competitors are Sberbank, which is by far the largest retail bank in Russia measured by retail deposits and branches, Bank of Moscow, Russian Standard Bank, Rosbank and Uralsib, as well as a number of other national and regional banks and Russian subsidiaries of foreign banks. In addition to facing competition in Russia, the Group's subsidiaries, branches and representative offices in the CIS, Western Europe and elsewhere compete with national and/or international banks and non-banking credit organisations in the jurisdictions in which they operate.

Many of the banks with which the Group competes in Russia, including in particular Sberbank and, with respect to the Group's corporate lending activities, international investment banks, are larger and have greater capital resources available to them. In many of the jurisdictions in which the Group operates outside Russia, the Group faces competition from larger, more established and better capitalised local financial institutions. The Group expects the Russian corporate and retail banking market to become even more competitive, which could result in a further narrowing of spreads between deposit and loan rates and have an adverse impact on the Group's profitability. The Group has experienced a similar trend in a number of other jurisdictions in which it operates outside of Russia. The Group's inability to continue to compete successfully in the markets in which it operates would have a material adverse effect on its business, financial condition and results of operations.

The Group's banking business entails operational risks

The Group is susceptible to, among other things, failure of internal processes or systems, unauthorised transactions by employees and operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems, and fraud by employees or outsiders. Given the Group's high volume of transactions and relatively weak IT systems, errors may be repeated or compounded before they are discovered and rectified. In addition, the Group's IT systems do not fully support its operations and a number of transactions are processed manually, which may further increase the risk that human error or employee tampering or manipulation will result in losses that may be difficult to detect. See "—The Group's IT systems may be insufficient to support its operations" and "Business—Information Technology."

The Group maintains a system of controls designed to keep operational risk at appropriate levels. See "Risk Management." However, there can be no assurance that the Group will not suffer losses from any failure of these controls to detect or contain operational risk in the future. The Group also manages its operational risk by obtaining outside insurance. See "Risk Management—Overview of Risk Management of the Group." However, the Group does not carry insurance coverage at levels comparable to those customary in other countries for a bank of its size and nature and, under some circumstances, the Group's insurance coverage may prove insufficient. Consequently, the inadequacy or a failure of the Group's internal processes or systems may result in unauthorised transactions and errors which may not be detected. The Group's insurance may not cover the Group's losses from such transactions or errors, which may have a material adverse effect to the Group's financial condition and results of operations.

In addition, while the Group has implemented comprehensive measures in accordance with applicable Russian legislation aimed at preventing the use of the Group as a vehicle for money laundering and/or terrorist financing, there can be no assurance that attempts to launder money or finance terrorist activities through the Group will not be made or that its anti-money laundering and anti-terrorist financing measures will be completely effective. If the Group were associated with money laundering and/or terrorist financing, the Group's reputation and financial performance could be materially adversely affected. See "Risk Management—Risk Management and Internal Control System—Procedures for Prevention of Money Laundering and Terrorist Financing."

The Group may face liquidity risks, which it may fail to mitigate if it is unable to raise sufficient funding

The Group meets the majority of its funding requirements using customer deposits. At December 31, 2006, the largest depositor accounted for \$1 billion in term deposits, representing 5% of the Group's total customer deposits at such date. Russian companies have significant liquidity requirements and, as a result, they often withdraw their deposits and are not in a position to place significant funds with the Group on a long-term basis. The Russian Civil Code (the "Civil Code") entitles retail depositors to withdraw deposits, including term deposits, at any time. As a result, unanticipated decreases in corporate customer deposits and/or unexpected withdrawals of retail deposits may result in liquidity gaps that the Group may not be able to cover.

The remainder of the Group's funding is raised in the domestic and international capital, syndicated loan as well as interbank markets. The Group's ability to raise funding from domestic and international markets in amounts sufficient to meet its liquidity needs could be adversely affected by a number of factors, including in particular Russian and international economic conditions and the state of the Russian financial and market systems. If short-term funding is not available on commercially reasonable terms, the Group would be required to utilise other, more expensive methods to meet its liquidity needs, such as secured borrowings or asset sales, which may not be available on commercially reasonable terms. The use of more expensive funding sources may have a material adverse effect on the Group's business, financial condition, results of operations and prospects. See "Risk Management—Risk Management and Internal Control System—Liquidity Risk."

The loss of senior management may adversely affect the Group's ability to implement its strategy

The Group's current senior management team includes a number of executives that were formerly employed by major Russian and international financial institutions or held prominent, finance-related positions in the Russian government. The Group believes that these executives contribute significant experience and expertise to VTB's management, including in areas such as corporate banking, banking operations relating to foreign trade and risk management, as well as expertise with respect to the Russian banking sector as a whole. The continued success of the Group's business and its ability to execute its business strategy will depend, in large part, on the efforts of its senior management. If any member of the Group's senior management leaves the Group, the Group's business may be materially adversely affected.

The Group may be unable to recruit or retain experienced and/or qualified personnel

The Group's continued growth depends, in part, on its ability to continue to attract, retain and motivate qualified and experienced banking and management personnel in Russia, in particular qualified IFRS-trained personnel. See "—VTB's management has recognised a material weakness in the Group's internal controls over the closing process relating to the preparation of VTB's consolidated IFRS annual and interim financial statements." Competition in the Russian banking industry for personnel with relevant expertise, such as IFRS qualified personnel, is intense, due to the relatively small number of available qualified individuals. To recruit qualified and experienced employees and to minimise the possibility of their departure to other banks, the Group provides compensation packages consistent with evolving standards in the Russian labor market. See "Business—Employees." However, the inability to recruit and retain qualified and experienced personnel in Russia or manage the Group's current personnel successfully could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Some interested party transactions of Russian banks in the Group require the approval of disinterested directors or disinterested shareholders

Russian law requires a joint stock company that enters into transactions with certain related persons that are referred to as "interested party transactions" to comply with special approval procedures. Under Russian law, an "interested party" includes: (1) any member of the board of directors or the collegiate executive body of a company, (2) its chief executive officer (including managing organisation or hired manager), (3) any person who, together with its affiliates, owns at least 20% of a company's voting shares or (4) a person who has the legal right to give mandatory instructions to a company, if any of the above listed persons, or a close relative or affiliate of any 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, intermediary, or a beneficiary of the transaction or an officer of the managing organisation of such company; or
- in other cases, stipulated by law or the company's charter.

Under applicable Russian law, interested party transactions require approval by a majority of the disinterested directors or disinterested shareholders of the company. A majority vote of the disinterested shareholders of the company is required if (1) the number of disinterested directors is less than the required quorum for board of directors (supervisory council) meetings, (2) the value of the transaction (or of a number of interrelated transactions) is equal to or exceeds 2% of the balance sheet value of the company's assets (determined under RAS according to its latest balance sheet) or (3) the transaction (or a number of interrelated transactions) involves the issuance or sale by the company of ordinary shares or securities convertible into such shares, in an amount exceeding 2% of the company's issued ordinary shares. Failure to obtain the appropriate approval for a transaction may result in it being declared invalid upon a claim by the company or any of its shareholders.

Transactions between VTB and its subsidiaries and affiliates may be considered interested party transactions. VTB's shareholder meetings approve general limits for transactions with VTB's subsidiaries and affiliates on an annual basis, and all transactions with such affiliates are made only within such limits, without any additional corporate approval requirements. However, no assurance can be given that the above manner of approval would be upheld by Russian courts as constituting the statutorily required approval of disinterested shareholders.

In addition, transactions between VTB, VTB24, ICB and state-owned companies, including large clients of VTB to whom VTB has material exposures, may be viewed as interested party transactions for VTB, VTB24 or ICB, as the case may be. Failure to obtain appropriate approvals in connection with such transactions may lead to their invalidation. No such approvals have typically been obtained because, on the basis of the current interpretation of relevant laws by Government agencies, the Group believes that such approvals are not necessary. However, no assurance can be given that Russian courts would agree with the Group's position. If they did not, a significant portion of VTB's, VTB24's and ICB's loan and security arrangements could be declared invalid upon a claim by the company or any of its shareholders, and VTB, VTB24 and ICB would be unable to recover interest on such loans in excess of statutory interest or enforce the security.

VTB owns less than 100% of the equity interests in some of its subsidiaries. In addition, certain of VTB's wholly owned subsidiaries have had other shareholders in the past. VTB and its subsidiaries in the past have carried out, and continue to carry out, transactions with VTB and others which may be considered to be interested party transactions under Russian law, requiring approval as described above. The provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations. No assurance can be given that VTB's and its subsidiaries' application of these concepts will not be subject to challenge by former and current shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on the Group's business, financial condition and results of operations and the value of the Securities.

The Group may be unable to meet its regulatory requirements relating to capital adequacy

The Group is required by the CBR to have a minimum RAS-based stand-alone capital ratio of 10%. In addition, the the Basel Committee on Banking Supervision recommends a minimum risk-based capital ratio of 8%, calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (the "Basel Accord"). VTB's RAS-based stand-alone capital ratio as of December 31, 2006 was 14.5%, which exceeded the minimum required by the CBR. The Group's risk-based capital ratio, calculated in accordance with the Basel Accord, increased from 12.0% as of December 31, 2004 to 14.0% as of December 31, 2006, which exceeds the minimum risk based capital ratio recommended by the Basel Accord. However, these ratios are likely to decrease as the Group

expands its operations, if the Group is unable to raise additional capital. The Group's ability to obtain additional capital may be restricted by a number of factors, including:

- the Group's future financial condition, results of operations and cash flows;
- any necessary government regulatory approvals; and
- general market conditions for capital-raising activities by commercial banks and other financial institutions.

If the Group requires additional capital in the future, it cannot guarantee that it will be able to obtain this capital on favorable terms, in a timely manner or at all. If the Group is unable to raise further capital to support its growth or if its capital position otherwise declines, its ability to implement its business strategy may be materially adversely affected.

In addition, the risk-adjusted capital guidelines promulgated by the Basel Accord, which forms the basis for the capital adequacy guidelines of the National Research Center (together, "**Basel II**"), are being revised and are expected to come into force in certain jurisdictions starting in 2006. The implementation of Basel II in Russia is not expected to occur until 2008 or later. The effect these revised guidelines will have on the capital requirements of the Russian banks in the Group and on their capital position is uncertain. If any future alterations to the capital adequacy standards under Basel II (or CBR regulations implementing Basel II) with regard to limits on the deployment and use of capital require the Russian banks of the Group to maintain higher capital levels or limit the use of significant portions of their capital, this could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

The Group may fail to comply with applicable legal requirements

Members of the Group or their predecessors-in-interest have at different times taken a variety of actions relating to share issuances, share disposals and acquisitions, valuations of property, interested party transactions, major transactions, meetings of the Group members' governing bodies, other corporate matters and antimonopoly issues which, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant Group members or their predecessors-in-interest, could result in the invalidation of such transactions and the relevant Group members' corporate decisions, restrictions on voting control or the imposition of other liabilities. Because, for example, the various laws applicable to the Group are subject to many different interpretations, there can be no assurance that the Group would be able to successfully defend itself against any challenge brought against such transactions or corporate decisions, and the invalidation of any such transactions or decisions or the imposition of other liabilities may, individually or in the aggregate, have a material adverse effect on the Group's business, financial condition and results of operations.

Furthermore, the Group's operations are subject to regulation by various government and banking authorities in various jurisdictions in connection with obtaining and renewing various licences and permits, as well as with ongoing compliance with existing laws and regulations and with the terms and conditions of the Group's licenses and permits. Changes in the nature of such regulation in Russia or other jurisdictions where the Group operates could limit the ability of the Group to execute its growth strategy and/or could adversely affect its existing business and results of operations.

Regulatory authorities in Russia and other CIS countries exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorisations. Regulatory authorities have the right to, and frequently do, conduct periodic inspections of the Group's operations and properties throughout the year. Any such future inspections may determine that the Group violated laws, decrees or regulations, and the Group may be unable to refute such determination or remedy the violations. The Group's failure to comply with existing or future laws and regulations, the terms and conditions of its licenses and permits, or the findings of governmental inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of the Group's licenses, permits, approvals and authorisations, or in requirements that the Group cease certain of its business activities, or in criminal and administrative penalties applicable to its officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of the Group's operations, could increase its costs and materially adversely affect its business, financial condition and results of operations.

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

The Group has derived substantially all of the information contained in this Prospectus concerning its competitors from publicly available information, and it has relied on the accuracy of this information without independent verification. In addition, some of the information contained in this Prospectus has been derived from the official data of Government agencies and the CBR. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries and the veracity of some official data released by the Government may be questionable. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Risks Relating to Russia and the CIS

A significant portion of the Group's assets are located in Russia and a significant portion of its revenues are derived from Russia. There are certain risks associated with investments and operations in Russia and the CIS. The following are some non-exhaustive examples.

Political and 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 market-oriented economy. The Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian Federation—the prime minister and the other heads of federal ministries—has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. President Putin became acting President of Russia on December 31, 1999 and was elected President in March 2000. Since that time, Russia has generally experienced a significantly higher degree of governmental stability. In addition, the elections to the lower house of the legislature, the State Duma, in December 2003 resulted in a substantial majority for parties supportive of President Putin.

In February 2004, just prior to his election to a second term as President, President Putin dismissed his cabinet, including the prime minister. He subsequently appointed Mikhail Fradkov as Prime Minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions among various agencies of the government and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. In addition, a new law was adopted pursuant to which the executives of sub-federal political units (e.g., governors) are nominated by the President of Russia and confirmed by the legislature of the sub-federal political unit. Moreover, pursuant to legislation that was adopted on May 18, 2005 and that took effect on December 7, 2006, single-member-district elections for the State Duma will be eliminated and all votes will instead be cast on a party-list basis. Elections for the State Duma are scheduled for late 2007, and the next presidential election is scheduled for 2008.

Possible future changes in the government, possible major policy shifts or a possible lack of consensus between the President, the government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the Securities in particular. In addition, possible changes following the next State Duma or presidential election could affect the policies and practices of the government with respect to the Group.

Domestic political conflicts could create an uncertain operating environment that would hinder the Group's long-term planning ability

Russia is a federation of 86 sub-federal regions, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with federal laws. In practice, the division of authority between federal and regional authorities remains uncertain and contested. This uncertainty could hinder the Group's long-term planning efforts and may create uncertainties in its operating environment, any of which may prevent it from effectively and efficiently

carrying out its business strategy. See “—Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity.”

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict in certain regions of Russia and the CIS. Violence and attacks relating to regional conflicts have also spread to other parts of Russia, including terrorist attacks in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and exports from Russia, and could adversely affect the Group’s operating results and financial condition and the value of investments in Russia, such as the Securities.

Economic instability in Russia could adversely affect the Group’s business

Russia experienced a significant economic crisis in the late 1990s. On August 17, 1998, the Russian government defaulted on its ruble-denominated fixed income securities, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble 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. The near collapse of the Russian banking sector, which resulted in the loss of bank deposits in some cases, impaired its ability to act as a reliable and consistent source of liquidity to Russian companies which aggravated these problems.

Since the 1998 crisis, the Russian economy has experienced positive trends, such as an increase in gross domestic product, a relatively stable ruble, a reduced rate of inflation and positive capital and current account balances resulting in part from rising prices in world markets for the crude oil, gas and metals that Russia exports. In addition, the Russian government has achieved budget surpluses in recent years and has accumulated a sizeable “stabilisation fund,” and the CBR has considerable hard currency reserves. No assurance can be given, however, that this positive situation will continue. For example, according to the Ministry for Economic Development and Trade, economic growth in Russia slowed from 7.2% in 2004 to 6.4% in 2005 but grew to 6.7% in 2006.

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

The Russian legal framework applicable to a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code, by other federal laws and by decrees, orders and regulations issued by the President, the government and federal ministries, 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 law 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 law often leaves substantial gaps in the regulatory infrastructure.

Among the risks of the current Russian legal system are:

- inconsistencies among:
 - federal laws;
 - decrees, orders and regulations issued by the President, the government, federal ministries and regulatory authorities; and
 - regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpretations of Russian law;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- the relative inexperience of certain judges in interpreting new principles of Russian law, particularly business and corporate law;

- the possibility that certain judges may be susceptible to economic, political or nationalistic influences;
- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed.

All of these weaknesses could affect the ability of holders of the Securities to obtain effective redress in Russian courts.

Government action could create a difficult business climate in Russia

Actions by the Russian government could create a difficult business climate in Russia. The government has considerable discretion with respect to certain actions, such as withdrawal of licenses, tax audits and criminal prosecutions.

Steps have recently been taken to reduce the scope for the exercise of this discretion. A law that reduced the statute of limitations for challenging transactions entered into in the course of a privatisation from ten years to three years entered into force in July 2005. President Putin announced in March 2005 that the government was considering plans to reform the system of tax collection and administration, and in his annual address to the Federal Assembly on April 25, 2005, President Putin stated that tax authorities should not “terrorise” taxpayers by repeatedly considering the same problems.

Shareholder liability under Russian law could cause the Group to be liable for the obligations of its subsidiaries

The Civil Code, the Russian Federal Law “On Joint Stock Companies” No. 208-FZ dated December 26, 1995 (the “**Joint Stock Companies Law**”) and the Russian Federal Law “On Limited Liability Companies” No. 14-FZ dated February 8, 1998 (the “**LLC Law**”) generally provide that shareholders in a Russian joint stock company or members of a Russian limited liability company generally are not liable for the company’s obligations and bear only the risk of loss of their investment. Shareholder liability may arise, however, if one person (the “**Effective Parent**”) can give binding instructions to another person (the “**Effective Subsidiary**”). In addition, the Effective Parent bears secondary liability for the obligations of an Effective Subsidiary that becomes insolvent or bankrupt due to the Effective Parent’s actions or inactions. See “Description Of Share Capital and Certain Requirements of Russian Law—Share Capital—Liability of Shareholders.” Accordingly, the Company could be liable for the debts of subsidiaries of whose charter capital it owns more than 50%, or which it otherwise controls, which could adversely affect its operating results and financial condition.

There are weaknesses in legal protections for minority shareholders and in corporate governance standards under Russian law

Corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of action. Russian law also requires companies to obtain the approval of disinterested shareholders for certain transactions with interested parties.

In addition, the supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are registered at a meeting of VTB’s shareholders (the “**General Shareholders Meeting**”). Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may have 75% or more voting power if certain minority shareholders are not registered at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a General Shareholders Meeting, they can approve amendments to the charter of the company and other measures requiring supermajority shareholder approval, which could be prejudicial to the interests of minority shareholders.

Although the Joint Stock Companies Law provides that shareholders owning not less than 1% of a company’s stock may bring an action for damages on behalf of the company, Russian courts have very

limited experience with such lawsuits. Russian law does not provide for class action litigation. Accordingly, investors' ability to pursue legal redress against VTB or the Group may be limited.

Disclosure and reporting requirements and anti-fraud legislation have only recently been enacted in Russia. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies or shareholders is also relatively new and is not well developed.

Russian tax law and practice are not fully developed and are subject to frequent changes

The Russian subsidiaries of the Group are subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to, income tax, value added tax, or VAT, property tax and social taxes.

Laws related to these taxes, such as the Tax Code of the Russian Federation (the "Tax Code"), have been in force for a short period relative to tax laws in more developed market economies, and the government's implementation of these tax laws is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in the continual imposition of new taxes in an attempt to increase revenues. Although the quality of tax legislation has generally improved with the introduction of the first part of the Tax Code and the second part of the Tax Code, the possibility exists that Russia may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the business of VTB and the Russian subsidiaries of the Group. A large number of changes have been introduced to various chapters of the Tax Code since their adoption. Among the most important recent changes are significant amendments to the chapters on VAT and on income tax, effective as of January 1, 2006, as well as changes to Part One of the Tax Code (tax administration provisions) effective as of January 1, 2007.

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, few precedents with regard to the interpretation of these laws have been established. Often, differing opinions regarding interpretation exist between taxpayers and tax authorities as well as within the tax authorities, creating uncertainties and areas of conflict. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively. Taxpayers often have to resort to court proceedings to defend their position against the tax authorities.

In addition, on October 12, 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 which introduced a new concept of "unjustified tax benefit" which is defined mainly by reference to specific examples of such tax benefits (e.g., absence of business purpose) which may lead to disallowance thereof for tax purposes. There is no practice or guidance on interpretation of this new concept by the tax authorities or courts, but it is likely that the tax authorities will actively seek to apply this concept when challenging in courts tax positions taken by taxpayers. Although the intention of this Ruling was to combat abuse of tax law, in practice there is no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitration Court. Furthermore, the Resolution of Plenum of Supreme Court # 64 of December 28, 2006 "About practice of the application of the responsibility for the tax crimes" is indicative of the trend to broaden the application of the criminal responsibility for tax violations.

Generally, the tax declarations remain open and subject to inspection by tax and/or customs authorities for a period of three years immediately preceding the year in which the tax inspection is carried out. 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. Therefore, because previous tax audits do not preclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, recent amendments to the first part of the Tax Code, effective January 1, 2007, provide for the extension of the three year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because the terms "obstructed", "hindered" or "created insurmountable obstacles" are not defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed", "hindered" or "created insurmountable obstacles" in respect of an inspection and ultimately to seek penalties beyond the three year term. These facts

create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

The recent amendments and additions to the Tax Code were intended to reduce the number of taxes and the overall tax burden on businesses and to simplify the tax laws. However, the revised tax system relies heavily on the judgments of local tax officials and fails to address many of the existing problems, and local tax officials have recently made several material tax claims against major Russian companies.

It should also be noted that Russian law does not provide for a possibility of group relief or fiscal unity. Consequently, no losses eligible for reducing the tax liability of any entity in the Group may be used to reduce the tax liability of any other entity of the Group.

Payments of dividends between two Russian companies are currently subject to an income tax of 9% at the time they are paid out of profits; dividends received by Russian companies on their foreign equity holdings are subject to a 15% tax. This may give rise to additional tax liabilities and inefficiencies in multi-level Russian groups such as the Group.

Even if further reforms to tax laws are enacted, they may not result in a reduction of the tax burden on Russian companies and the establishment of a more efficient tax system. Conversely, they may introduce additional tax collection measures. 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.

Historically, the main Russian entities of the Group have been paying significant amounts of tax due to the scale of their operations. Consequently, the introduction of new taxes or introduction of amendments to current taxation rules may have a substantial impact on the overall amount of tax liabilities of the respective entities. Although each of the entities concerned undertakes internal procedures aimed at minimising tax risk and the approach to management of tax liabilities and tax risks within the Group has been conservative, there is no assurance that the Russian entities of the Group would not be required to make substantially larger tax payments in the future, which may affect the financial results of the Group.

Crime and corruption could create a difficult business climate in Russia

Organised criminal activity and corruption reportedly have increased since the dissolution of the Soviet Union. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. The Russian government has pursued a campaign against corruption, the results of which are currently uncertain.

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

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

Russian regulation of banking and financial activity has been undergoing significant changes

Like most of Russia's legislation on business activities, Russia's laws on banks and banking activity have only recently been adopted. In addition to Federal Law of July 10, 2002, No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)," as amended (the "Central Bank Law") and

Federal Law of December 2, 1990 No. 395-I “On Banks and Banking Activity,” as amended (the “**Banking Law**”), Russia has adopted and continues to develop new banking legislation.

In December 2003, President Putin signed into law Federal Law of December 23, 2003, No. 177-FZ “On Insurance of Deposits of Individuals in Banks of the Russian Federation” (the “**Deposit Insurance Law**”), which mandates the protection of bank deposits of individuals. The Deposit Insurance Law establishes a deposit insurance scheme in which all Russian banks must participate or lose their ability to accept retail deposits and open bank accounts for individuals. The enactment of the Deposit Insurance Law strengthens competition in the retail deposit market as all Russian banks that choose to participate in the deposit insurance scheme will have the ability to offer protected deposits. The majority of banks that filed their requests were admitted to the deposit insurance scheme.

The CBR has also been developing regulations on bank capital and bringing them into line with international standards. Currently, CBR regulations on bank regulatory capital are relatively new, rudimentary and untested, which could lead to uncertainty in their application and interpretation.

The recent changes in the Russian banking and financial regulation are aimed at bringing the regulatory regime more in line with that of more developed countries. However, due to the recent changes in the regulatory system banks operate in a new and relatively unclear regulatory environment. It is difficult to forecast how the changes in the banking and financial regulation will affect the Russian banking system and no assurance can be given that the regulatory system will not change in a way that will impair the Group’s ability to provide a full range of banking services or to compete effectively, thus adversely affecting the Group’s business, financial condition, results of operations and prospects.

The rights of the Group’s shareholders, the Russian public reporting requirements and the Russian accounting regulations to which the Group is subject differ significantly from those applicable to comparable companies in other jurisdictions

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

Russian banking and securities markets regulations contain certain disclosure requirements, including the requirement to prepare in accordance with RAS, and file, periodic financial statements with the CBR. Much of this financial information is subsequently made available to the public. Material differences exist between financial information prepared under RAS and IFRS. Therefore, prospective investors are cautioned not to place undue reliance on such information when evaluating the financial performance of the Group.

In addition, despite recent initiatives to improve corporate transparency in Russia, there is less publicly available information about the Group than there is available for comparable banks in, for example, the United Kingdom or the United States.

The lack of availability and reliability of statistical information in Russia makes business planning inherently uncertain and may impair the ability of the Group to plan effective strategies

Statistical data, including official data, published in Russia are substantially less complete and reliable and may be produced on a different basis than those published in countries with more developed market economies. Due to the lack of availability of alternative reliable sources of country-specific data, Russian companies necessarily rely to some extent on this statistical data in their business planning. As a result, assumptions made by Russian companies in their business plans may prove to be incorrect. The lack of accurate statistical data for use in business planning may contribute to the overall volatility of the Russian economy and may adversely affect the profitability of many of the Group’s corporate customers, which would have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group faces risks associated with doing business in other CIS countries and other emerging markets

In addition to Russia, the Group currently has banking subsidiaries in other CIS countries. The Group may acquire or establish additional banking subsidiaries in the CIS and other emerging markets. In many respects, the risks inherent in transacting business in these countries are similar to those in Russia, especially those risks set out herein.

Risks Relating to the Securities and the Trading Market

Failure to register the Placement Report could result in the Shares being cancelled. In addition, GDR holders will not be able to withdraw the Shares underlying the GDRs prior to the registration of the Placement Report for the newly issued Shares and reliance by security holders on VTB and the Underwriters to return the offering proceeds

Under the terms of the Deposit Agreement, all GDRs shall be deemed to be issued on a provisional basis until the Placement Report is registered by the CBR in respect of the newly issued Shares. Until the Placement Report is registered, GDR holders will not be able to withdraw the Shares underlying their GDRs or instruct the Depositary to exercise voting rights with respect to the Shares that underlie their GDRs, as they would ordinarily be able to do. Russian law requires that VTB file the Placement Report within 30 days following completion of the Global Offering. VTB intends to file the Placement Report as soon as practicable following completion of the Global Offering. The CBR is statutorily required to make its decision within two weeks after VTB files the Placement Report, but it may take longer in practice or the registration of the Placement Report may not occur at all.

The CBR may refuse to register the Placement Report if, among other things, VTB violated Russian law in the issuance process, and a Russian court may also hold the placement invalid for such violations. If the Placement Report is not registered by the CBR within 75 calendar days after the Closing Date (or such later date as VTB agrees with the Underwriters), VTB will issue a press release and notify the Depositary and the LSE. Under Russian law, if the Placement Report is not registered, VTB will be required to return the full amount of the proceeds that were initially deposited into VTB's account on the Closing Date. VTB has agreed in the Underwriting Agreement that it will pay such additional amounts (if any) as may be necessary to ensure that the US dollar funds received by the Depositary for remittance to the holders of GDRs will be equal to the gross US dollar proceeds received from the sale of GDRs, except for the underwriting commissions related to the GDRs, which the Joint Bookrunners have agreed to return. The Depositary will promptly distribute through DTC, Euroclear and Clearstream, as applicable, the funds it receives from VTB and the Joint Bookrunners to the holders of the GDRs. The aggregate amount returned to the holders of the GDRs is expected to be equal to the gross proceeds (without interest) of the offering of GDRs, regardless of the then-prevailing market prices for the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking and securities regulations or practices and may be prevented if there is a change in such regulations or practices. In addition, the holders of the GDRs will be taking credit risk on VTB and the Depositary directly for the return of funds in the event that the Placement Report is not registered.

The Shares being offered in the form of Shares are also subject to cancellation, and the proceeds of the Global Offering of the Shares will also be returned by VTB, in case the Placement Report is not registered.

Russian law may consider the Depositary the beneficial owner of the Shares underlying the GDRs, and a Russian court could order the seizure of such Shares in legal proceedings against the Depositary

Most jurisdictions would recognise GDR holders as the beneficial owners of the Shares underlying their GDRs. For example, in the United States and the United Kingdom, although shares may be held in a depositary's name, thereby making the Depositary the legal owner of the shares, GDR holders are the beneficial, or real, owners. Therefore, in US or UK courts, any action against the Depositary, as the legal owner of the underlying Shares, would not result in the GDR holders, as the beneficial owners of the underlying Shares, losing their rights in such underlying Shares.

Russian law, however, may not recognise GDR holders as beneficial owners of the Shares underlying the GDRs and may instead consider the Depositary the beneficial owner of such Shares. Thus, in proceedings against the Depositary, Russian courts might treat the underlying Shares as assets of the Depositary open to seizure or attachment.

In one past lawsuit against a depository bank, a claimant sought the attachment of various Russian companies' shares evidenced by depository receipts issued by that depository. If, in a similar lawsuit, a Russian court ordered the seizure or attachment of the Depository's assets in Russia, GDR holders could lose all of their rights to the Shares underlying their GDRs.

If the Depository is unable to provide VTB with ownership information of GDR holders, this may result in sanctions being imposed on VTB

Pursuant to CBR requirements, VTB must disclose information on persons owning or controlling 1% or more of VTB's ordinary shares, including through a beneficial interest in such shares through the holding of GDRs. However, the risk exists that the Depository may not be able to provide VTB with such information with respect to GDR holders. As a result, sanctions, including VTB's exclusion from the deposit insurance system, may be imposed on VTB by the relevant regulators.

An active trading market for the Securities may not develop, and their price may be highly volatile

Although VTB has applied to the FSA for approval of this Prospectus and for up to GDRs to be admitted to the Official List (of which up to will be issued on or about the Closing Date) and to the LSE to admit such GDRs to trading on its market for listed securities and its ordinary shares have been admitted to the quotation list "V" on the RTS and MICEX, an active trading market for the Securities may not develop or be sustained after the Global Offering.

In addition to being affected by the Group's operating results, the trading prices of the Securities may fluctuate in response to several extraneous factors, including:

- general economic conditions in emerging markets in the CIS, Europe or in the Group's business sector;
- fluctuations in stock prices on Russian or other stock exchanges;
- fluctuations in exchange rates;
- changes in laws or regulations; and
- negative economic and political news.

The market price of the Securities may decline below the Offer Price.

Future sales of the Securities may affect their market price

Sales, or the possibility of sales, of material quantities of Securities in the public markets following the Global Offering could adversely affect the trading prices of the Securities. Subsequent equity offerings by VTB may dilute the percentage ownership of VTB's current shareholders and of those persons who become shareholders in the Global Offering. Moreover, VTB might issue preferred shares with rights, preferences or privileges senior to those of ordinary shares.

Following the Global Offering, you may not be able to deposit Shares in the GDR facility to receive GDRs, and changes in Russian regulations with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market price of the Shares and GDRs offered in the Global Offering

No Shares will be accepted for deposit unless the Depository is satisfied that all conditions to such deposit have been satisfied by the person depositing such Shares under the laws and regulations of Russia, including those of the CBR and the FSFM. Furthermore, the Depository will refuse to accept Shares for deposit whenever it is notified in writing by VTB that delivery of the Shares will exceed any limit for Share ownership under applicable Russian law or government resolution or otherwise violate applicable regulations. To conform with regulations, including threshold limits, the Depository may take certain steps, including pro rata cancellation of GDRs and withdrawal of underlying Shares from the GDR facility. See "Terms and Conditions of the Global Depository Receipts."

Russian securities regulations currently provide that no more than 35% of a Russian company's shares may be circulated abroad through depository receipt programs. Accordingly, there are significant practical and legal limitations which effectively cap the size of VTB's GDR facility at 35% of VTB's issued share capital. VTB has received permission from the FSFM for up to % of its Shares to be circulated abroad through the GDR facility. Upon completion of the Global Offering (irrespective of

whether the Repurchase Option is exercised), VTB expects that the GDR facility will account for approximately % of its Shares. Any deposit of Shares over this number (up to the maximum limit of 35% of VTB's charter capital) would require additional permission from the FSFM. There can be no assurance that such permission would be granted. The FSFM may withhold such permission if, among other reasons:

- more than 35% of VTB's outstanding share capital will circulate outside Russia, including in the form of GDRs; or
- the GDR program contemplates the voting of the shares underlying the GDRs other than in accordance with the instructions of the GDR holders.

VTB's GDR facility may not have sufficient capacity to accept all future deposits of Shares. In addition, there can be no assurance that VTB would be able to increase the proportion of its charter capital that is allowed to be deposited in the GDR facility to the maximum of 35% of its issued and outstanding shares.

Any additional issuance of ordinary shares would be required to be registered with the CBR and assigned a state registration number, containing a provisional suffix distinguishing it from any previous issuance of shares of the same class. Following completion of the issuance, the provisional suffix is cancelled. Under Russian law, the CBR must cancel the suffix upon the expiration of three months following the registration of the placement report for the issuance (or, if applicable, upon the expiration of three months following the filing of a notice of the results of the issuance), but in practice such cancellation may be delayed beyond the prescribed term. The FSFM permission for the GDR facility established for the Global Offering expressly permits the deposit of shares having specific registration numbers. Shares having a different registration number, whether currently in issue or issued in the future, may not be deposited into the GDR facility. As a result, the Depositary may be entitled to refuse a deposit of ordinary shares having a different registration number than those set out in the FSFM permission for the GDR facility.

Therefore, it may not be possible to deposit ordinary shares into the GDR facility in order to receive GDRs, and under certain circumstances you may be required to withdraw ordinary shares from the GDR facility, which may in either case affect the liquidity and the value of your investment.

The aforementioned restrictions have been changed in the past and may be subject to change at any time in the future by the Russian regulatory authorities. There can be no assurance that the authorities will not reduce the permitted percentage of trading in, or offerings of, GDRs or impose other restrictions. Such extended regulations could have a material adverse effect on the Group's business, prospects, results of operations or financial condition and the value of the Securities.

The Deposit Agreement imposes practical limitations on GDR holders' voting rights with respect to the Shares evidenced by the GDRs

GDR holders will have no direct voting rights with respect to the Shares evidenced by the GDRs. GDR holders will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement relating to the GDRs. However, there are practical limitations upon GDR holders' ability to exercise their voting rights due to the additional procedural steps involved in communicating with GDR holders. For example, VTB's charter requires it to notify shareholders at least 30 days before any meeting and at least 70 days before an extraordinary meeting to elect VTB's Board of Directors. Holders of VTB's Shares will receive notice directly from VTB and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by contrast, will not receive notice directly from VTB. Rather, in accordance with the Deposit Agreement, VTB will provide the notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by VTB in writing in a timely manner and at VTB's expense, and provided there are no US, UK or Russian legal prohibitions, including, without limitation, the rules of the LSE or the rules of any Russian stock exchange on which the Shares are listed or admitted to trading, to mail to GDR holders notice of such meeting, copies of voting materials, if and as received by the Depositary from VTB, and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Shares evidenced by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take

longer for GDR holders than for holders of the Shares. GDR holders may not receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner, and GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested, and the Depositary may, if VTB so requests, refrain from voting altogether unless it receives instructions from all GDR holders to vote the Shares in the same manner. GDR holders may thus have significant difficulty in exercising voting rights with respect to the shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will:

- receive notice of General Shareholders Meetings to enable the timely return of voting instructions to the Depositary;
- receive notice to enable the timely cancellation of GDRs in respect of shareholder actions, which would primarily take place for reasons set forth below; or
- be given the benefit of dissenting or minority shareholders' rights in respect of any event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

In addition, GDR holders will be unable to exercise their voting rights until the CBR registers the Placement Report. See “—GDR holders cannot withdraw Shares from the deposit facility or instruct the Depositary to vote the Shares evidenced by their GDRs until the CBR registers VTB’s Placement Report, and a failure to register the Placement Report would result in the newly issued Shares being cancelled and reliance by GDR holders on VTB to return the proceeds of that portion of the GDR Offering evidencing newly issued Shares.”

See “Terms and Conditions of the Global Depositary Receipts” for a description of the voting rights of GDR holders.

GDR holders will not be able to introduce proposals for the agenda of a General Shareholders Meeting, request the calling of a General Shareholders Meeting, nominate candidates for VTB’s Supervisory Council or Statutory Audit Commission or otherwise exercise the rights of a minority shareholder arising under the Joint Stock Companies Law. GDR holders who wish to take such actions must timely request the cancellation of their GDRs and take delivery of Shares, thus becoming the owner of Shares on VTB’s share register.

GDR holders may be unable to repatriate distributions made on the Shares

VTB intends to pay dividends on the Shares in rubles, and Russian law currently permits such ruble funds to be converted into US dollars by the Depositary without restriction. The ability to convert rubles into US dollars is subject to the availability of US dollars in Russia’s currency markets. Although there is an existing market within Russia for the conversion of rubles into US dollars, including the interbank currency exchange and over-the-counter and currency future markets, the further development of this market is uncertain.

GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties and/or Russian tax legislation in respect of Russian taxes on dividends paid to the Depositary

Under Russian law, dividends paid to a non-resident holder of the Shares generally should be subject to Russian withholding tax at a rate of 15% for legal entities and organisations and at a rate of 30% for individuals. Dividends paid to a holder of the Shares that is a Russian legal entity or an organisation, a foreign entity that carries on activities through a permanent establishment in Russia, or to a Russian tax resident individual should be subject to Russian tax at a rate of 9% to be paid via withholding by the issuer. Russian tax rules applicable to the holders of the GDRs are characterised by significant uncertainties and, until recently, by an absence of interpretive guidance. See “Taxation—Certain Russian Federation Tax Considerations” for detail. In 2005 and 2006, the Ministry of Finance of Russia expressed an opinion that holders of global depositary receipts should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax residence of the holders of the global depositary receipts is duly confirmed, as well as for the purposes of application of the 9%

tax rate applicable to dividends paid to Russian resident holders of the Shares. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, there can be no assurance as to how the Russian tax authorities will ultimately treat the GDR holders in this regard.

There is a risk that a foreign legal entity carrying on activities through a permanent establishment in Russia may not be able to avail itself of a domestic 9% tax on dividends. Rather, tax on dividends may be applied at the rate of 15% or up to 24%.

Furthermore, VTB may decide to deduct Russian withholding tax on dividends paid to the Depository at a rate of 15%, regardless of whether the Depository (the legal owner of the Shares) or a GDR holder (the beneficial owner of the Shares) would be entitled to reduced rates of tax under either the relevant double tax treaty or under domestic tax legislation. Although non-resident GDR holders may apply for a refund of a portion of the amount so withheld by VTB under the relevant income tax treaty, VTB cannot make any assurances that the Russian tax authorities will grant any refunds. See “Taxation—Certain Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders.”

Russian resident holders of the GDRs may suffer from a higher effective rate of tax on dividends due to the lack of clarity in Russian tax law in respect of beneficial ownership

By virtue of receiving dividend payments from the Depository rather than from VTB, Russian resident holders of GDRs may be required to report these dividends in their tax returns as income from foreign sources which would arguably qualify as a dividend pursuant to applicable Russian tax law, and to pay additional tax on the amount received at the rate of 9%. There is a risk that Russian resident holders would not be entitled to reclaim or credit the tax withheld by VTB against payments to the Depository. There is also a risk that income received from the Depository would not be regarded by the Russian tax authorities as dividend income, if the view is taken that it does not meet the technical definition of a dividend established by the Tax Code. Consequently, the dividend may be taxable at the rate of 13% for Russian resident individual holders of the GDRs and at a rate of up to 24% for Russian resident holders of the GDRs that are not individuals.

Non-resident investors may be subject to Russian tax withheld at source on trades of the Shares or GDRs through or to certain Russian payors

Under Russian tax law, to the extent more than 50% of the asset base of VTB consists of immovable property located in Russia, and a non-resident holder of the Shares or GDRs that is a legal entity or an organisation sells, exchanges or otherwise disposes of any Shares or GDRs, derived from the Shares, and receives proceeds from a Russian legal entity or an organisation, or a foreign legal entity that carries on activities through a permanent establishment in Russia, such gross proceeds should be subject to Russian income tax withholding at a rate of 20%. If a non-resident holder of the Shares or GDRs that is a legal entity or an organisation would be in a position to provide the payor of income with the documents confirming the basis cost of the Shares or GDRs disposed of, the amount of gain should be subject to Russian income tax withholding at a rate of 24%. The tax should be withheld at source by the Russian payor of the income. Russian income tax withholding may be reduced or eliminated under an applicable tax treaty for entities qualifying for the relevant treaty benefits.

There is a risk that Tax Agents in respect of income tax withholding on capital gains may not have sufficient information regarding VTB’s composition of the asset base to be in a position to conclude on the percentage of the immovable property located in Russia and may therefore conservatively seek to apply income tax withholding to the amount of consideration paid to a non-resident holder of the Shares and/or GDRs that is a legal entity or an organisation.

Gains arising from the sale, exchange or other disposition of securities on foreign stock exchanges by non-resident holders that are legal entities and organisations should not be subject to taxation in Russia if such securities are listed on these stock exchanges. Therefore, so long as the GDRs remain listed on the LSE and eligible for trading on PORTAL, gains arising from the sale, exchange or other disposition on the LSE and PORTAL of the GDRs by non-resident holders that are legal entities or organisations should not be subject in Russia to Russian income tax withholding.

Gains arising from the sale, exchange or other disposition of the Shares or GDRs outside of Russia by holders who are individuals not resident in Russia for tax purposes should not be considered Russian source income and, therefore, should not be taxable in Russia. However, as there is no definition of what should be considered to be a “sale in Russia” or “sale outside Russia”, the Russian tax authorities have a certain amount of freedom to conclude whether transactions take place inside or outside of Russia based on indicators which cannot be predicted with a sufficient level of certainty. Gains arising from the sale, exchange or other disposition of the Shares or GDRs in Russia by holders who are individuals not resident in Russia for tax purposes should be subject to tax either at source in Russia or based on a tax return, which they may be required to submit to the Russian tax authorities.

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in Russia for persons qualifying for the relevant treaty benefits.

However, there is a risk that non-resident holders of Shares or GDRs may not be able to benefit from double taxation treaties in respect of capital gains realised on such Shares and GDRs due to administrative difficulties in the timely obtaining and submission to the payor of income, having an obligation to withhold tax, or to the tax authorities, of the confirmation of treaty tax residence and other documents supporting the eligibility to treaty benefits. See “Taxation—Certain Russian Federation Tax Considerations—Taxation of Capital Gains.”

VTB may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequences to United States investors

Although not free from doubt, VTB does not expect to be treated as a passive foreign investment company (“PFIC”) for its current taxable year ending December 31, 2007 for United States federal income tax purposes. However, the determination of whether VTB is a PFIC is a factual determination made annually after the end of each taxable year, and it is possible that VTB may be treated as a PFIC in any taxable year. If VTB is treated as a PFIC for any taxable year during which a United States investor holds a Share or GDR, certain adverse United States federal income tax consequences could apply to the United States investor. See “Taxation—Certain United States Federal Income Tax Considerations—Passive Foreign Investment Company.”

THE OFFERING

The Issuer	JSC VTB Bank.
The Open Subscription	The Open Subscription comprises an offering of up to 1,734,333,866,664 ordinary shares.
Pre-emptive Rights	VTB's shareholders of record as at February 16, 2007 have statutory pre-emption rights under Russian law to subscribe for shares <i>pro rata</i> to their existing shareholding as at that date. VTB published a notice to such shareholders advising them of their statutory pre-emption rights on April 9, 2007. Such rights shall be exercisable over a period of 20 calendar days commencing on April 10, 2007. Any ordinary shares not taken up by VTB's shareholders by April 29, 2007, inclusive, in the exercise of their statutory pre-emption rights will be offered to other investors in the Global Offering in the form of Shares and GDRs as described below. See also "Description of Share Capital and Certain Requirements of Russian Law—Share Capital—Pre-emptive Rights." Any ordinary shares subscribed for by VTB's existing shareholders shall be paid for at the Offer Price for the Shares in the Global Offering as determined by the Issuer and the Joint Bookrunners. See "—Offer Price Range." Shareholders exercising their statutory pre-emption rights must pay for the ordinary shares in same-day funds not later than five business days from the date of the disclosure of the Offer Price. Any ordinary shares taken up but not paid in full by VTB's shareholders in the exercise of their statutory pre-emption rights will not be placed. See "Subscription and Sale."
The Global Offering	<p>The Global Offering consists of Shares not subscribed by VTB's existing shareholders in the Open Subscription. Up to 1,734,333,866,664 Shares are being offered in the Global Offering in the form of Shares and GDRs.</p> <p>Russian securities legislation does not permit VTB to sell more than 70% of the total number of ordinary shares authorised in the Global Offering in the form of GDRs. VTB has applied to the FSFM for permission to place up to 1,214,033,706,664 Shares in the form of GDRs.</p>
The Retail Offering	The Shares will be offered to retail investors in Russia as more fully described under "Subscription and Sale."
The Institutional Offering	To the extent not taken up in full in the Retail Offering, the Shares will be offered (i) in the form of Shares outside the United States to certain persons in offshore transactions in reliance on Regulation S under the Securities Act and in the United States to QIBs in reliance on Rule 144A under the Securities Act and (ii) in the form of GDRs outside the United States and Russia to certain persons in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A.
The GDRs	The GDRs will be issued by the Depositary pursuant to the Deposit Agreement. Each GDR will represent an interest in 2,000 Shares on deposit with JSC VTB Bank, as Custodian. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR, each to be issued by the Depositary pursuant to the Deposit Agreement. Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be held in Russia by the Custodian, for the benefit of the Depositary and for the further benefit of GDR holders.

Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement, interests in GDRs represented by the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR, and vice versa. See “Terms and Conditions of the Global Depositary Receipts,” “Settlement and Delivery—Clearing and Settlement of GDRs” and “Settlement and Delivery—Global Clearance and Settlement Procedures—Secondary Market Trading.”

Share Capital	<p>Immediately prior to the Global Offering, VTB’s issued and outstanding share capital consisted of 5,211,112,400,000 ordinary shares, each with a nominal value of RUR 0.01 per ordinary share. Immediately after the Global Offering, VTB’s issued and outstanding share capital will consist of 6,945,446,266,664 ordinary shares, assuming placement in full of all Shares authorised in the Global Offering and no exercise by the Underwriters of the Repurchase Option.</p> <p>The ordinary shares have the rights described under “Description of Share Capital and Certain Requirements of Russian Law.” Immediately prior to the Global Offering, the Russian Federation, acting through the Federal Property Agency, owned approximately 99.9% of VTB’s issued and outstanding ordinary shares. Immediately after the Global Offering, it will own approximately % of the ordinary shares and, indirectly through its holding in VTB, an additional % of ordinary shares in the form of GDRs, assuming the Repurchase Option is not exercised.</p>
Offer Price Range	11.30 Kopecks to 13.90 Kopecks per Share, implying a price range of \$8.77 to \$10.79 per GDR, based on a ruble/US dollar exchange rate in effect on April 25, 2006 of RUR 25.78 to \$1.00, as quoted by the CBR.
Closing Date	On or about May , 2007.
Depositary	The Bank of New York.
Lock-Up	For a period of 180 days after the Closing Date, VTB will not, subject to certain limited exceptions, without the prior written consent of the Joint Bookrunners on behalf of the several Underwriters, issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, sell any option on or right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any ordinary shares or securities convertible or exchangeable into or exercisable for any ordinary shares of VTB or warrants or other rights to purchase ordinary shares of VTB or any security or financial product whose value is determined directly or indirectly by reference to the price of the ordinary shares of VTB, including equity swaps, forward sales and options or GDRs representing the right to receive any such ordinary shares or such other securities above, whether such transaction is to be settled by delivery of ordinary shares or such other securities, in cash or otherwise. See “Subscription and Sale—Lock-Up Arrangements” for the exceptions to this undertaking.
Transfer Restrictions	The Securities will be subject to certain transfer restrictions set forth in “Registration of Placement Report,” “Terms and Conditions of the Global Depositary Receipts” and “Transfer Restrictions.”
Listing and Market for the Securities	VTB’s ordinary shares have been admitted to Lists ‘V’ on the RTS

and MICEX, but are not traded. VTB expects trading in the Shares on the RTS and MICEX to commence shortly after registration of the Placement Report. Under Russian law, trading in the Shares is not permitted until the Placement Report has been registered with the CBR.

VTB has applied to the FSA, in its capacity as competent authority under the FSMA, for the GDRs to be admitted to the Official List of the FSA and to the LSE to admit the GDRs for trading under the symbol “VTBR” on its market for listed securities through its IOB.

VTB expects that conditional trading in the GDRs through the IOB will commence on a “when and if issued” basis on or about May 2007 and that unconditional trading in the GDRs through the IOB will commence on or about the Closing Date. **All dealings in the GDRs before commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.**

VTB has also applied for the Rule 144A GDRs to be designated as eligible for trading on PORTAL. VTB expects trading in the GDRs on PORTAL to commence on or about the Closing Date.

Settlement Procedures

Payment for the GDRs is expected to be made in US dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited, as common depository for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York as custodian for DTC. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See “Settlement and Delivery.”

Each investor in the Shares in the Global Offering is required to pay for any Shares in US dollars or rubles, as the case may be. In order to take delivery of the Shares, an investor should either have a direct account with VTB’s share registrar, CJSC “Central Unified Registrar”, or a deposit account with CJSC Depository Clearing Company (the “DCC”), or any other depository that has an account with DCC or a direct account with VTB’s share registrar. Investors may at their own expense elect to hold the Shares through a direct account with VTB’s share registrar. However, directly-held Shares are ineligible for trading on RTS and MICEX. Only if the Shares are deposited with a Not-for-Profit Partnership, The National Depository Center (the “NDC”), (or through another depository having an account at NDC), can they be traded on MICEX and only if the Shares are deposited with the DCC or NDC can they be traded on the RTS.

Repurchase Option Loan . . .

ITC has granted an option to the Underwriters, acting through the Stabilisation Manager, exercisable at any time during the period of thirty days after the announcement of the Offer Price (the “Stabilisation Period”), to require ITC to purchase up to

Shares in the form of GDRs held by the Stabilisation Manager as a result of stabilisation transactions at the price at which such Shares in the form of GDRs were purchased by the Stabilisation Manager in the relevant stabilisation transaction. ITC will hold any Shares in the form of GDRs it acquires pursuant to the Repurchase Option in treasury.

Registration of Placement Report

The issuance and sale of the Shares and the GDRs will be subject to cancellation if the CBR fails to register the Placement Report within 75 calendar days after the Closing Date, or such later date as may be agreed between VTB and the Joint Bookrunners. In the event of such cancellation, VTB will, as soon as practicable thereafter, refund the gross proceeds received from the sale of the Shares, including the Shares underlying the GDRs, without interest, to all holders of Shares, including the Depositary, regardless of the then-prevailing market price of the Shares or GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented if there is a change in such regulations or practices. Until the registration of the Placement Report, all GDRs will be issued on a provisional basis, and holders of GDRs will not be entitled to instruct the Depositary to exercise any voting rights on their behalf, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. Holders of GDRs may not withdraw Shares or other property on deposit with the Depositary in respect of the GDRs sold in the Global Offering prior to the registration of the Placement Report. Such limitation on withdrawal and voting of the Shares will not prohibit trading in the GDRs. In addition, following the Closing Date, no additional Shares will be accepted for deposit and GDRs issued in respect of such Shares shall be issued on a provisional basis until the Depositary has received written notice from VTB that the Placement Report in relation to the Shares has been registered with the CBR, at which time all such GDRs shall no longer be deemed to be issued on a provisional basis. See “Risk Factors—Risks Relating to the Securities and the Trading Market—Failure to register the Placement Report could result in the Shares being cancelled.

Taxation

There are certain Russian, United States and United Kingdom tax consequences of purchasing and holding GDRs. See “Taxation.”

Voting Rights

Shareholders are generally entitled to one vote per Share at a shareholders meeting. See “Description of Share Capital and Certain Requirements of Russian Law—Shareholders Meetings.” Under the Deposit Agreement, one GDR carries the right to instruct the Depositary to vote 2,000 Shares, subject to the provisions of applicable Russian law.

Dividend Policy

Purchasers of the Securities will be entitled to dividends declared, if any, in respect of any record date which falls after the date of completion of the Global Offering.

VTB does not have a formal policy for the payment of dividends. The amount of dividends to be declared and paid is decided at VTB’s General Shareholders Meeting on the recommendation of the Supervisory Council based on VTB’s net profit for the relevant period, determined in accordance with RAS on a stand-alone basis. See “Dividend Policy.”

Use of Proceeds

The gross proceeds that VTB will receive from the Global Offering will be approximately \$ or \$, assuming the Repurchase

Option is not exercised. After the payment of fees and expenses associated with the Global Offering (including underwriting commissions, fees and expenses), the net proceeds of the Global Offering received by VTB are expected to be approximately \$. The Group intends to use such net proceeds to support the ongoing expansion of its business. See “Use of Proceeds.”

General Information

The security numbers for the Securities offered hereby are as follows:

Regulation S GDRs:	CUSIP:	46630Q202
	ISIN:	US46630Q2021
	Common Code:	029806675
	SEDOL:	B1W7FX3
Rule 144A GDRs:	CUSIP:	46630Q103
	ISIN:	US46630Q1031
	Common Code:	029806730
	SEDOL:	B1W7FP5
ISIN for Shares:	RU000A0JP5V6	
LSE trading symbol:	VTBR	
PORTAL identification number:	P46630Q103	
RTS and MICEX trading symbol:	VTBR	

REGISTRATION OF PLACEMENT REPORT

Under Russian law, placement of the newly issued Shares being offered in the form of GDRs as well as in the form of Shares pursuant to this Prospectus is subject to VTB's registration of the Placement Report with the CBR. Russian law requires that VTB files the Placement Report within 30 days following completion of the Global Offering. VTB intends to file the Placement Report as soon as practicable following completion of the Global Offering. The CBR is statutorily required to make its decision within two weeks after VTB files the Placement Report, but it may take longer in practice or the registration of the Placement Report may not occur at all.

If the Placement Report is not registered by the CBR within 75 calendar days after the Closing Date (or such later date as VTB may agree with the Joint Bookrunners), VTB will issue a press release and notify the Depositary and the LSE. Under Russian law, if the Placement Report is not registered, VTB will be required to return the full amount of proceeds that were initially deposited into VTB's account on the Closing Date. VTB has agreed in the Underwriting Agreement that it will pay such additional amounts (if any) as may be necessary to ensure that the US dollar funds received by the Depositary for remittance to the holders of GDRs will be equal to the gross US dollar proceeds received from the sale of GDRs. The Depositary will promptly distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received to the holders of the GDRs. The amount returned to the holders of the GDRs is expected to be equal to the gross proceeds (without interest) of the offering of GDRs, regardless of the then-prevailing market prices for the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking and securities regulations or practices and may be prevented if there is a change in such regulations or practices. In addition, the holders of the GDRs will be taking credit risk on VTB and the Depositary for the return of funds in the event that the Placement Report is not registered.

Until the registration of the Placement Report, all GDRs will be issued on a provisional basis and holders of GDRs will not be entitled to instruct the Depositary to exercise any voting rights on their behalf, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. Holders of GDRs may not withdraw the Shares or other property on deposit with the Depositary in respect of the GDRs sold in the Global Offering prior to the registration of the Placement Report. Such limitation on withdrawal and voting of the Shares will not prohibit trading in the GDRs. Also, following the Closing Date, no additional Shares will be accepted for deposit until the Placement Report is registered, and GDRs issued in respect of such Shares shall be issued on a provisional basis until the Depositary has received written notice from VTB that the Placement Report in relation to the Shares has been registered with the CBR, at which time such GDRs shall no longer be deemed to be issued on a provisional basis.

The Shares being offered in the form of Shares are also subject to cancellation, and the proceeds of the Global Offering of the Shares will also be returned, if the Placement Report is not registered.

USE OF PROCEEDS

The gross proceeds that VTB will receive from the Global Offering, will be approximately \$ million. After the payment of fees and expenses associated with the Global Offering (including underwriting commissions, fees and expenses), the net proceeds of the Global Offering received by VTB are expected to be approximately \$ (assuming the Repurchase Option is not exercised). Total commission, fees and expenses incurred in connection with the Global Offering are expected to be approximately \$ million.

The Group intends to use the net proceeds from the Global Offering primarily to support the ongoing expansion of its business as set forth in “Business—Strategy” and for general corporate purposes. More specifically, the Group intends to use the net proceeds from the Global Offering to: (i) develop and expand its retail, corporate and investment banking operations in Russia; (ii) expand its presence in the CIS; and (iii) to a lesser extent, consolidate its existing banking platform in Europe.

VTB expects to receive all proceeds from the Global Offering in rubles and US dollars and, accordingly, expects to convert all US dollar denominated proceeds into rubles.

CAPITALISATION

The following table sets forth the Group's consolidated capitalisation as of December 31, 2006, as adjusted for the issuance of the Shares in the Global Offering. The following table should be read in conjunction with "Selected Consolidated Financial and Operating Data," "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Annual Financial Statements.

	As of December 31, 2006	As Adjusted for the Global Offering
	(\$ millions)	
Long-term debt⁽¹⁾		
Senior long-term debt	10,882	10,882
Subordinated long-term debt	1,169	1,169
Total long-term debt	12,051	12,051
Shareholders' equity		
Share capital ⁽²⁾	2,500	
Share premium	1,513	
Unrealised gain on financial assets available for sale	154	154
Currency translation difference	352	352
Fixed assets revaluation reserve	341	341
Retained earnings	1,744	1,744
Equity attributable to shareholders of the parent	6,604	
Minority interest	388	388
Total equity	6,992	
Total capitalisation	19,043	

(1) Includes long-term financing (with remaining contractual maturities of over one year) incurred in the ordinary course of the Group's banking business.

(2) Comprising 5,211,112,400,000 ordinary shares, issued and outstanding as of December 31, 2006.

Except as described below, there have been no material changes in the Group's capitalisation since December 31, 2006:

- In March 2007, VTB issued its €1,000 million Floating Rate Loan Participation Notes due 2009 and its £300 million Loan Participation Notes due 2010 under the Programme.
- In April 2007, VTB Europe issued its \$500 million Floating Rate Notes due 2009 under its \$2 billion Global Medium Term Note Programme.

DIVIDEND POLICY

The procedure for determining the dividends that VTB may distribute to its shareholders is set forth in the Joint Stock Companies Law and VTB's charter. The Joint Stock Companies Law allows dividends to be paid only out of net profits calculated under RAS. According to its charter, VTB may distribute dividends based on its three-month, six-month, nine-month and/or annual results prepared in accordance with RAS. For a dividend to be declared, a majority of the Supervisory Council must recommend its amount and the order of its payment to the General Shareholders Meeting, which then approves the dividends by majority vote. A decision on dividends based on the three-month, six-month and nine-month results must be taken within three months after the end of the respective period by a General Shareholders Meeting. A decision on annual dividends must be taken at the Annual General Shareholders Meeting. The dividend approved at any General Shareholders Meeting may not exceed the amount recommended by the Supervisory Council, although the General Shareholders Meeting may decide to distribute a smaller amount. Dividends are distributed to holders of ordinary shares as of the record date for determining the members entitled to attend the General Shareholders Meeting approving the dividend. The shareholders' right to receive dividends, once declared, does not lapse.

The following table sets forth dividends per ordinary share and the aggregate dividends paid by VTB in accordance with the decisions of the Annual General Shareholders Meetings in 2002, 2003, 2004, 2005 and 2006 for the results in the previous year.

Year	Dividends per ordinary share (before split) ⁽¹⁾⁽²⁾		Aggregate dividends paid	
	RUR	\$	RUR billion	\$ million
2002	14.97	0.47	0.6	20
2003	37.97	1.26	1.6	53
2004	37.97	1.35	1.6	57
2005	40.51	1.45	1.7	61
2006	32.76	1.21	1.7	63

(1) See "Description of Share Capital and Certain Requirements of Russian Law—Share Capital—History of Share Issuances."

(2) On September 18, 2006, the extraordinary general meeting of VTB shareholders approved a share split, splitting each ordinary share in VTB with a face value of 1,000 rubles into 100,000 Shares with a face value of 0.01 rubles. No dividends were declared or paid after the share split.

VTB does not have a formal policy for the payment of dividends. The amount of dividends to be declared and paid is decided at VTB's General Shareholders Meeting on the recommendation of the Supervisory Council based on VTB's net profit for the relevant period determined in accordance with RAS on a stand-alone basis. Purchasers of the Securities will be entitled to dividends declared, if any, in respect of any record date which falls after the date of completion of the Global Offering.

Any dividends VTB may pay in the future in respect of the Shares evidenced by the GDRs will be declared and paid to the Custodian for the benefit of the Depositary in rubles. The Depositary will convert such dividends into US dollars and distribute them to GDR holders, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by GDR holders will be subject to fluctuations in the exchange rate between the ruble and the US dollar and to a reduction arising from the deduction by the Depositary of its fees and expenses.

For further information on dividends and certain general restrictions of Russian law with respect to the payment of dividends, see "Description of Share Capital and Certain Requirements of Russian Law—Share Capital—Dividends."

DILUTION

As of December 31, 2006, the Group's net tangible book value was approximately \$6,149 million. "Net tangible book value" is:

- the Group's total tangible assets (intangible assets not included); *minus*
- the sum of the Group's total liabilities and minority interest.

As of December 31, 2006, the Group's net tangible book value per ordinary share was approximately \$0.00118. "Net tangible book value per ordinary share" is:

- the Group's net tangible book value; *divided by*
- the number of ordinary shares outstanding.

"Dilution of net tangible book value per ordinary share" is:

- the amount paid per Share by purchasers of Securities in the Global Offering; *minus*
- the Group's net tangible book value per ordinary share immediately after the issuance of such Shares.

After giving effect to the issuance of the Shares (excluding any Shares that may be repurchased by the Group pursuant to the Repurchase Option) as if such Shares were issued on December 31, 2006, and after deducting the underwriting fees (but not any other expenses), the Group's net tangible book value as of December 31, 2006 would have been \$, and its net tangible book value per ordinary share would have been \$. These calculations assume an Offer Price of \$ per Share.

These figures represent an immediate accretion in net tangible book value per ordinary share to existing shareholders, and an immediate dilution in net tangible book value per ordinary share to investors purchasing Securities in the Global Offering, of \$, or %.

The following table summarises such calculations.

	<u>in \$, except %</u>
Offer Price per Share	
Offer Price per GDR	
Net tangible book value per ordinary share as of December 31, 2006	\$0.00118
Increase in net tangible book value per ordinary share attributable to the issuance of the Shares as if such Shares were issued on December 31, 2006	
Net tangible book value per ordinary share immediately after the issuance of the Shares as if such Shares were issued on December 31, 2006	
Dilution per ordinary share to investors purchasing Securities in the Global Offering	%

THE BANKING SECTOR IN RUSSIA

Overview

According to the Economist Intelligence Unit, Russia was the 10th largest economy in the world with a GDP of \$979.4 billion in 2006 and a population of 142.2 million at the end of 2006. It is the largest of all CEE and CIS countries in terms of both GDP and population, and represents a significant driver of global economic growth. The following table sets forth certain key Russian macroeconomic indicators for the periods indicated.

	2001	2002	2003	2004	2005	2006
GDP (\$ billions)	306.5	345.5	431.7	591.7	764.2	979.4
Real GDP growth (% year-on-year)	5.1%	4.7%	7.3%	7.2%	6.4%	6.7%
Population (in millions)	145.6	145.0	144.2	143.5	142.8	142.2
GDP per capita (\$)	2,104	2,383	2,994	4,124	5,353	6,888
GDP per capita growth (% year-on-year)	n/a	13.2%	25.6%	37.7%	29.8%	28.7%
Consumer income per capita (\$) .	1,259	1,511	2,022	2,670	3,404	N/A
Inflation rate (%)	18.6%	15.1%	12.0%	11.7%	10.9%	9.0%
RUR Exchange rate (\$1.00, average)	29.18	31.35	30.68	28.81	28.29	27.18

Source: ROSSTAT, CBR.

The Russian economy has recently experienced strong economic growth, demonstrated by real annual GDP growth of 6.2% on average per annum since 2001. This growth was accompanied by a decreasing and more stable inflationary and interest rate environment. The Economist Intelligence Unit is forecasting continued strong economic growth in Russia, with real GDP expected to increase by 6.0% in 2007, 5.5% in 2008 and at least 4% per annum until 2011, which compares favourably to Western European and other CEE and CIS countries. The credit ratings of Russia have improved over the last six years, attaining an investment grade rating in 2003. The Russian economy remains relatively diversified, with trade, manufacturing and national resource extraction contributing 16.8%, 16.6% and 9.1% to GDP in 2006, respectively. The financial services sector is also an important component of the economy, representing 3.7% of GDP in 2006 compared to 2.8% in 2002.

The favorable Russian macroeconomic environment, together with the increasing importance of financial services within the Russian economy, have provided significant stimulus for the Russian banking sector. Accordingly, this sector has experienced a sustained period of high growth between 2001 and 2006, which has been demonstrated by total Russian banking system deposit and loan compound annual growth of 41.2% and 47.3%, respectively. It is anticipated that additional capital will be required throughout the banking system to support this strong growth.

Although banks play an increasingly important role in the Russian economy, the industry still remains underdeveloped in certain respects. The banking sector is still under-penetrated, with total assets comprising only 54.5% of GDP as of December 31, 2006. Corporate banking in Russia is currently at levels (relative to GDP) that are much lower than Western European economies and below certain other CEE economies. Similarly, the retail banking market in Russia remains in the relatively early stages of development, with retail lending representing only 26% of the total lending in Russia as of December 31, 2006. Retail banking, however, is the fastest-growing segment of the Russian banking market, driven by positive economic conditions and rising consumer income. Between 2001 and 2006, retail loans increased substantially at a compound growth rate of 90.8% and retail lending as a percentage of GDP increased from 1.0% in 2001 to 8.0% in 2006. However, these rates are still low in comparison to Western European economies.

The following table sets out certain information on corporate and retail lending and deposits for the periods indicated.

	2001	2002	2003	2004	2005	2006	CAGR 2001-2006
	(\$ billions, except for percentages)						
Corporate lending	40.8	52.0	81.0	117.8	148.5	226.6	41%
% of GDP	13%	15%	19%	20%	19%	23%	
Retail lending	3.1	4.5	10.2	22.3	41.0	78.4	91%
% of GDP	1%	1%	2%	4%	5%	8%	
Total lending	43.9	56.5	91.1	140.1	189.5	305.0	47%
% of GDP	14%	16%	21%	24%	25%	31%	
Corporate deposits	30.4	34.4	47.3	73.2	94.5	152.5	38%
% of GDP	10%	10%	11%	12%	12%	16%	
Retail deposits	22.5	32.4	51.5	71.3	95.7	144.1	45%
% of GDP	7%	9%	12%	12%	13%	15%	
Total deposits	52.9	66.8	98.8	144.4	190.2	296.6	41%
% of GDP	17%	19%	23%	24%	25%	30%	

Source: CBR

History and Development

Historically, Gosbank, the central bank of the Soviet Union, allocated resources from the State budget according to the prevailing economic plan. In 1987, as part of the reforms to the Russian economy, six specialised state-owned banks were established to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

In 1988 and 1989, further reform of the banking sector saw the emergence of newly formed private commercial banks. Subsequently, in 1991, three of the specialised state-owned banks were transformed into joint-stock companies. At the same time, some regional branches of the specialised state-owned banks also became independent banks through management buyouts thereby enabling the broadening of equity ownership in the banking sector. In November 1991, the CBR was established to become the primary regulator of the banking industry and assumed the role as the central bank. Between 1990 and 1997, the Russian banking system experienced rapid growth, with the number of commercial banks increasing from 358 in 1990 to 1,686 by early 1998.

On August 17, 1998, the Russian financial markets suffered a crisis caused in part by the Asian financial crisis that began in 1997 and the subsequent decline in demand and prices of crude oil and nonferrous metals. In connection with the crisis, the Government defaulted on its sovereign debt and the CBR announced a gradual devaluation of the ruble, the imposition of a repayment moratorium on certain loans to foreigners and the compulsory restructuring of approximately \$40 billion of short term treasury instruments. These events caused major concerns over the liquidity and solvency of the market. Many banks went into bankruptcy or fell under the administration of the Agency for Restructuring of Credit Organisations (“ARCO”), which was created during this period. VTB, together with other state owned banks, did not default on its obligations during the crisis. Subsequently, the Russian banking sector stabilised and, by October 2003, the last credit organisation was withdrawn from ARCO’s administration.

In 2004, the Russian banking sector experienced instability which resulted in a crisis of confidence towards Russian banks by their customers. In May 2004, the CBR announced that it would suspend the banking license of a medium-size bank that had been accused of serious breaches of the Russian anti-money laundering laws. This caused a widespread loss of confidence within the banking system, and depositors began en masse to withdraw their money from certain banks. At the same time, the CBR revoked the banking licenses of certain banks. Several small privately-owned banks collapsed while others experienced liquidity problems and were unable to attract funds on the interbank market or from their client base.

During July 2004, there was an outflow of deposits from many banking institutions, with large state-owned and foreign banks benefitting from the “flight to quality.” As a result of the turmoil, the CBR implemented a number of new measures including a reduction in mandatory reserves by 50% and

guarantee for deposits of banks operating outside the deposit insurance scheme of up to RUR 100,000 per customer. The crisis acted as a catalyst for the legislation that revoked Sberbank's full state deposit guarantee.

Current Competitive Landscape

The Russian banking sector is highly fragmented by number of participants. However, it is also dominated by certain major participants. According to Interfax, Sberbank, the state-owned savings bank, accounted for 30.8% of sector assets at September 30, 2006, and the next nine largest banks accounted for 36.3% of the sector assets.

A number of the country's largest banks are part of financial industrial groups, and as such undertake transactions for related parties. Approximately 50% of banks operating in Russia are located in the Moscow region and have a limited regional presence, accounting for approximately 85% of sector assets. Only a small number of banks in Russia have a broad presence across Russia, including Sberbank, VTB and Rosbank. The following table sets out market share data for the ten largest banking groups by total assets (according to RAS) as of October 1, 2006.

	Total Assets		
	Rank	\$ billion	% Market ⁽¹⁾ share
Sberbank	1	116.5	30.8%
VTB Group	2	47.3	12.5%
Gazprombank	3	24.3	6.4%
Alfa-Bank	4	13.3	3.5%
Bank of Moscow	5	12.2	3.2%
Uralsib	6	10.0	2.6%
Rosbank	7	8.8	2.3%
IMB	8	7.4	2.0%
MDM-Bank	9	7.4	1.9%
Raiffeisenbank	10	7.1	1.9%
Total (Top 10)		<u>254.3</u>	
Total (Top 100)		<u><u>378.1</u></u>	

Source: Interfax.

(1) Market shares are calculated as a percentage of the Top 100 total amount.

The presence of foreign-owned banks in the Russian market is relatively limited. Historically, foreign-controlled banks have primarily serviced multinational firms operating within the Russian Federation and conducted inter-bank operations. More recently, these banks have increased their presence in Russian retail banking and have increased their loan portfolios in several sectors of the economy. While the level of foreign investment in the Russian banking sector is increasing, it remains low, with foreign banks accounting for 12% of industry assets as of December 31, 2006, according to the CBR.

BUSINESS

Overview

The Group is a leading Russian universal banking group offering a wide range of banking services and products across Russia, certain CIS countries and selected countries in Western Europe, Asia and Africa. The Group focuses on providing banking products and services to Russian and CIS clients through its domestic and foreign operations and to foreign clients doing business primarily related to, or in, Russia and the CIS through its foreign banking subsidiaries and representative offices. The Group is the second largest banking group in Russia by assets, total loans and total deposits. *Global Finance* magazine recognised VTB in 2006 as the best commercial bank in Russia. As of December 31, 2006, the Group had \$52,403 million in total assets and \$6,992 million in total equity (including minorities) and generated \$1,179 million of net profit (including minorities) for the year ended December 31, 2006.

VTB was established in 1990 as the Bank for Foreign Trade of the Russian Federation. Since that time, VTB has, through organic expansion and selected acquisitions, transformed itself into a universal banking group with a strong presence in Russia and an expanding presence in the CIS and elsewhere. Despite this expansion, the Group's Russian banking business continues to represent a significant majority of its activities. VTB has four subsidiary banks in Russia, one subsidiary bank in each of Armenia and Georgia, two subsidiary banks in Ukraine, six subsidiary banks in Western Europe (in the United Kingdom, France, Austria, Germany, Cyprus and Switzerland) and one subsidiary bank in Angola. VTB also has an associated bank in each of Luxembourg and Vietnam, as well as representative offices in China, India, Belarus and Italy and a branch of VTB Europe in Singapore. The Group recently rebranded the majority of its subsidiaries so that "VTB" now forms part of their names. As of December 31, 2006, the Group operated its banking business in Russia through 524 branches (including sub-branches and outlets).

Prior to the Global Offering, the Russian Federation, acting through the Federal Property Agency, owns 99.9% of VTB's ordinary shares, and is, and will continue after the Global Offering to be, the controlling shareholder of the Group.

The Group has three principal areas of business:

- *Corporate banking*, which provides a broad range of commercial banking services and products, including corporate lending, foreign trade transactions, syndicated loans, deposit and settlement services, as well as custody services, to large- and medium-sized corporations and financial institutions;
- *Retail banking*, which provides financial services, including deposit accounts, lending and certain ancillary services, to individuals and small-sized corporations; and
- *Investment banking*, which provides debt capital markets underwriting, project financing and advisory services, merger and acquisition financing and advisory services, portfolio management services and also manages the Group's proprietary trading activities.

History

VTB was incorporated in Russia as the Bank for Foreign Trade of the Russian Federation on October 17, 1990, and received a general banking license from the CBR in January 1991. In addition, VTB holds licenses required for engaging in securities-related activities, including trading, acting as broker, dealer and custodian, and providing asset management and special depository services. In 1994, VTB began several restructurings of its corporate legal structure and ultimately became an open joint stock company in 1998.

During the Russian financial crisis in 1998, the Group, unlike many other banking institutions, did not suspend operations, and continued to execute payments and settlements in accordance with its clients' instructions. The Group settled all of its obligations on outstanding forward contracts and fully repaid all of its other obligations as they became due. Following the 1998 financial crisis and through 2001, the CBR provided the Group with additional capital contributions in the aggregate amount of \$1,555 million and liquidity in the form of loans, peaking at \$1,286 million at the end of 2001. The loans were fully repaid by the end of 2003.

VTB's principal founding shareholder was the State Bank of the Russian Soviet Federative Socialist Republic (now the CBR). In October 2002, in line with the Government's strategy to further develop the Russian banking sector, the CBR transferred its 99.9% interest in VTB to the predecessor of the Federal Property Agency, the current controlling shareholder of VTB. At the same time, VTB's shareholder brought in a new management team, including VTB's current Chairman and Chief Executive Officer, Andrei L. Kostin, as part of a new strategy to develop VTB as a universal banking group.

The Group has undertaken a number of strategic acquisitions to expand its business and geographical presence, which, together with organic expansion, include:

- In April 2004, VTB acquired 70% of Armsberbank (now VTB Armenia).
- In July 2004, the Group acquired Guta Bank (now VTB24), pursuant to the State-led initiative to sell Guta Bank following its liquidity crisis and the CBR's strategic plan to restructure the Russian banking sector. In 2005, Guta Bank was recapitalised and reorganised, and, in 2006, its name was changed to VTB24. See “—Principal Business Activities—Retail Banking.”
- In January 2005, VTB acquired a 50% plus 1 share of UGB in Georgia (now VTB Georgia).
- In January 2005, VTB established Vneshtorgbank (Ukraine), which is now a wholly-owned subsidiary.
- In March 2005, the Group made the strategic decision to acquire an initial 25% plus one share interest in ICB, a major corporate and retail bank in North-Western Russia centered around the St. Petersburg area. In December 2005, the Group acquired an additional 50% plus two shares interest in ICB, thus increasing its interest in ICB to 75% plus three shares. On September 22, 2006, the extraordinary general meeting of shareholders of ICB approved plans for a merger with VTB. The merger, however, remains subject to the approval of VTB's shareholders and is expected to be completed by the end of 2007.
- In December 2005, the Group's controlling shareholder increased the Group's share capital by approximately \$1.3 billion and initiated the Group's acquisition of the CBR's interests in MNB (now VTB Europe), BCEN-Eurobank (now VTB France), Donau-Bank (now VTB Austria), OWH (now VTB Germany) and EWUB, which were completed in December 2005. See “Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations and Capital Structure—Historical Acquisitions.”
- In March 2006, VTB acquired 98.5% of JSCB Mriya (now VTB Ukraine).
- In October 2006, VTB established a financial services and consulting company, VTB Capital (Namibia) (Pty) Ltd, in which it holds a 50.03% stake, with Capricorn Investments Holdings Ltd, a Namibian company, holding the remaining interest.
- In November 2006, VTB established in Vietnam, together with a Vietnamese state-owned bank, Vietnam-Russia Joint Venture Bank, in which VTB holds a 49% stake.
- In March 2007, VTB established Banco VTB Africa SA in Angola, in which VTB holds a 66% interest, with Capricorn Investments Holdings Ltd holding the remaining interest.
- In March 2007, VTB entered into an agreement to purchase a 50% plus one share stake in CJSC “Slavneftebank” in Belarus.

Competitive Strengths

The Group believes that its business is characterised by the following competitive strengths:

Significant scale and strong market position

The Group is the second largest banking group in Russia, by assets, total loans and total deposits. The Group believes that it has significant scale and leading market positions that it can leverage for further growth. The Group is unique in terms of its long history in Russian banking and believes that it has been able to establish a leading banking franchise and strong banking culture since it was formed in 1990.

Demonstrated ability to achieve superior growth with strong returns

The Group's assets have almost tripled since December 31, 2004, from \$17,810 million to \$52,403 million as of December 31, 2006, representing compound annual growth of 72% per annum, which is faster than the overall Russian banking sector and that of the other leading Russian banks. The Group has achieved this high level of growth through organic expansion and selected acquisitions in Russia, the CIS and Western Europe. This growth has significantly increased the breadth of the Group's operations, both geographically and in terms of its product range. Furthermore, the Group has achieved its superior growth while demonstrating strong and improving returns, as reflected by its return on average equity ("ROAE") of 19.7% for the year ended December 31, 2006, compared to 8.2% for the year ended December 31, 2004.

Extensive distribution network, with broad coverage throughout Russia

The Group's nationwide branch network is the third largest in Russia and is significantly larger than the networks of most of its competitors, which represents a significant advantage versus smaller Russian and foreign banks. As of December 31, 2006, the Group had 524 branches throughout Russia, a presence in 67 of the 86 Russian regions, and covered approximately 90% of the Russian population. The Group believes that its significant regional presence allows it to establish relationships with regional customers more effectively than most of its Moscow or St. Petersburg-focused competitors. The Group also believes it is uniquely positioned internationally relative to its Russian peers. The Group has significant banking operations in the CIS (Ukraine, Georgia and Armenia) that serve both Russian and domestic corporate and retail customers as well as foreign customers doing business in these countries. It also has subsidiaries, associates, branches and representative offices in certain countries in Western Europe, Asia and Africa, primarily to support the international expansion of its Russian and CIS clients and to serve international clients in these countries doing business in or with Russia and the CIS.

Broad corporate client base and well established relationships with leading Russian companies across all economic sectors

According to the CBR, the Group currently ranks second in the Russian corporate banking market, with a corporate lending market share of 9.0% and a corporate deposit market share of 8.7% as of December 31, 2006. The Group has strong working relationships with leading Russian companies across all sectors of the Russian economy and a more diversified customer base than a number of its competitors that belong to financial industrial groups. In addition, the Group was the second-largest underwriter of domestic corporate bonds in Russia in 2006 and the largest in 2005 (according to Cbonds, a Russian market information agency). As of December 31, 2006, the Group had approximately 27,700 large and medium-sized corporate clients in Russia, and it currently provides banking services to what it believes represents more than 60% of large-sized Russian corporate entities.

A leading provider of retail banking services in Russia

The Group is a leading provider of retail banking services in the Russian market, with approximately 4.6 million individual accounts and 154,000 small business clients as of December 31, 2006, with a particular focus on the higher-margin upper-mass and affluent market segment. In addition, the Group had an aggregate of approximately 412,000 retail clients and 16,000 small business clients in Ukraine, Georgia and Armenia as of December 31, 2006. The Group has significantly strengthened its retail banking presence and customer base since the acquisition of Guta Bank in July 2004 and its rebranding of Guta Bank to VTB24 in 2006. In addition, VTB's acquisition of a majority stake in ICB in December 2005 expanded the Group's presence in the retail market in St. Petersburg and the North-Western region of Russia. As a result, the Group believes that it is strongly positioned to compete in the Russian retail banking market, where the Group currently ranks fourth in terms of retail lending, second in terms of retail mortgage lending and retail deposits, and second in terms of the size of its retail distribution network, each as of December 31, 2006.

Management team with extensive experience in the financial services sector

The Group's senior management team has extensive experience in the financial services sector, with an average of more than 12 years of relevant experience. VTB's Chairman of the Management Board and CEO, Andrei L. Kostin, has over 13 years of banking experience. VTB24's CEO, Mikhail

Zadornov, is the former Russian Minister of Finance and has 17 years of experience in the finance sector. The Group believes that the experience of its senior management team will be a key strength as it seeks to continue to improve its operating performance.

Recognised and trusted brand

VTB is a well-recognised and trusted brand, which is a result of its 16-year operating history in the Russian banking market and the support of the Russian government as its majority shareholder. The strength of the VTB brand has been further enhanced through the re-branding of itself and other members of the Group, including the Group's CIS and European operations, under the VTB brand in late 2006, the launch of the VTB24 brand for retail banking in August 2005. The VTB brand was recognised in 2006 as a "Super-brand" of the Russian banking sector by Superbrands International. In April 2007, VTB also received a "Master of Brandbuilding 2007" award.

Strategy

The Group's overall strategic goal is to strengthen its market position as a leading provider of banking services to Russian corporate and retail customers, and leverage its capacity as the only Russian banking group able to provide banking services to Russian and CIS clients in Europe, Asia and Africa. To achieve this strategic goal and maximise shareholder value, the Group seeks to:

Consolidate its position as a leader in the Russian corporate banking sector

The Group aims to consolidate its position as a leader in the Russian corporate banking sector by growing faster than the overall Russian banking market through 2010 and, accordingly, achieve substantial market share increases in corporate lending and corporate deposits. The Group intends to achieve this by (i) cross-selling of additional products and services to existing customers, (ii) focusing on the growing needs of medium-sized corporate customers, (iii) continuing to improve its customer service capabilities and streamlining its decision-making processes and procedures, and (iv) developing and promoting new products.

Develop selected investment banking products and services

The Group plans to be a leader in selected investment banking products and services by leveraging its existing corporate customer relationships. The Group intends to achieve this by (i) working with its corporate customers to design customised and new investment banking products and services and (ii) improving coordination between the Group's corporate and investment banking businesses to cross-sell products and services that appeal to the Group's customers. The Group believes that it can increase its fee income by shifting its focus from the role of a principal creditor to the role of arranger and adviser. The Group plans to use VTB Europe as the platform for consolidating certain investment banking operations.

Aggressively grow the Group's market share in the attractive Russian retail banking sector

The Group is seeking to become the second-largest Russian retail bank by loans and deposits and the provider of a range of banking services to small businesses and individuals, in particular, in the higher-margin upper-mass and affluent retail segments. The key strategic priorities for the Group's retail banking business include the expansion of the dedicated retail network of VTB24 to more than 500 branches by the end of 2008 from 163 branches at the end of 2006. The Group plans to do this by migrating branches from ICB to VTB24 and, ultimately, opening new branches in all Russian cities with populations of more than 150,000 people. Additional priorities include continued product innovation, improved sales efficiency and customer service, developing the Group's other distribution channels (such as its ATM network, telephone and Internet banking services), as well as the continued streamlining of business processes and improved credit procedures. By doing so, the Group expects to substantially increase its retail lending and retail deposit market shares in Russia.

Expand the Group's international presence

The Group intends to further expand its international presence to support the needs of its Russian and CIS corporate clients and their counterparties in strategic countries which are involved in active trade and economic cooperation with Russia. The Group believes that the CIS banking market represents a significant opportunity, and the Group has identified the CIS as a priority of the Group's

international expansion plan. The Group is currently focusing on the key CIS markets of Ukraine, Georgia and Armenia, where the Group currently has significant banking operations, as well as Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan and Uzbekistan. The Group aims to become a leader in each CIS country where it already has or plans to have a presence. It will seek to achieve this goal through organic growth and/or selected acquisitions in each market, in order to establish leading corporate and, in certain markets, retail banking operations. In addition, the Group has a presence in the UK, France, Germany, Austria, Cyprus and Switzerland, and has begun to consolidate some of the subsidiaries in these countries under VTB Europe. Furthermore, the Group is expanding into selected countries in Asia and Africa, in which inward investment by Russian corporate clients is expected.

Continue to integrate and enhance operating efficiencies within the Group

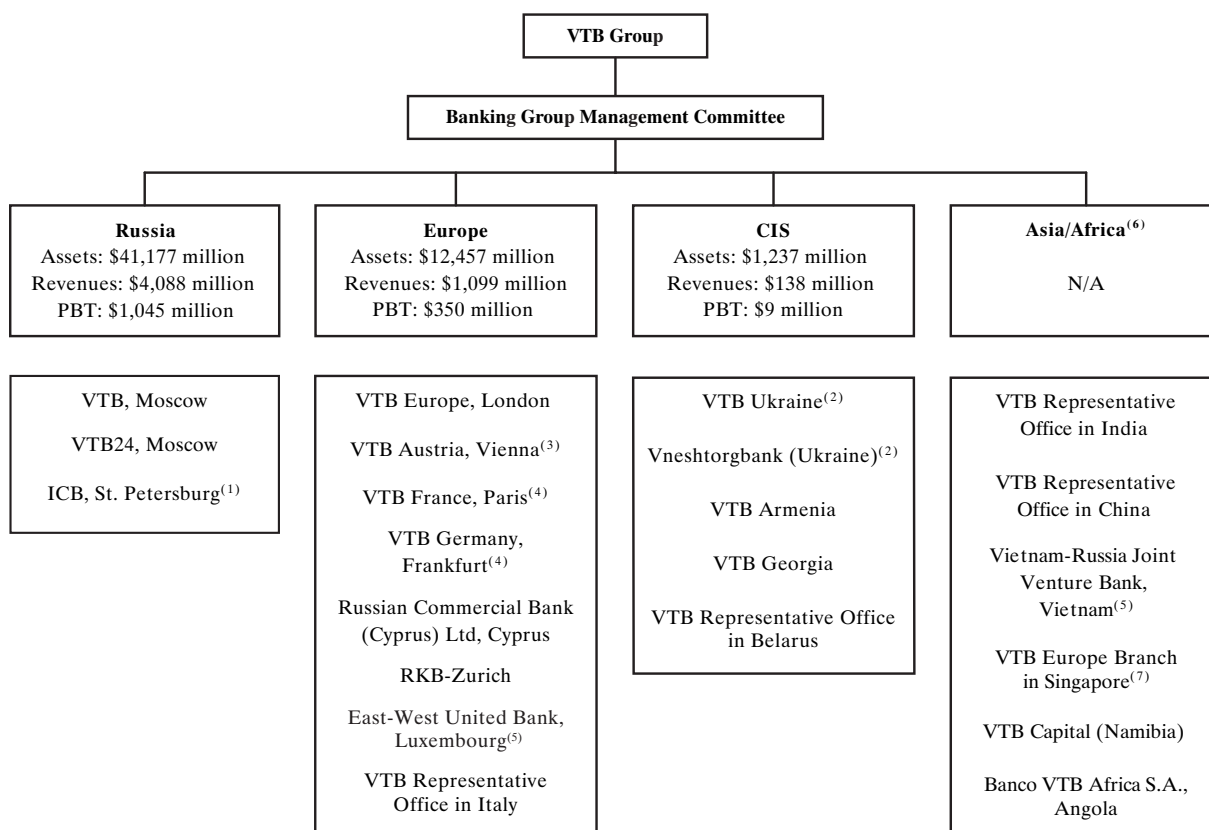
The Group will continue to integrate and streamline its organisational structure and business practices to maximise operational efficiency across business lines and geographies. This will include VTB's merger with ICB and the continued cross-migration of corporate and retail banking business between VTB and VTB24, respectively, in Russia. In addition, the Group is in the process of consolidating its European banking operations under VTB Europe and merging its two banks in Ukraine. The Group intends to further improve efficiency across all of its operations in the medium-term by improving control and coordination. These will be effected by the Group through the implementation of uniform standards, methods and approaches (such as uniform risk management policies, business planning, internal control systems, personnel management and brand management) through functional area coordination committees operating under the auspices of the Banking Group Management Committee. See "Management and Corporate Governance—Banking Group Management Committee."

Centralise and upgrade the Group's IT systems and infrastructure to support its growing business operations

The Group plans to rationalise and strengthen its IT systems to meet the needs of its growing business. This will include (i) the creation of a central databank to store and consolidate analytical information, including customer data and financial information for its subsidiary banks; (ii) the co-location and consolidation of the IT infrastructure and technical support function in Russia to increase efficiency and create an integrated IT system and a single corporate reporting framework for the Group's Russian banks; and (iii) the establishment of an integrated group-wide customer relationship management system to enable centralisation of information related to VTB's customers. In addition, the Group aims to implement a single centralised Automated Banking System ("ABS") at VTB to support its core business functions and accounting operations and a single centralised ABS at VTB24 to enable VTB24 to replace its legacy system and to facilitate the anticipated rapid growth of the Group's retail business.

Organisation and Management of the Group

The following chart sets out the simplified organisational structure of VTB and its principal subsidiaries and associates and related financial data as of and for the year ended December 31, 2006.



All figures are as of December 31, 2006 and before inter-segment eliminations.

- (1) Following the merger with VTB, which is expected to be completed by the end of 2007, ICB will cease to exist as a separate entity.
- (2) Ukrainian banks are in the process of being merged together, which is expected to be completed by the end of 2008.
- (3) Expected to be transferred to VTB Europe and converted into a branch by 2010.
- (4) Subsidiaries of VTB Europe following the transfer from VTB in December 2006. Will ultimately be converted into VTB Europe branches in 2007.
- (5) Associated bank of which VTB owns 49%.
- (6) Asia/Africa was not a separate geographic segment in 2006.
- (7) Consolidated under VTB Europe.

The Group primarily operates through VTB, subsidiary banks, associates, branches and representative offices located in Russia, the CIS, Europe, Africa and Asia. Each subsidiary bank functions on a largely autonomous basis, subject to applicable banking and other regulations in the jurisdiction in which it operates, and is overseen by VTB, as described below. VTB is the largest bank in the Group and the center of the Group's corporate and investment banking activity in Russia. VTB's operations are overseen by the Supervisory Council, the Management Board and a number of committees as more fully described under "Risk Management" and "Management and Corporate Governance." Each subsidiary bank has its own corporate board and committees, which are formed in accordance with local law.

VTB maintains control over the decision-making process of the Group's subsidiary banks through its majority representation on their respective corporate supervisory boards. The Group has begun implementing a matrix management model to manage the subsidiary banks in a more uniform manner across the Group's geographies and functional areas. To date, the Group has integrated the model into its strategy, financial planning, corporate governance and supervision of the Group's corporate banking business. Furthermore, within the framework of the model, the Group established the Banking Group Management Committee, which serves as a coordination body for the Group. See "Management and Corporate Governance—Banking Group Management Committee." The Group intends to extend the

model into other key areas, including supervision of the Group's investment banking operations and retail business. Oversight of the Group's retail banking business will be centralised at VTB24, the Group's specialised retail bank, although VTB will retain ultimate control through its majority representation on VTB24's Management Board.

Principal Business Activities

Russian Banking Operations

The Group's Russian banking operations represent a significant majority of the Group's activities and primarily comprise VTB's corporate banking business, as well as the Group's growing retail and investment banking businesses. Below is a description of the Group's Russian banking operations.

Corporate Banking

The corporate banking business provides a broad range of commercial banking services and products to corporations, financial institutions and government agencies. The majority of the Group's corporate clients operate in the largest sectors of the Russian economy, such as manufacturing, retail and wholesale trade, construction, transport, oil and gas production, energy, defense, telecommunications and food production. During 2006, the Group's corporate loan and deposit portfolio increased by 40.7% and 66.9% and amounted to \$27,702 million and \$12,662 million, respectively, as of December 31, 2006. The Group has almost tripled the number of its large- and medium-sized corporate clients in Russia since 2004. As of December 31, 2006, the Group had approximately 27,700 large- and medium-sized corporate clients in Russia.

Since 2003, the Group has implemented a number of measures aimed at strengthening its position in the banking services market for corporate clients, including the segmentation of its client base into large, medium-sized and small clients. Customers in each segment have different priorities and therefore require different approaches to ensure that the appropriate services are rendered. The segmentation of the Group's customer base and the tailoring of products and procedures has resulted in a significant increase in the Group's market share in terms of both the number of customers and the volume of operations. In order to further enhance the quality of its service to higher-margin medium-sized customers and to increase its market share, VTB has created a separate reporting unit for its medium-sized customer business. The Group is in the process of transferring its services to small businesses, which are considered part of the Group's retail banking business, to VTB24.

Large clients are defined as companies that have annual revenues exceeding \$100 million or with revenues that comprise at least 1% of the aggregate revenue for the industry in which they operate. In accordance with VTB's policies, this classification is re-evaluated at least once a year, based on Rosstat data, as well as data from Government ministries and other national public authorities. As of December 31, 2006, the Group had more than 2,000 large clients in Russia, many of which are part of larger affiliated groups. VTB believes that it services more than 60% of large Russian corporate clients. As a result of a recent re-evaluation exercise, going forward, large clients will be defined as those companies that have annual revenue exceeding RUR 2 billion.

VTB has established client relationships with large Russian companies in all industries important to the Russian economy. Its clients include State-owned monopolies, and other large enterprises operating in various sectors of the Russian economy, such as oil and gas companies, manufacturing, utilities, retail and wholesale trade, construction and transport. Services provided to large clients are industry-specific and customised. In order to better address the specific needs of its large clients, the Group has created industry divisions at its Head Office and launched industry-based business development programs.

VTB manages its relationships with large corporate clients on an individualised basis through dedicated client managers working at the Head Office. The client manager for each large client serves as that client's main point of contact and helps to develop and market customised services and product offerings that cater to the client's needs. As of December 31, 2006, VTB had 179 client managers, who were supported by 190 regional client managers. To strengthen its long-term relationships with certain major clients, VTB also enters into non-binding strategic framework agreements with certain of these clients, which offer tailored banking solutions for the client based on its business plan. As of December 31, 2006, VTB had strategic framework agreements with 130 major clients (including agreements with regional and city administrations).

Medium-sized clients were defined by the Group in 2006 as companies with annual revenue of between \$3 million and \$100 million that are not captured by the Group's definition of a large client. The Group believes it is well-positioned to expand the volume of the banking services it provides to medium-sized clients and that the business and earnings potential in this client segment is significant as the Russian economy continues to develop. As of December 31, 2006, the Group has approximately 25,700 medium-sized clients in Russia. As part of the recent re-evaluation exercise noted above, the medium client revenue range has been increased from RUR90 million to RUR2 billion. See “—Strategy.” VTB introduced a dedicated service model for medium-sized clients at the end of 2005, which focuses on providing standard product packages at VTB's branches in Moscow and the Russian regions. VTB has also developed simplified credit approval procedures for medium-sized clients. See “Risk Management—Risk Management and Internal Control System—Credit Risk Management—Credit Policies and Procedures for Legal Entities—Credit Approval Process.”

Corporate Banking Services

The Group's corporate banking services include lending and foreign trade transactions, syndicated loans, deposit and settlement services and custody services.

Lending. The Group offers a number of credit products, including loans and guarantees to corporate clients. Loans are available in rubles, US dollars and in other major foreign currencies, such as the euro and yen. Loans to corporate clients generally have some form of collateral, including securities, real estate, guarantees or other assurance arrangements. The Group is continuing to develop its portfolio of medium-term (one to three years) and long-term (over three years) corporate loans. The commercial terms of the loans differ, depending on the clients' rating and financial condition, collateral, maturity and other factors. See “Risk Management—Risk Management and Internal Control System—Credit Risk Management—Credit Policies and Procedures.”

The Group's credit products for corporate clients also include loan guarantees, performance guarantees, advance guarantees, payment guarantees, customs guarantees and bid bonds. Loan guarantees secure repayment of a loan; performance guarantees secure obligations to deliver goods or provide services under export contracts; advance guarantees secure refunds of advance payments received under export contracts; payment guarantees secure payment obligations under import contracts; customs guarantees secure payments of customs duties and bid bonds secure obligations incurred through participation in tenders. All guarantees are subject to the same credit procedures as loans.

The Group is continuing to develop, and has begun to offer, more complex credit products, such as financial leasing and refinancing of investment portfolios for specialised financial entities such as property investment funds.

Trade and Export Finance. VTB began as a bank primarily focused on foreign trade activities. The Group continues to provide payment and settlement services for corporate clients in connection with import and export operations, by issuing letters of credit and providing financing and related services. The Group also provides pre-export financing (financing used by a borrower to produce goods for export) and post-import finance (deferred payment letters of credit) for corporate clients, and VTB acts as a currency control agent in accordance with Russian currency laws.

In addition, the Group, through VTB, provides structured import financing using funds from foreign banks and export credit agencies (“ECAs”). VTB was the first Russian bank to form relationships with foreign ECAs after the 1998 Russian banking crisis and, as of December 31, 2006, had 76 agreements with foreign banks covered by various ECAs.

Deposit and Settlement Services. VTB's bank accounts for corporate clients include current or settlement deposit accounts and term deposit accounts, in rubles or certain foreign currencies, which are predominantly in US dollars and euros. VTB provides payment and settlement services on behalf of its clients through its branches and its correspondent banking network consisting of more than 1,800 banks in Russia and abroad. In addition to placing funds on deposit with VTB, corporate clients may invest in VTB's promissory notes and certificates of deposit. The Group also provides payment services to foreign subsidiaries of Russian clients through its foreign subsidiary banks.

In addition, the Group buys, sells, exchanges and collects foreign currencies for corporate clients and provides advisory services relating to foreign currency operations. As one of the leading universal

banks in Russia, VTB provides efficient multi-currency settlements through an extensive network of correspondent banks, subsidiaries and branches. VTB maintains correspondent accounts in different currencies for more than 360 Russian banks and 126 foreign banks in 41 countries.

Syndicated Loans. The Group is also a leading arranger and lender of syndicated loans to corporations and financial institutions, in Russia as well as in other CIS countries. In 2006, the Group participated in a total of \$3 billion of syndications. As part of the Group's ongoing integration process, VTB Europe will become the central coordinator for the majority of the Group's syndicated loan activities. The Group believes that the arrangement of syndicated loans can become a significant source of fee-based income in the future.

Custody Services. The Group is one of the largest bank custodians in Russia, and is fully licensed to provide a full range of custody services with respect to both Russian and foreign corporate and governmental securities. VTB currently acts as a primary depository for domestic government currency bonds. In addition, it provides specialised depository services to non-governmental pension and mutual funds and acts as an agent as well as provides registrar services to Russian mutual funds. VTB is recognised as an eligible foreign custodian by global custodians and institutional investors. As of December 31, 2006, VTB had 3,540 depository clients (including legal entities and individuals) and \$19.6 billion of assets under custody.

Investment Banking

Current investment banking services include, among others, the arrangement and underwriting of securities offerings, project financing and advisory services, and merger and acquisition financing and advisory services, as well as trading in its proprietary securities portfolio. The Group intends to cross-sell these products to grow fee income. In addition, a number of investment banking products are offered by VTB's Western European subsidiaries, particularly VTB Europe, to large corporate clients. ICB also offers certain investment banking services, such as underwriting of Russian corporate bonds and portfolio management services. The Group has also recently begun to offer asset management, brokerage and asset securitisation services, and intends to begin offering structured products in the near to medium term. The Group is in the process of centralising the management of its investment banking operations under VTB Europe, and may develop or acquire a stand-alone investment banking operation in Russia in the future.

Securities Portfolio

The Group's proprietary securities portfolio has been a significant focus of the Group's overall business. The Group shifted the focus of its business operations from proprietary activities to more client-orientated commercial banking activities, but plans to continue to engage in proprietary activities, which contribute to the Group's non-interest income. VTB is one of the major traders in the over-the-counter markets for Russian government and corporate debt securities and on MICEX, and is one of the leading market-makers in the Russian fixed income market. Historically, the Group has conducted significant trading and investment activities in Russian government securities, including MinFin bonds, federal loan bonds and Russian Federation Eurobonds. The Group is also a significant participant in repo and reverse repo securities transactions with the largest Russian banks and with foreign banks. In the third quarter of 2006, the Group purchased an approximately 5% interest in the share capital of the EADS as part of its securities portfolio, and the Group may consider making similar proprietary trading investments in the future. As with all securities investments, the Group may dispose of its position as it deems appropriate. See "Risk Management—Market Risk Management" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Securities Portfolio." As of December 31, 2006, the Group's portfolio of financial assets (which consists primarily of debt instruments) was \$8,957 million, constituting 17.1% of the Group's total assets.

Debt Capital Markets

The Group provides arrangement and underwriting services for debt securities offerings of Russian companies, primarily on the domestic market. In 2006, the Group arranged 32 domestic corporate and municipal bond offerings with a total principal amount of approximately RUR 82 billion. According to Cbonds, VTB was the largest and second-largest underwriter of domestic corporate bonds in Russia in

the first quarter of 2007 and in fiscal 2006, respectively, in terms of the volume of bonds underwritten and issues arranged, and was the largest underwriter in 2005.

Project Finance

The Group provides debt and equity financing, as well as financial advisory services for business development projects. Depending on the scale of the project and VTB's assessment of its potential, VTB may provide debt financing on a recourse or a non-recourse basis and, in certain circumstances, may take an equity interest in a project as part of its project financing business. VTB is one of the few Russian banks to provide long-term project financing for regional projects. Currently, VTB offers these services primarily to companies with annual sales volumes of at least \$30 million that want to spin-off non-core operations or develop separate business lines, and to small businesses and groups of individuals that have skills and experience in particular industries and want to develop new businesses with significant earnings potential. In 2006, VTB provided approximately \$650 million of investment financing for projects involving Russian enterprises across a variety of industrial sectors.

Precious Metals Operations

VTB trades precious metals (primarily gold) with legal entities, in physical and book-entry form, and exports and sells gold on its own behalf and on behalf of banks and gold producers. In addition, the purchase of precious metals allows the Group to provide short-term (up to a year) and medium-term (up to three years) financing and hedging products to gold producers. In 2006, VTB purchased approximately 15 metric tons of gold directly from producers, of which it exported 8.5 metric tons and resold the remainder in Russia, and provided approximately \$175 million in financing to gold producers. VTB's domestic clients in this area include 35 gold producers, the CBR and commercial banks, and its international clients include major international banks.

Merger and Acquisition Financing and Advisory Services

VTB provides merger and acquisition financing and advisory services to large clients, with a particular focus on those operating in rapidly developing or consolidating industry sectors, such as metals and mining and financial industrial groups. In 2006, VTB participated in the financing of mergers and acquisitions with a total transaction amount of approximately \$800 million.

Asset Management

In September 2006, VTB acquired a minority interest in CJSC "Prospect—Montes Auri" (now VTB Asset Management), which is one of the first asset management companies established in the Russian market. While its current client portfolio is modest, the goal of VTB Asset Management is to provide a full range of asset management services to both individuals and institutional investors, including venture funds, private equity funds and mutual funds, utilizing VTB's large and growing distribution network in Russia.

Other

VTB also offers brokerage services on all major Russian securities exchanges and the over-the-counter markets, and investment advisory and market making services relating to government, municipal and corporate securities (primarily Russian debt securities). VTB's treasury also engages in foreign exchange transactions on behalf of the Group's customers. VTB has also started to produce research in respect of the Russian fixed income and equity markets.

Retail Banking

The Group's retail banking business in Russia currently focuses on deposits, lending and certain ancillary services. Currently, these services are primarily provided by VTB24, the Group's specialised retail banking subsidiary, as well as by VTB and ICB. However, as part of the Group's strategy to restructure and expand its Russian retail operations, these activities will ultimately be combined within VTB24. According to the CBR, the Group ranks second in total retail deposits and fourth in total lending, as well as second in mortgages according to Ratings RBC.

The Group significantly strengthened its retail banking presence and customer base following the acquisition of Guta Bank in 2004, which provided VTB with a wide branch network throughout Russia,

a developed retail infrastructure (including front office systems and Internet banking), as well as a significant client base. Guta Bank was subsequently re-branded to VTB24, which currently serves as the Group's specialised retail banking subsidiary. As of December 31, 2006, the Group had approximately 4.6 million individual accounts in Russia.

In August 2005, VTB began transferring its retail and small business operations, along with the related assets and liabilities, to VTB24. As of December 31, 2006, VTB had transferred its entire mortgage and personal loan portfolios of approximately \$164.7 million and \$64.2 million, respectively, to VTB24 in the regions where both VTB and VTB24 operate. In regions where VTB24 does not currently operate, loans will be transferred from VTB to VTB24 once the latter establishes a presence in those regions. VTB has also begun to transfer its credit and debit card operations to VTB24 and, as the accounts of individuals are transferred to VTB24, VTB debit cards linked to such accounts will be replaced by VTB24 debit cards. VTB24 is in the process of transferring its corporate banking operations (except small business services and a portion of its legacy short-term corporate loan book, which will remain at VTB24 until it matures in order to support VTB24's asset base as its retail banking operations continue to grow) and the related assets and liabilities to VTB. While the transfer is taking place, both VTB and VTB24 will offer retail and small business banking services, but new products and services for retail and small businesses will be developed by VTB24 and offered only by VTB in areas in which VTB24 has not yet established a presence. The Group's Russian retail and small business clients will be encouraged to transfer their business to VTB24. VTB24 ceased to issue corporate loans as of December 31, 2006. The Group expects that the restructuring will be substantially completed by the end of 2007. At the same time, VTB has begun assimilating ICB's retail operations into VTB24, interfacing the banks' ATMs and standardising the terms of offered mortgages. Full integration will be completed after ICB finalises its planned merger with VTB.

VTB24's goal is to become a leading retail bank in Russia, with an emphasis on increasing its market share in products offered to high-growth and significantly profitable market segments. In particular, VTB24 will focus on the upper mass and affluent market segments and small businesses. VTB24 is expanding its branch network by opening new branches and integrating the retail branches of VTB, and, after the merger of ICB into VTB, intends to transfer the retail branches of ICB to VTB24. VTB24 intends to grow its branch network to more than 500 branches by 2008 from 163 branches in 2006 by opening new branches and migrating branches from ICB to VTB24. Ultimately, the Group aims to operate branches in all Russian cities with populations of more than 150,000 people.

Retail Products and Services

The Group's retail business services include, among others, deposit and lending services to individuals and small businesses.

Deposit Accounts

The Group continues to develop its deposit account services to offer consumers a competitive array of products. As of December 31, 2006, the Group had \$7,326 million of deposits from individuals, of which \$1,777 million were current/settlement deposits and \$5,549 million were term deposits. VTB's and VTB24's retail deposit accounts include demand and term accounts denominated in rubles, US dollars and euros.

At present, VTB24 has a number of deposit account products, which can be divided as follows:

- *Current/settlement deposits.* Individuals can freely withdraw or add money to the account during the life of the account. Individuals receive nominal interest on the deposits each month;
- *Fixed term deposits.* Individuals cannot withdraw (without a change in the applicable interest rate) or add money to the account during the life of the deposit. Fixed term deposits are offered for a minimum term of one month up to a maximum term of three years. Individuals receive interest on the deposits at the end of the deposit term;
- *Open-add term deposits.* Individuals cannot partially withdraw money (without a change in the applicable interest rate), but can add money to the account during the life of the deposit. Open-add term deposits are offered for a minimum term of one month and up to a maximum of two years. Depositors can choose whether to capitalise the interest or receive an interest payment from VTB24 each month; and

- *Flex term deposits.* This product gives depositors the flexibility to add and withdraw from the account up to a given amount during the life of the deposit. Flex term deposits are offered for a term of a minimum of one month up to a maximum of two years. Depositors can choose whether to capitalise the interest or receive an interest payment from VTB24 each month.

VTB24 also offers credit card and deposit products directed at assisting corporate clients with payment processing services, payroll and cash handling services to their employees. These employee-focused services create substantial opportunities for synergies between VTB24's retail services and VTB's services to corporate clients. For example, VTB24's corporate payroll services allow employees' salaries to be paid into individual deposit accounts, which can be linked to additional retail services such as debit and credit cards, overdrafts and salary advances.

VTB and VTB24 were accepted into the retail deposit insurance scheme established by the Deposit Insurance Law in 2005. The scheme protects all deposits up to RUR 400,000.

Lending

As of December 31, 2006, the Group had outstanding loans to individuals amounting to \$2,533 million. The Group's loans offered by VTB, VTB24 and ICB to small businesses and individuals totaled, under RAS, by product the following:

- *Small Business loans* of \$840 million;
- *Personal loans* of approximately \$1 billion (secured and unsecured);
- *Mortgages* of \$850 million;
- *Auto loans* of \$320 million; and
- Approximately 3.2 million cards issued, of which approximately 145,000 were credit cards.

Small Business Loans. In line with the Group's strategy to expand services to small businesses in Russia, VTB24 operates a Small Business Lending Department and presently offers small business services in all branches. This department focuses on providing lending, including short-term working capital loans, tailored to the needs of small businesses, foreign trade and other banking services to small businesses with high earnings potential. VTB has also developed simplified credit approval procedures for small businesses, which are defined as companies with annual revenues of less than \$3 million (which, in connection with the re-evaluation described above, will be revised to approximately RUR 90 million in 2007). As of December 31, 2006, VTB had transferred its entire small business loan portfolio to VTB24 in the regions where both VTB and VTB24 operate. As of December 31, 2006, the Group had approximately 154,000 small business clients in Russia.

Small business loans are issued in Russian rubles, U.S. dollars and euros in amounts up to \$5 million, or its equivalent, with a minimum term of one month and a maximum term of up to five years. Under its small business lending program, VTB24 provides micro-loans in amounts of up to \$30,000 with a term of up to two years and business development loans with amounts determined on a case-by-case basis for a term of up to five years. VTB24 also provides other loans such as overdrafts and credit lines, which are more tailored to the needs of particular borrowers. VTB24's small business products and services also include account payment and settlement services and guarantees.

Personal Loans. VTB24 offers secured personal loans of up to \$100,000, EUR 100,000 or RUR 3,000,000 and unsecured loans of up to \$25,000, EUR 25,000 or RUR 750,000, for terms from six months up to five years. The average size of VTB24's outstanding personal loans was \$6,500. As of December 31, 2006, approximately 46% of VTB24's outstanding personal loans originated in the Moscow region, and approximately 85% of its outstanding personal loans were unsecured. ICB also offers personal loans as part of its retail services.

Mortgages. VTB24 divides its mortgage loan portfolio into the following key areas: existing home purchase loans; home construction loans; home equity loans; and refinancing loans. All VTB24 mortgage loans have a fixed interest rate, although VTB24 plans to offer floating-rate mortgage loans and home equity credit lines in the future. As of December 31, 2006, VTB24 had approximately 8,900 mortgage loan customers, the majority of which were located in Moscow. VTB24 had a 7.2% market share in Russia in mortgage loans as of December 31, 2006 (according to Ratings RBC). As of December 31, 2006, the average size of VTB24's outstanding mortgages was \$85,200, which VTB

believes exceeds that of its competitors. The Group believes that it is able to differentiate its suite of mortgage products from its competitors by providing higher quality customer service, a faster loan approval process and higher credit limits.

VTB24 has four mortgage and retail lending centers in Moscow and eight in the Russian regions, and plans to open a number of additional centers, both in Moscow and in the regions of Russia, over the next several years. These centers develop and launch new retail mortgage loan products and serve as training centers to facilitate mortgage lending throughout the Group's branch network. VTB24 is also building relationships with real estate developers and real estate agents to create additional distribution channels for mortgage loans in the future.

All mortgage loans must be secured by the purchased residence and are on average extended for 85% of the purchase price. In Moscow and in a limited number of regions, VTB24 offers loans for purchasing existing homes in amounts of up to 100% of the residence purchase price. Mortgage loans used to purchase apartments still under construction require additional collateral or guarantees, which are released once the construction is completed. VTB24's standard loan agreements provide for the right to request additional collateral if the completed apartment is not pledged to VTB24. Borrowers of all mortgage types are also required to obtain life insurance and to insure the property purchased.

ICB currently has a mortgage portfolio with approximately 2,100 mortgage customers, the majority of which are in the Northwest Region. ICB's current mortgage offerings carry terms identical to those offered by VTB24. Upon completion of ICB's merger into VTB, ICB's mortgage loan portfolio will be transferred to VTB24 as part of the overall retail integration strategy into VTB. See "—Industry & Construction Bank."

Auto Loans. VTB24 divides auto loans into the following two categories:

- *Standard auto loans* comprising loans of up to \$50,000 (without any down payment), or its currency equivalent, offered for a term of one to five years; and
- *Express auto loans* comprising loans of up to \$25,000 (and up to \$10,000 without insurance), or its currency equivalent, offered for a term of one to four years. Express auto loans have tighter credit procedures and higher interest rates than standard auto loans, and are typically approved more quickly.

VTB24 offers auto loans in Russian rubles, US dollars and euros. All of VTB24's auto loans are secured by a pledge over the vehicle. VTB24 usually requires standard auto loan borrowers to insure the purchased vehicle. Standard auto loans are available at all VTB24 branches, while express auto loans are currently only available at a limited number of VTB24 branches in Moscow. As of December 31, 2006, the majority of the Group's auto loans originated in Moscow.

ICB also issues auto loans of up to RUR 3,100,000, or, its currency equivalent, originated for a term of six months to five years. ICB's auto loan portfolio will be transferred to VTB24 as part of the retail branch integration. See "—Industry & Construction Bank."

Debit and Credit Cards. VTB24 issues VISA™, MasterCard™ and Diners' Club™ debit and credit cards. VTB24 offers VTB24-branded VISA and MasterCard cards, which currently account for 10% of its total cards in issue. VTB24 offers the same product range as VTB, as well as a number of new products, such as debit cards with overdraft facilities and credit cards with grace periods. Card holders pay annual and transaction-based fees for using the cards. As of December 31, 2006, the Group had issued approximately 3.2 million cards, of which 145,000 were credit cards. After the completion of the merger of VTB and ICB, it is intended that VTB24 will issue debit and credit cards to retail customers currently holding ICB cards. VTB and VTB24 merged their debit and credit card servicing networks in August 2005.

Industry & Construction Bank

ICB offers a full range of corporate, retail and certain investment banking services, which the Group plans to integrate following the completion of the merger of ICB into VTB. As of December 31, 2006, ICB had 157 branches primarily located in the North-West Region of Russia, including St. Petersburg.

In order for the Group to preserve a significant presence in the North-West region, it will establish a regional division (to be known as the "North-West Regional Center"), which will coordinate the

Group's operations in that region, including customer relations, promotion of banking products, and management of the regional branch network around ICB's operations. The Group intends to merge the two banks by the end of 2007 and, subsequently, combine the corporate and investment banking operations in VTB, while transferring the retail operations to VTB24. The merger with ICB was originally scheduled for completion by the end of 2006, but was subsequently delayed until after completion of the Global Offering. Prior to the decision to postpone the merger of ICB into VTB, the buy-out price was established pursuant to independent valuations and approved during 2006 by the Supervisory Councils of ICB and VTB, respectively. In addition, as required, ICB's shareholders approved a merger agreement with VTB that set forth the exchange ratio of ICB shares to VTB shares as 1 to 385, in September 2006, although VTB's shareholders never voted on the matter. Given the lapse of time since the exchange ratio and buy-out price were set, the Group believes that they are no longer accurate indicators of the relative values of VTB and ICB. The Group intends to engage an independent valuer to determine a new buy-out price, and will also establish a new exchange ratio, both of which the Group believes will reflect more accurately the respective values of ICB and VTB prior to the planned merger. All such valuations are subject to approval by the Supervisory Councils and shareholders of both ICB and VTB.

The Group's Russian Distribution Network

As of December 31, 2006, the Group's Russian branch network included 524 branches, 75 of which were located in Moscow and the Moscow region with the rest located in the other 67 Russian regions where the Group operates. The Group currently operates separate branch networks for each of VTB, VTB24 and ICB, and, as of December 31, 2006, VTB24 had 163 branches and ICB had 157 branches. The Prospectus includes statistical information on the Group's branch network. For purposes of compiling and presenting the data in this Prospectus, the definition of a "branch" includes all branches, sub-branches and outlets.

A region typically has one main branch and one or more sub-branches and outlets to supplement the main branch's operations. Outlets offer a more limited range of banking services.

Corporate and retail clients may conduct their banking in person through branches, ATMs or by telephone. In addition, VTB24 was one of the first Russian bank to offer banking services over the Internet. As of December 31, 2006, the Group had 2,693 ATMs in Russia.

The Group plans to ultimately offer banking services in all economically-significant Russian regions and to maintain branches in all Russian cities with populations of more than 150,000 people. Depending on the relative costs, the Group may purchase, construct or lease its branch buildings. The Group has generally been able to recover the capital expenditures for opening a new branch within the branch's first three to five years of operation, depending on size and location.

Competition in the Russian Banking Market

The Group faces competition in substantially all of the areas and locations in which it operates. The Group's principal competitors include:

- *Corporate banking:* Sberbank, Gazprombank, Alfa-Bank and Bank of Moscow, as well as Western banks, each of which serves companies throughout Russia;
- *Retail banking:* Sberbank, Rosbank, Russian Standard Bank, Uralsib, Bank of Moscow and Russian subsidiaries of Western banks that offer retail services, including Raiffeisen Group, HCF Bank and Citibank; and
- *Investment banking:* Russian investment banks and finance companies, including Renaissance Capital, Deutsche UFG and Troika Dialog; Russian commercial banks, including MDM-Bank, Alfa-Bank, Gazprombank and Uralsib; and Russian subsidiaries of Western banks that offer investment banking services, including Morgan Stanley, JP Morgan, Citi, Deutsche Bank, Goldman Sachs and UBS.

Foreign Banking Operations

VTB made its first foreign bank acquisition in 1992, with the acquisition of Donau-Bank (now VTB Austria) in Austria. At present, the Group conducts its operations through subsidiary banks in ten countries, three of which are located in the CIS, six in Europe and one in Africa. In addition,

the Group conducts more limited services through representative offices, branches, financial companies and associated companies in a further eight countries. The subsidiary banks are being integrated into the Group as part of its integration and re-branding strategy. See “—Strategy.” The Group holds a majority of the board seats on the governing boards of each of its subsidiary banks.

As of December 31, 2006, the assets and liabilities of the European subsidiary banks (prior to inter-segment eliminations) accounted for approximately 22.7% of the total assets and approximately 21.9% of the total liabilities of the Group, and 24.9% of the Group’s profit before taxation. As of December 31, 2006, the assets and liabilities of the CIS subsidiary banks (prior to inter-segment eliminations) accounted for approximately 2.3% of the total assets and 2.2% of the total liabilities of the Group and 0.6% of the Group’s profit before taxation.

Foreign Banks—the CIS

The Group aims to become a significant player in CIS by servicing the foreign trade of Russian and CIS clients, as well as by strengthening its market position in local markets by offering corporate and retail banking services and products to local clients. As of December 31, 2006, the Group operated 296 branches and 121 ATMs and had approximately 430,000 local clients in the CIS.

VTB Ukraine (formerly JSCB Mriya) was established in 1992 in Ukraine. In March 2006, the Group acquired a 98.5% interest in the bank. VTB Ukraine is a universal bank, providing retail and corporate deposit taking and lending, settlement and cash services, interbank activities and credit and debit card services. VTB Ukraine’s regional network consists of 171 branches, of which 63 specialise in serving retail customers, and covers virtually all regions of Ukraine.

Vneshtorgbank (Ukraine) is a wholly owned subsidiary of VTB and was established in 2005 to expand the Group’s operations in Ukraine. Its initial share capital of \$16 million was contributed by VTB, and was subsequently increased to \$54 million in 2006. The current focus of Vneshtorgbank (Ukraine) is on providing international settlement services and loans and trade financing to Russian and Ukrainian corporate customers.

VTB began the process of merging Vneshtorgbank (Ukraine) and VTB Ukraine, which the Group plans to complete in 2008. The goal of the merger is to build on VTB Ukraine’s strong presence in Ukraine and become one of the top players in the market, as well as to better serve the Group’s Russian clients in Ukraine.

VTB Georgia was established in 1995 as United Georgian Bank (or UGB), through the merger of three state-owned Georgian banks: EximBank, Industria Bank and New Georgian Bank. In 2005, VTB acquired a 50% plus one share interest in UGB and, in 2006, increased its interest in UGB to 53% and rebranded the bank as VTB Georgia. The European Bank for Reconstruction and Development (the “EBRD”) owns 18.9% of VTB Georgia, and the remaining shares are held by individuals unrelated to the Group or the EBRD. VTB Georgia is the third-largest bank in Georgia, providing a full range of banking services to both corporate and retail customers in major cities and regionally through 28 branches located across the country as of December 31, 2006. VTB Georgia’s principal activities include retail and commercial deposit taking, services relating to foreign trade and documentary and interbank activities. VTB Georgia receives its funding primarily from client deposits, as well as from VTB.

VTB Armenia (formerly Armsberbank) was established in 1923 and was a subsidiary bank of Sberbank until 1993. In April 2004, VTB acquired a 70% interest in VTB Armenia, with Mika-Armenia Trading Ltd. owning the remaining 30%. VTB Armenia provides banking services to its retail and corporate clients, and had 96 branches throughout Armenia as of December 31, 2006. VTB Armenia receives its funding primarily from client deposits.

CJSC Slavneftebank was established in Belarus in 1996. In March 2007, VTB entered into an agreement to purchase a 50% plus one share interest in CJSC Slavneftebank in Belarus.

Foreign Banks—Western Europe

As the result of the Group’s acquisition in 2005 of the CBR’s shareholding in a number of banks, the Group currently controls six banks in Western Europe and has a minority share in one. The banking products of VTB’s Western European subsidiary banks include trade and structured finance arrangements, syndicated loans, securities operations, project financing, settlement services and clearing

services. In particular, the banks specialise in offering financial services to Russian and CIS companies on the European markets, including servicing export and import transactions, as well as attracting and servicing clients such as European companies with business interests in Russia and the CIS.

In 2006, the Group began a reorganisational process designed to improve the efficiency of the Western European subsidiary banks and to enhance the coordination between the banks and VTB.

The restructuring began with the establishment of VTB Europe as the holding company of VTB France and VTB Germany in December 2006. In 2007, subject to authorisation from the FSA and the relevant local authorities, VTB Europe intends to start the transformation of VTB France and VTB Germany to branches under VTB Europe. The integration of VTB Austria under VTB Europe is expected to be completed by 2010, thereby allowing VTB to adequately capitalise VTB Europe and VTB Austria to fully utilise its deferred tax assets prior to the restructuring. See “Risk Factors—Risks Relating to the Group’s Business and Industry—The restructuring of the Group’s Western European banking operations may not yield benefits in line with the Group’s strategic expectations.”

As a result of the restructuring, the Group aims to increase the profitability of its Western European operations, decrease operating expenses by centralising the middle- and back-office functions and optimise the capital structure within the Group. VTB believes that the consolidation of its banking network in Western Europe will leave VTB well-positioned to offer its Russian and CIS clients easier access to international financial services and additional opportunities to obtain funding in the international capital markets, as well as to offer lending, payment and settlement services to Russian and foreign clients.

VTB Europe was established in 1919 in London, United Kingdom, as “Moscow Narodny Bank.” VTB acquired the bank from the CBR in December 2005, and it was renamed and rebranded as “VTB Europe” in 2006 to serve as the Group’s headquarters for its Western European operations. As of April 2, 2007, VTB owned a 91.8% interest in VTB Europe, and other minority holders own the remaining 8.2%. VTB Europe provides corporate and investment banking services primarily to Russian and foreign companies that have interests in, or do business with, Russia and/or the CIS. VTB Europe focuses on the structured trade finance operations, syndicated lending arrangements, real estate and project finance, credit-linked note programmes, eurobonds and securitisation transactions. The Group is in the process of centralising the management of its investment banking operations under VTB Europe. In addition to its London head office, VTB Europe has a branch in Singapore that services certain of the Group’s Asian banking operations. VTB Europe obtains its funding, to a large extent, through the international capital markets.

VTB France was established in 1921 in Paris, France as BCEN-Eurobank. VTB acquired BCEN-Eurobank in December 2005 and rebranded it as VTB France in October 2006. In December 2006, VTB transferred its interest in VTB France to VTB Europe. As of December 31, 2006, VTB Europe held an 87% interest in VTB France; Centrosoyuz, a Russian non-profit organisation holds 9%, GVPO Novoeexport holds slightly less than 4% and the remainder is held by Russian individuals who are members of the Supervisory Board of VTB France. VTB France focuses on providing trade finance and trade related banking services (including export credit agency loans and documentary products) to the French operations of Russian companies and to foreign companies that have interests in, or do business with, Russia or the CIS. VTB France obtains its funding, to a large extent, through the international capital markets.

VTB Germany was established in 1971 in Frankfurt am Main, Germany as Ost-West Handelsbank. VTB acquired its first stake in OWH in 2001 and increased its shareholding to 83.5% in December 2005. OWH was rebranded as VTB Germany in October 2006. In December 2006, VTB transferred its interest in VTB Germany to VTB Europe. As of December 31, 2006, VTB Europe owned an 88.4% interest in VTB Germany. Yukos owns 8%, and two Russian entities unrelated to the Group or Yukos own the remaining interests. VTB Germany’s principal activities include clearing and settlements for international trade transactions, syndicated lending operations, and money market and foreign exchange trading for its own account and on behalf of its clients. VTB Germany has an extensive correspondent bank network throughout Western Europe, Russia and the CIS. VTB Germany also provides pre-export and post-export financing and accounts receivable factoring for companies located in Russia and the CIS, as well as for European companies that export goods or services to Russia, and participates in syndicated loans made to Russian entities. VTB Germany receives its funding primarily from client deposits.

VTB Austria was established in 1974 in Vienna, Austria as Donau-Bank. VTB acquired stakes in Donau-Bank in 1991, 1996 and 2001, and increased its shareholding to 100% in December 2005. Donau-Bank was rebranded as VTB Austria in 2006. VTB Austria specialises in participating in syndicated lending operations, credit derivatives (credit default swaps and collateralised debt obligations), investment portfolio management, and credit and settlement services for Russian and CIS-related trading transactions. Its other services and activities include structured trade finance, trade-related documentary transactions, transactions in promissory notes and fiduciary operations. VTB Austria obtains funding, to a large extent, through the international capital markets.

RCB-Cyprus was formerly a branch of Vnesheconombank, which became a separate bank in 1995, and VTB acquired a 100% ownership interest in it in the same year. RCB-Cyprus's activities include back-to-back lending to Russian companies, secured lending, securities and currency trading, accounts receivable factoring, deposit taking and trade financing. Given Cyprus' entry into the European Union (the "EU") in May 2004 and the resulting changes to its taxation laws, RCB-Cyprus is positioning itself as a European bank that can provide trade-related services for Russian companies operating abroad and for trading partners of corporate clients, as well as private banking services for wealthy Russian individuals. RCB-Cyprus receives the majority of its funding in the form of interbank loans from VTB and third parties. The remainder of its funding primarily comes from client deposits. RCB-Cyprus's business has significant assets while generating relatively low operating income, which is largely fee-based.

RKB-Zurich was formerly a branch of Vnesheconombank, which became a separate bank in 1992. VTB acquired RKB-Zurich in the same year. RKB-Zurich is VTB's 100% owned subsidiary. RKB-Zurich is authorised to perform a full range of banking operations in Switzerland, with the exception of taking retail deposits. RKB-Zurich's primary activities include trade and project financing, provision of letters of credit, guarantees and performance bonds, payment and settlement services, brokerage services, trust and fiduciary services and consulting services, primarily for Russian clients. RKB-Zurich also engages in transactions in securities, foreign exchange and precious metals on its own and its clients' behalf. RKB-Zurich's primary sources of funding are from client deposits, but also obtains funding via the interbank and syndicated loans markets.

Foreign Banks—Asia and Africa

Vietnam-Russia Joint Venture Bank (or VRB) was established in November 2006 with an initial legal capital of \$10 million. VRB's legal capital is held 51% by Bank for Investment and Development of Vietnam and 49% by VTB. VRB opened a branch in the city of Vungtau in March 2007, and its services primarily comprise transaction processing and financing services for commercial operations between Vietnam and Russia.

Banco VTB Africa SA, located in Luanda, Angola, was incorporated with the Banco Nacional de Angola in February 2007 with an initial share capital of \$10 million. VTB holds a 66% interest in Banco VTB Africa SA. Banco VTB Africa SA focuses on providing international settlement services and loans and trade financing to Russian and African clients.

VTB Capital (Namibia) (Pty.) Ltd was established in Windhoek, Namibia, in September 2006 with an initial share capital of \$6.0 million. VTB controls 50.03% of Banco VTB Capital (Namibia) with Capricorn Investment Holdings Ltd. holding the remaining interest. VTB Capital (Namibia) currently focuses on funding, consulting and financial services to Russian clients with business interests in the region.

Information Technology

The Group's information technology ("IT") systems are critical to its business operations and are essential to effectively support the expansion of its business operations, increase operating efficiencies, coordinate and enhance risk management and control systems, and meet the needs of its growing client base.

Currently, the banking subsidiaries of the Group each have separate IT systems, which are managed largely on an independent basis. Apart from the integration of the processing centers of VTB, ICB and VTB24, there is currently no functional integration between the IT systems of the banks in the Group. For financial reporting purposes, local GAAP based information is collected by the Group from subsidiary banks and consolidated regularly. Certain transformations from local GAAP to IFRS

are semi-automated, which necessitates the use of spreadsheet tools and requires multi-stage manual cross-checking. As a result, operational data are not available at the Group level in real time. See “Risk Factors—The Group’s IT systems may be insufficient to support its operations.” The Group is in the process of gradually simplifying, rationalising and synchronising its multiple IT systems, in order to support its access to meaningful information, with the goal of coordinating activities and establishing a single corporate reporting framework. In addition, the Group ultimately expects that it will have a limited number of application packages with “best-in-class” functionality for its key business areas, which automate all core customer information management, accounting, oversight, reporting and other processes.

The following is a summary of the IT systems supporting the operations of the principal Russian banks in the Group—VTB, VTB24 and ICB. The legacy IT systems used in the Group’s European subsidiary banks, as well as in its CIS subsidiary banks, are deemed to be sufficient to support the Group’s current banking operations in those jurisdictions.

VTB

VTB currently operates a core IT system developed in-house, which supports the key functions of its Head Office, such as accounting, financial reporting, transaction processing and settlement and accounting of treasury operations, as well as supporting Moscow branch offices. VTB also operates other IT systems, which are managed through its Head Office, to support the operations of VTB’s regional branches. Over the last two years, VTB has taken a number of measures to enhance its IT systems and, in particular, has reduced the number of IT systems used in the regional branches from nine to two.

VTB has two computer centers in Moscow; one to support the core IT system in its Head Office and Moscow branches and the other to serve as a back-up system. These centers are linked to allow all critical data to be replicated and backed up in real time. In every region, there is at least one branch which has its own computer center that supports the IT systems of other branches within the region. The regional branches are connected to the Head Office and to the other branches in the same region by a wide area network and information flows between the head office and regional branches via daily data updates.

VTB’s core information systems and hardware have operated with no major disruptions since January 1, 2004.

VTB24

VTB24 currently operates a centrally managed IT system which is sufficient to support the immediate needs of its growing retail business. However, the existing system does lack the flexibility to support the rapid introduction of new products and processes, and does not have a proven track-record of performance at the higher anticipated volumes of VTB24’s retail business in three-to-five years. Accordingly, VTB24 is in the process of reviewing and upgrading the functionality of its IT systems to address the anticipated requirements of its business during this period.

ICB

ICB currently operates a centrally managed IT system, which is sufficient to support the immediate needs of its business. ICB’s IT system is built on a proprietary platform managed at a central office in St. Petersburg with an optical fiber backbone which connects all branches. All regional branches are linked in real time with the central hub in St. Petersburg. After the merger with VTB is completed, it is anticipated that the processing centers of ICB and VTB will be integrated and ICB’s regional branches will be migrated to VTB’s IT platform.

Group Strategy

The Group, with support from an external consulting firm, has developed a strategy and program of actions aimed at rationalising and strengthening the Group’s IT systems to meet the needs of its growing business. The development and implementation of this Group-level strategy is the responsibility of the Banking and Information Technologies Committee (BITC). The BITC, which includes representatives of VTB, VTB24 and ICB, meets on a bi-weekly basis to coordinate IT strategy at the Group level, monitor the implementation of approved IT projects and propose new IT-related

initiatives in response to feedback from Group subsidiary banks. Implementation of the Group's IT strategy has started and the core projects are expected to be completed by 2010.

The Group's IT strategy includes implementation of the following core projects at the Group level:

- *Creation of a single central databank for the Group* to store and consolidate analytical information, including data on the customer base and financial reports of the various banking subsidiaries. The Group believes that this will improve its ability to access up-to-date customer and financial information and help reduce the time and costs associated with the preparation of consolidated analytical and mandatory reports.
- *Co-location and consolidation of the IT infrastructure and shared technical support in Russia* to increase efficiency and create an integrated IT system for the Group's Russian banks. The Group will begin by co-locating VTB's and VTB24's IT systems to two joint hubs, in Moscow and St. Petersburg. The Group will begin to migrate the regional IT systems currently in place throughout the branch network to the centralised system. Finally, joint organisational structures being set up now are designed to optimise the management of IT application design and tracking across the Group's Russian banks. As part of this process, the Group is planning to start integrating ICB's IT systems into the joint VTB/VTB24 platform once the merger of ICB into VTB has been completed, which is currently expected to take place by the end of 2007.
- *Establishment of an integrated, Group-wide Customer Relationship Management (CRM) System* to enable centralisation of information related to the Group's customers. The project is designed to increase cross selling opportunities, by improving the interaction between the Group's business units and maximising the effectiveness of product sales by the Group's European banks.

The Group's IT strategy also includes the implementation of the following core projects at the individual bank level:

- *Implementation of a single centralised Automated Banking System (ABS) at VTB* to support core business functions and accounting operations. The project envisages the gradual implementation of a single ABS at VTB. The ABS will be integrated, with special applications performing those functions which are not supported by ABS on the basis of an integration platform. Completion of the project will enable VTB to discontinue the use of multiple non-integrated systems in favour of a centralised ABS, thereby significantly improving the quality of its products and services, and reducing operating risks.
- *Implementation of a single centralised ABS at VTB24.* To enable VTB24 to replace its legacy system with a centralised retail business management system and facilitate the anticipated rapid growth of VTB24's retail business, VTB plans to implement the ABS in all of its branches. Selection of the external IT provider and implementation of the system by VTB24 will be closely coordinated with similar processes in VTB.

The Group expects that its IT infrastructure expenditures will increase at least through 2007 due to a number of large-scale IT projects currently under way and that part of these funds will be spent on maintenance and part on IT development in line with the strategy described above.

Employees

As of December 31, 2006, the Group had 28,466 employees, of which 24,163 (or 85%) were located in Russia, 3,673 (or 13%) were located in other CIS countries and 630 (or 2%) were located in Europe and the rest of the world. The majority of the Group's employees are employed by VTB, VTB24 and ICB which accounted for 35%, 25% and 18%, respectively, of the Group's total employees as of December 31, 2006. The Group's CIS based banking subsidiaries represent another significant group of employees, with VTB Ukraine, VTB Armenia and VTB Georgia accounting for 6%, 3% and 3%, respectively, of total employees as of December 31, 2006.

The number of Group employees has risen substantially, especially within VTB24, to accommodate the significant branch expansion plan of the Group. VTB24 increased its workforce from 3,576 employees as of December 31, 2005, to 7,163 as of December 31, 2006.

The Russian market for qualified financial institutions personnel, senior and middle management and qualified accounting personnel, is highly competitive. See "Risk Factors—Risks Relating to the Group's Business and Industry—The Group may be unable to recruit or retain experienced and/or

qualified personnel.” The Group’s personnel management policy is aimed at developing a skilled and highly productive staff that is successful in conducting its business. The Group has developed a comprehensive training program which provides for both internal and external professional training of employees at all levels. The Group has also opened a corporate university, which offers professional development training to its junior and mid-level managers. The Group believes that its current compensation package is generally comparable to that offered by other major Russian banks.

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

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

Litigation

The Group is, from time to time, the subject of legal proceedings and other investigations in the ordinary course of its business. Neither VTB nor the Group has been involved in any governmental, legal or arbitration proceedings during the 12 months preceding the date of this Prospectus which may have or have had in the recent past a significant effect on the financial position or profitability of VTB or the Group nor, so far as VTB is aware, are any such proceedings pending or threatened.

Insurance Coverage

Each Group bank maintains its own insurance policies and coverage that it deems to be appropriate. VTB’s insurance policies include a financial institution’s blanket bond covering losses from computer, personnel and external crimes, depository insurance for securities, insurance for cash, securities and precious metals in transit, insurance of ATMs, cash dispensers and currency exchange machines, and bank card fraud insurance. In addition, in the near future, the Group intends to obtain an insurance policy to cover the liability of the directors, officers and other key management members of VTB and its primary subsidiaries. However, VTB does not carry insurance coverage at levels comparable to those customary in other countries for a bank of its size and nature and, under some circumstances, its insurance coverage may prove insufficient. See “Risk Factors—The Group’s banking business entails operational risks.” The same is true of many Russian companies, as the Russian insurance sector is not fully developed and insurance is not widely relied upon to manage operational risk.

RISK MANAGEMENT

The following description gives an overview of risk management coordination by the Group, but primarily covers the risk management procedures of VTB in Russia, as well as certain information regarding VTB24 and ICB in Russia. The risk management procedures of other banks within the Group are discussed under “—Risk Management Policies of Other Group Banks.” Financial information is presented on a consolidated basis, unless otherwise stated.

Overview of Risk Management of the Group

The principal risks facing the Group’s business are credit risk, liquidity risk, market risk, including securities portfolio risk, interest rate risk, currency risk and operational risk. The purpose of the Group’s risk management policy is to evaluate, monitor and manage the size and concentration of these risks.

Following acquisitions in recent years, the Group has launched a process of integrating risk management across the Group, including the adoption of Group-wide policy statements and procedures with respect to each area of risk management. The Group recently created a number of new commissions under the Banking Group Management Committee, which was established in November 2006, to support this process, coordinate information gathering and analysis, and harmonise Group-wide policies and procedures. The Risk Management Commission (the “RMC”) was created in December 2006 to oversee credit and market risk management on a Group-wide basis, and includes chief risk officers of all Group banks, VTB risk managers and an audit officer from VTB’s Internal Control Division. In early 2007, as one of its first initiatives, the RMC adopted the “Main Principles and Provisions of VTB Bank Group’s Credit Policy,” which maps out approaches for the Group’s credit risk management. This policy was then approved by VTB’s Management Board and will be submitted to the Banking Group Management Committee, which includes CEOs of the Group banks, who in turn are required to implement the policies of the RMC and the Banking Group Management Committee at the Group banks. The Group also recognises that consistent risk information gathering from the Group banks is key, and therefore the RMC has formalised policies with respect to such risk information gathering from the Group banks.

In addition to the RMC, the Group has a Group-wide Asset and Liability Commission. This commission has the remit to implement policies and supervise Group banks with respect to currency, liquidity and interest rate risks, funding of the Group and financial risk transfers within the Group. This commission is run by the head of VTB Treasury. A Group-wide Internal Control Commission run by VTB’s head of Internal Control Division oversees internal control in all of the Group’s subsidiaries, through individual audit committees in each of the subsidiaries. A Group-wide Anti-Money Laundering Commission, run by VTB’s head of Anti-Money Laundering Division, oversees Group policies regarding the prevention of money laundering and terrorist financing. This commission shares blacklists and supervises the implementation of unified policies and procedures (as necessarily modified by individual jurisdictions according to local regulations). Each of the Group-wide Asset and Liability Commission, the Internal Control Commission and the Anti-Money Laundering Commission include senior representatives from most of the Group banks. As an additional measure of integration, representatives from VTB sit on the supervisory council of each Group bank.

Despite moving towards greater Group-wide integration, risk management policies and procedures vary from bank to bank depending on the country in which the bank operates and the applicable laws and regulations of such country, the magnitude of a bank’s activity, the size of a bank’s branch network and the specialisation of a given bank, particularly VTB24’s specialisation in retail banking.

The risk management procedures for VTB and the other Group banks are discussed below.

Risk Management Policies for VTB, ICB and VTB24 (the “Russian Group Banks”)

Overview

As at December 31, 2006, the Russian Group entities accounted for 75.0% of the Group’s total assets and 75.9% of the Group’s total liabilities (prior to inter-segment eliminations). Risk management at the Russian Group Banks operates within the common framework of Russian legislation and the requirements and supervision of the CBR, and is presently better coordinated than is the case for the non-Russian Group Banks.

VTB

The Management Board has overall responsibility for risk management at VTB. Similar to the Group level, a number of committees and departments are established within VTB to coordinate day-to-day risk management. The Assets and Liabilities Committee (the “ALCO”) establishes major balance sheet parameters for use in asset and liability management and monitors compliance within VTB with the assistance of VTB’s Credit and Risks Control Department (the “CRCD”). The ALCO, VTB’s Credit Committee (the “CC”), the CRCD and the Treasury carry out risk management functions in respect of credit, market (interest rate, currency and securities portfolio) and liquidity risks. The Management Board, the CRCD and the Internal Control Division (“ICD”) carry out operational risk management functions.

The CRCD proposes risk limits on various banking operations and prepares recommendations regarding market risk and liquidity risk management for the ALCO. The CRCD reports to the ALCO, the CC and the Management Board.

VTB periodically evaluates contingency plans for both financial and non-financial crises. VTB’s contingency plans for financial crises set forth actions that its departments must take to secure immediate liquidity, including suspending trading operations and limits, actively seeking to sell securities holdings and reducing expenses.

Risk Management and Internal Control System

The ICD of VTB is responsible for the internal control systems of VTB and for the coordination of control departments/divisions of subsidiaries within the Group.

The ICD’s activities aim to address risks at every stage of VTB’s operations and to ensure that existing or potential problems are timely detected, identified and mitigated in the most effective way:

Preventive controls:

- new instructions, rules or other regulating documents are reviewed by the ICD along with other expert departments (the Risk Analysis Division, the Legal Department and the Security Department) before they are put in force;
- the ICD reviews and issues an opinion (for the attention of the CC) on each credit risk bearing transaction representing more than 3% of the capital of VTB; and
- training and professional development of personnel.

Current controls:

- compliance control and monitoring of key business processes at the Head Office and branches (lending, securities and money market transactions, IT systems), to ensure that appropriate procedures and limits are complied with and that VTB’s transaction pricing is reasonable and competitive. Findings are summarised and reported to the management of VTB monthly (or immediately, if necessary).

Subsequent controls:

- reviews audit and similar control procedures carried out at the Head Office, branches and at the subsidiary level, and gives recommendations based on the results of such reviews.

To further develop the Group’s internal control system, in 2007 the Group intends to complete the process of setting up audit committees in each of its subsidiary banks and to provide methodological support to their operations.

Credit Risk Management

Introduction

Credit risk is the risk that a counterparty will not be able to meet its obligations in full when due. VTB is primarily exposed to credit risk through its loan portfolio, securities portfolios, guarantees, commitments and other on- and off-balance sheet credit exposures. VTB manages its credit risk by establishing limits in relation to single borrowers, groups of borrowers, industries, regions and foreign

countries, which are set and regularly reviewed by the CRCDD, approved by the CC and comply with exposure limits established by the CBR. See “The Banking Sector in Russia” and “Banking Regulation in Russia—Regulation of the Russian Banking Sector—Mandatory Economic Ratios.”

VTB attempts to reduce credit risk by conducting a thorough investigation of each prospective borrower to determine its ability to repay its debt. However, assessing potential borrowers’ credit quality and risk of default is difficult in Russia, since many borrowers do not have credit histories or financial statements audited in accordance with United States Generally Accepted Auditing Standards or International Standards on Auditing. See “Risk Factors—Risks Relating to the Group’s Business and Industry—The Group is exposed to substantial credit risk from both corporate customers and individuals and the increasing proportion of loans made to individuals and small businesses may adversely affect the overall credit quality of its loan portfolio.” Letters of credit, guarantees and other commitments to extend credit are generally subject to the same credit review procedures as loans. VTB’s policies and procedures for evaluating the credit standing of corporate customers are discussed below. For a discussion of VTB’s policies and procedures with respect to retail loans, see “—VTB24.”

Credit Policies and Procedures

Credit Origination Analysis

A prospective borrower typically makes a loan application through a client manager and must include information on the prospective borrower’s business, the purpose of the loan and the proposed collateral, guarantee or other assurance arrangements. Once a loan application is received from a corporate customer, the client manager conducts an initial investigation based on the loan application, publicly available information and information contained in VTB’s databases, and then passes the loan application on to other departments for further review. The Legal Department evaluates the legal aspects of the proposed transaction, the prospective borrower’s legal status and authority to enter into a loan agreement, as well as its authority to provide any collateral, guarantee or other assurance. The Security Department investigates the prospective borrower’s shareholders and management for any evidence from public sources of any criminal or material civil charges which have been brought against them. The CRCDD also evaluates the applicant’s current and historical financial statements (audited or, if these are not available, financial statements approved by the tax authorities) and, to the extent available, industry prospects, market position, cash flow, sources of funds, purpose of the loan, level of existing indebtedness, credit and debt service history with VTB and other banks, and proposed collateral, guarantee or other assurance arrangements. In addition, it assesses pension or tax indebtedness, information on contractual indebtedness and the likely effect of the loan on the prospective borrower’s financial position and on VTB’s loan portfolio concentration and credit risk levels. For public authorities, the loan evaluation includes a review of such authority’s budget status, compliance with the federal budgetary norms and level of dependence on the largest taxpayers. Should the sum of operations on a given credit transaction or credit limit exceed 3% of VTB’s capital according to RAS, the ICD takes part in the examination of credit transactions or credit limits.

Interest Rate Determination

In determining the appropriate interest rate for an initial application, consideration is given to the size of the potential borrower and the perceived risk level of the potential borrower. The ALCO establishes minimum interest rates for each borrower category, as adjusted depending on the term and the currency of the loan, and, in some cases, on the risk profile of the potential borrower. As part of the application process, the CC assesses whether to use the minimum interest rate for the borrower’s category or to charge a risk premium.

Assurance, Collateral and Guarantees Appraisal

VTB generally requires an assurance arrangement, collateral and/or third party guarantees for loans to corporate customers, although the CC may, on a case-by-case basis, authorise loans that are not fully collateralised, guaranteed or assured. In general, an assurance arrangement, collateral and/or third party guarantees, separately or together, cover at least the principal, the first year of interest payable and commissions payable in respect of the loan. As of December 31, 2006, a majority of VTB’s loans were fully collateralised, guaranteed or assured. VTB’s policy with respect to secured lending is to obtain, if possible, a mix of collateral to limit the effects of any decline in value.

An assurance arrangement is an agreement that a certain volume of a borrower's cash receivables flow through accounts over which VTB has a pledge that it can enforce if the borrower does not fulfil its obligations. In the case of collateral, acceptable collateral includes real property, land leasing rights, securities, industrial equipment, vehicles, airplanes, ships, precious metals, raw materials and inventory. VTB applies discount rates to collateral in assessing potential loan amounts by categorising the liquidity of the relevant collateral; the minimum discount rate is 15% (with the exception of VTB's bonds and promissory notes). The value of collateral is first determined by a third party appraiser selected from a list of independent appraisers approved by the CC. In cases where no such pre-approved independent appraiser is available, a third party appraisal is obtained from an independent appraiser and the CC or the Management Board may request that the CRCD conduct an additional evaluation of the appraisal report. VTB also accepts third party guarantees as long as they fall within its exposure limits for the guarantor. A guarantor is evaluated in the same manner as a borrower.

VTB's loan agreements with corporate customers usually provide for a right to request additional assurance, collateral or guarantees if the value of the existing collateral or the borrower's financial situation deteriorates. See "—Monitoring Process." VTB may also request additional assurance, collateral or guarantees if the term of a loan is extended or additional advances are made.

VTB may be unable to realise the full appraised value of collateral due to its decline in value and/or liquidity or enforcement problems and/or be unable to take advantage of assurance arrangements or guarantees due to the deterioration of the financial condition of borrowers or guarantors or their refusal to honor assurance arrangements or guarantees. See "Risk Factors—Risks Relating to the Group's Business and Industry—A decline in the value or illiquidity of the collateral securing the Group's loans may adversely affect its loan portfolio."

Exposure Limits

VTB implements exposure limits relative to Russian regions, countries (other than Russia), sectors of the Russian economy and individual customers and their subsidiaries and affiliates, taking into account any relevant CBR regulations. The approved exposure limits are higher than the actual commitments at any given time. Compliance with these limits and actual exposures are monitored by the CRCD. VTB is currently in compliance with the CBR exposure limits for single borrowers and groups of related borrowers. See "Banking Regulation in Russia."

For individual customers, the exposure limit depends on the assessment of the borrower's financial condition and likely credit needs. These limits also take into account the size of the potential borrower, as well as the level of perceived risk, based on an internal rating system. Exposure limits on operations with foreign and Russian banks and other financial institutions are approved by the CC and the Management Board. Exposure limits for individual customers are reviewed at least annually. The exposure to any one borrower, including groups of related borrowers and brokers, is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits relating to trading items with respect to banks, such as forward foreign exchange contracts. VTB has internal rules and procedures for identifying related borrowers, which take into account legal, as well as economic, relationships. These rules are more detailed and impose stricter criteria than the relevant CBR rules, and are periodically reviewed to improve the procedures for identifying related borrowers.

The Management Board assigns lending limits with respect to VTB's branches, including an overall exposure limit for all branches (currently RUR 95 billion), exposure limits per branch, exposure limits for single borrowers and groups of related borrowers per branch, maximum terms of loans and guarantees per branch and terms of credit roll-overs per branch. Branch credit committees may establish exposure limits for branch customers, but these limits cannot exceed the overall limits set for the branch by the Management Board. Branch exposure limits are reviewed semi-annually, and are approved by the CC and the Management Board. As of December 31, 2006, 51 VTB branches could make their own credit decisions within the overall branch limits established by the Management Board.

The CRCD proposes exposure limits for each industry sector in Russia, each region in Russia and each foreign country in which VTB's borrowers operate or where their cash flows originate, as applicable. These limits are approved by the CC, and are monitored by the CRCD. Every three months, the CRCD reviews the limits and recommends modifications to the CC, if appropriate. Loans in excess of exposure limits are reviewed by the CC, and, if they are approved, the relevant limit is increased for the duration of the loan.

VTB has developed in-house scoring systems to categorise Russian industry sectors, Russian regions and Russian regional budgets. Each scoring system helps to set the relevant exposure limits by placing the relevant industry sector, region or regional budget into one of five risk groups ranging from A (low risk) to E (maximum risk). The industry scoring system takes into account factors including the industry's growth rate, volume of direct investment, profitability, strategic role in the Russian economy, development forecasts prepared by the CRCD, the ratio of overdue loans to outstanding loans and VTB's experience with enterprises in the industry. After placing an industry into a risk group, the CRCD calculates exposure limits for each industry.

The Russian regional scoring system takes into account the region's industrial and investment volume, ratio of overdue loans to outstanding loans and dependence on federal assistance. If a large customer is located in a high-risk region, the CC may approve a higher exposure limit for that region.

In order to limit exposures to the fluctuations in the budgets of various public authorities, VTB also sets exposure limits with respect to regional budgets. Regional budget exposure limits are set on the basis of the sum of the budgets of all the levels of a region's government. The regional budget scoring system takes into account ratings assigned by Moody's, S&P and Fitch, the volume of payments made into a regional budget (excluding federal assistance), the region's public debt burden, the ratio of payment deficiencies to incoming payment volume and the current condition of the budget.

VTB places countries into one of five risk groups and determines country limits on the basis of ratings assigned by Moody's, S&P and Fitch.

Credit Approval Process

The CC sets limits on VTB's credit operations and approves credit transactions (other than most retail loans and loans to medium and small corporate customers, limits in respect of which are discussed below). The CC has delegated authority to approve certain transactions to VTB's Vice Presidents, within limits set by the CC and the Management Board, after initially assessing the customers' credit-worthiness, after which approved customers need not repeat the full loan application process for loans within the established limits. See “—Credit Policies and Procedures—Credit Origination Analysis.” In addition, VTB's small credit committee (the “**Small Credit Committee**”) approves loans to medium and small businesses of up to RUR 300 million. The CC reviews loans to customers outside these limits. The CC currently has ten members and meets on a weekly basis. The Small Credit Committee has nine members and also meets on a weekly basis. In addition, each branch has its own branch credit committee (“**Branch Credit Committee**”).

The CC may, through a two-thirds majority, approve loans of RUR 1.5 billion or less for large corporate customers. Loans that exceed this limit or loans that are not approved by a two-thirds majority of the CC must be approved by VTB's Management Board.

VTB has also established streamlined credit approval procedures for medium corporate customers with annual sales of up to \$30 million. In addition, VTB is in the process of developing standardised loan products for medium-sized corporate customers. Branch Credit Committees make credit decisions on such loans, using established parameters and exposure limits for each branch, which are reviewed and established periodically (most recently in December 2006).

Loans to borrowers that have been pre-approved by the CC for loans up to certain limits may be approved by an authorised VTB Vice President, subject to the approval of the CRCD based on periodic monitoring. See “—Monitoring Process.”

Monitoring Process

VTB monitors a borrower's (or guarantor's, as the case may be) financial condition throughout the life of the loan. Branches monitor all the loans that they originate. The CRDC reviews a borrower's financial statements on a quarterly basis and, in cases of deterioration in financial condition, determines whether additional assurance, collateral or a guarantee should be requested or repayment demanded. The CRDC and branches also monitor the value of the collateral throughout the life of the relevant loan and regularly revalue collateral based on market research from the relevant industry segment. In addition, VTB periodically makes on-site monitoring inspections of pledged property pursuant to VTB's “Instruction on Procedure of Pledge Transactions”, which provides for inspection of equipment, construction in progress and real estate at least semi-annually, transportation vehicles at least quarterly and inventory at least monthly. VTB manages loss provisioning for purposes of its CBR reporting based

on the five categories implemented by the CBR. See “Banking Regulation in Russia—Provisioning and loss allowances.”

For managing and calculating loss provisioning for VTB’s consolidated IFRS financial statements, the Group expects that assessment of loan loss allowances will in the short-term be performed jointly by the IFRS department and risk analysis department and that this function will be fully transferred to the risk analysis department by the end of 2007. Calculation of IFRS loan loss allowance for individually significant loans at VTB has historically been performed by the IFRS department. The IFRS department generally has less information on borrowers compared to the risk analysis department, which performs regular analysis of the loan portfolio for purposes of calculating allowances in accordance with CBR’s requirements. In the past, the limited communication between the two departments and the insufficient automation of the process to collect information for loan allowance assessment has led to significant additional work required by VTB to calculate its loan loss allowance under IFRS as well as additional procedures to be performed by the Group’s external auditors to assess the adequacy of the IFRS loan allowance. The new procedure is intended to address this weakness. See “Risk Factors—VTB’s management has recognized a material weakness in the Group’s internal controls over the closing process relating to the preparation of VTB’s consolidated IFRS annual and interim financial statements.”

Problem Loan Recovery

VTB’s Loan Recovery Division is responsible for monitoring and resolving problem loans. Problem loans are dealt with initially at the branch level under the procedures implemented by VTB across all branches, with monitoring and coordination by the Loan Recovery Division. In general, problem loans are transferred to the Loan Recovery Division when payments are at least thirty days overdue. The Loan Recovery Division evaluates all the available information and attempts to determine the reasons for the default. Subsequently, the Loan Recovery Division contacts the borrower and attempts to restructure the loan by, *inter alia*, rescheduling interest payments and extending the term of the loan in order to restore the borrower’s ability to resume interest payments or repay the loan. If a loan is restructured, the Loan Recovery Division monitors the borrower’s compliance with the terms of the restructured loan and may, among other things, attempt to obtain additional security with respect to the loan.

If a loan cannot be restructured, VTB may commence legal action against the borrower and/or any guarantors. See “Risk Factors—Risks Relating to the Group’s Business and Industry—It may be difficult for the Group to enforce security and/or guarantees under Russian law” and “Business—Litigation.” Legal action frequently results in the borrower’s bankruptcy and VTB has generally been successful in obtaining the partial repayment of loans through bankruptcy proceedings. VTB also determines whether additional measures can be taken to recover some or all of the borrowed funds, such as selling or assigning VTB’s rights to third parties.

The following table sets forth, on a consolidated basis, the status of gross loans and advances to customers for the periods indicated.

	As of December 31,		
	2006	2005	2004
	(\$ millions, except percentages)		
Loans made by Group			
Current	29,700	20,246	10,357
Overdue	404	227	281
Rescheduled	131	60	84
Total loans made by Group	30,235	20,533	10,722
Overdue as % of total	1.3%	1.1%	2.6%
Overdue and rescheduled as % of total	1.8%	1.4%	3.4%

Prior to adoption of revised IAS 39 as of January 1, 2005, the Group placed loans on non-accrual status if interest was overdue for more than 30 days or VTB believed that interest was not collectible. From January 1, 2005, the Group began making accruals of interest on loans overdue for more than

30 days and assessing such accrued interest for impairment. VTB works out problem loans in accordance with local legal and regulatory requirements.

Loans are written off after VTB has taken all necessary and sufficient measures to recover the loan that are provided by law, CBR regulations, business practices or agreement. The Management Board or Supervisory Council must approve all write-offs.

Liquidity Risk

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in the inability to liquidate a position in a timely manner at a reasonable price to meet its funding obligations. VTB is exposed to liquidity risk primarily in the funding of its customer loan and securities portfolio. VTB seeks to have sufficient liquidity to meet the Group's current and future obligations and funding needs at reasonable market rates. VTB's operations are principally funded through customer deposits, interbank borrowings and debt funding in both the Russian and international capital markets. In addition, a portion of its securities portfolio is highly liquid and could be used to help VTB meet liquidity needs. VTB also has an overdraft agreement with the CBR. To manage VTB's liquidity, the ALCO sets minimum levels of liquid assets and maturity mismatch limits, and determines liquidity requirements. An assessment of VTB's liquidity position is made at least every ten days.

The Treasury currently performs functions of VTB's centralised liquidity and currency and interest rate risk management, including the maintenance of required liquidity levels and optimal currency and term structure of the Bank's balance sheet; forecasting VTB's future liquidity; taking part in centralised management of the cost-effectiveness and profitability of VTB's operations and management of VTB's yield curve; and, along with VTB's other departments, developing and executing transfer pricing of VTB's cash resources. To perform its functions, the Treasury determines the Group's liquidity plan, and is active on foreign exchange markets, interbank money markets and interest rate derivative markets.

VTB is also subject to liquidity requirements set by the CBR. See "Banking Regulation in Russia—Mandatory Economic Ratios."

The following table shows the contractual maturity of the principal components of Group's balance sheet and liquidity position as of December 31, 2006.

	On demand and up to 1 month	From 1 to 6 months	From 6 months to 1 year	More than 1 year	Overdue/ maturity undefined	Total
	(\$ millions)					
Assets						
Customer loans and advances, net	2,290	7,477	5,744	13,672	79	29,262
Securities portfolio ⁽¹⁾	5,147	425	26	1,449	1,910	8,957
Cash and short term funds ⁽²⁾	3,847	135	75	172	—	4,229
Due from other banks, net	5,295	461	479	578	—	6,813
Other assets	150	323	182	93	2,394	3,142
Total assets	16,729	8,821	6,506	15,964	4,383	52,403
Liabilities						
Customer deposits	10,205	5,603	2,275	1,905	—	19,988
Debt securities issued	471	1,252	1,604	8,238	—	11,565
Due to other banks	4,633	1,225	803	926	—	7,587
Other borrowed funds	158	539	1,127	2,644	—	4,468
Subordinated debt	—	7	—	1,162	—	1,169
Other liabilities	135	165	25	69	240	634
Total liabilities	15,602	8,791	5,834	14,944	240	45,411
Net liquidity gap	1,127	30	672	1,020	4,143	6,992
Cumulative liquidity gap	1,127	1,157	1,829	2,849	6,992	

(1) Comprises financial assets at fair value through profit or loss, financial assets available for sale, financial assets held to maturity and financial assets pledged under repurchase agreements and loaned financial assets.

(2) Includes mandatory cash balances with central banks.

Market Risk Management

VTB is exposed to market risks which arise primarily from its securities portfolio and open currency positions, all of which are exposed to market fluctuations.

The ALCO sets VTB's policies for market risks, with the aim of limiting and reducing the amount of possible losses on open market positions which may be incurred by VTB due to negative changes in currency exchange rates, interest rates and securities quotations. The CRCD monitors compliance with VTB's market risk limits on a daily basis. VTB measures markets risks using a value-at-risk methodology, which estimates the largest potential loss in pre-tax profit over a given holding period for a specified confidence level. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk measurement. As at December 31, 2006, the Group's value-at-risk for its securities portfolio, calculated using the historic simulation method not considering correlation between instruments on a 1-day basis and at 99% confidence level, was equal to approximately \$164 million, of which \$62 million, or 37.8%, was attributable to VTB's holding of shares in EADS.

Currency Risk

As VTB has assets, liabilities and other commitments in multiple currencies, it is exposed to currency risk through mismatches in the currency denomination of assets and liabilities and also through currency positions from transactions in foreign currencies. The U.S. dollar is the functional currency of VTB. As a result, fluctuations in foreign currencies relative to the U.S. dollar could impact VTB's financial condition and results of operation. VTB manages its currency exposure risk by seeking to match the currency of its assets with that of its liabilities on a currency by currency basis within certain limits. The ALCO reviews the currency position and sets open currency position limits, which are monitored on a daily basis. The CRCD prepares a monthly Currency Risk Report for the ALCO. The report is based on gap analysis value-at-risk measurement. As of December 31, 2006, VTB's

value-at-risk for its currency risk, calculated using the historic simulation method on a 1-day basis and at a 99% confidence level, was equal to approximately \$0.72 million, compared to approximately \$1.97 million in 2005 (VaR calculated on open positions in \$, EUR, CHF, GBP and in gold based on management accounts and VTB on a stand-alone basis). The Treasury hedges VTB's currency position by converting the currency of certain assets and liabilities, and by entering into currency options, swaps and forward contracts. VTB is also subject to currency risk requirements set by the CBR. See "Banking Regulation in Russia."

The table below presents the Group's asset and liability exposure to currency risk as of December 31, 2006. Credit related commitments include export, import and undrawn letters of credit, issued guarantees and commitments to extend credit, less allowance for losses. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values.

	\$	RUR	Euro	Other currencies	Total
	(\$ millions)				
Assets					
Cash and short-term funds ⁽¹⁾	928	2,684	371	246	4,229
Securities portfolio ⁽²⁾	1,959	3,930	2,197	871	8,957
Due from other banks, net	3,993	1,339	1,447	34	6,813
Customer loans and advances, net	13,514	13,809	1,565	374	29,262
Other assets	704	1,778	301	359	3,142
Total assets	21,098	23,540	5,881	1,884	52,403
Liabilities					
Due to other banks	2,851	1,244	2,497	995	7,587
Customer deposits	4,561	13,652	1,470	305	19,988
Other borrowed funds	3,759	3	519	187	4,468
Debt securities issued	7,226	3,351	987	1	11,565
Subordinated debt	1,169	—	—	—	1,169
Other liabilities	78	368	113	75	634
Total liabilities	19,644	18,618	5,586	1,563	45,411
Net balance sheet position	1,454	4,922	295	321	6,992
Net off-balance sheet position—credit related commitments					
	4,708	2,974	1,836	400	9,918
Net derivative position	(1,035)	13	32	1,014	24

(1) Includes mandatory cash balances with central banks.

(2) Comprises financial assets at fair value through profit or loss, financial assets available for sale, financial assets held to maturity and financial assets pledged under repurchase agreements and loaned financial assets.

As of December 31, 2006, the Group's net ruble balance sheet position (the excess of ruble-denominated assets over ruble-denominated liabilities) was \$4,922 million. As at December 31, 2006, a 1% depreciation in the ruble/\$ rate, would have led to a \$49 million loss/reduction in equity.

Interest Rate Risk

VTB is exposed to interest rate risk, which is the risk of changes to VTB's financial condition or results of operations based on adverse movements in interest rates. In particular, VTB is exposed to changes in interest income or interest expense, or to a drop in the market value of its securities portfolio, (which is mostly comprised of debt instruments), arising from changes of market interest rates. The ALCO sets limits with respect to interest rate risk based on recommendations of the CRCDD.

The CRCDD reports every ten days to the Treasury about VTB's exposure to interest rate risk, and conducts sensitivity analyses (primarily using gap analysis). The CRCDD also provides such reports on a monthly basis to the ALCO. In addition, the Group prepares interest rate sensitivity reports for VTB and for ICB, and may do so for other Group banks in the future. The Treasury manages VTB's

exposure to interest rate risk. The table below summarises the Group's repricing gaps as of December 31, 2006.

	On demand and up to 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined/ non-interest bearing	Total
Assets						
Cash and short-term funds ⁽¹⁾	3,847	135	75	172	—	4,229
Securities portfolio ⁽²⁾	2,154	3,406	254	898	2,245	8,957
Due from other banks, net	5,454	761	340	258	—	6,813
Loans and advances to customers, net	3,257	8,327	10,999	6,600	79	29,262
Other assets	—	—	—	—	3,142	3,142
Total assets	14,712	12,629	11,668	7,928	5,466	52,403
Liabilities						
Due to other banks	4,747	1,347	777	716	—	7,587
Customer deposits	10,215	5,604	2,274	1,895	—	19,988
Other borrowed funds	598	2,729	627	514	—	4,468
Debt securities issued	1,611	2,940	300	6,714	—	11,565
Subordinated debt	—	7	—	1,162	—	1,169
Other liabilities	—	—	—	—	634	634
Total liabilities	17,171	12,627	3,978	11,001	634	45,411
Net repricing gap	(2,459)	2	7,690	(3,073)	4,832	6,992

(1) Includes mandatory cash balances with central banks.

(2) Comprises financial assets at fair value through profit or loss, financial assets available for sale, financial assets held to maturity and financial assets pledged under repurchase agreements and loaned financial assets.

Operational Risk Management

Operational risk is the risk of a loss resulting from the inadequacy or failure of internal processes, people and systems or from external events. The CRCD coordinates the operational risk management function within VTB. VTB's operational risk management strategy, developed by the CRCD and approved by the Management Board, provides for identification, assessment, monitoring and control of operational risks and allocates operational risk management responsibilities. For the purpose of quantitative analysis of VTB's operational risk, in early 2007 the CRCD implemented internal regulations regarding operational risk data capture using the risk event classifications that meet Basel II and CBR requirements. The CRCD is also responsible for VTB's insurance coverage. VTB's insurance policies include a financial institution's blanket bond, depositary insurance, insurance for cash, securities and precious metals in transit, insurance of ATMs, cash dispensers and currency exchange machines, and bank card fraud insurance. See "Business—Insurance Coverage".

The Internal Control Division is responsible for establishing, reviewing and improving VTB's system of internal controls. It monitors the conformity of VTB's policies with current legislation and regulation and is also responsible for internal controls relating to operations, accounting practices, taxation, regulatory and documentary compliance, risk management and IT systems. It reviews banking operations, including lending and transactions in securities and foreign currency, to ensure that appropriate procedures and limits are complied with. The Internal Control Division also ensures that VTB's accounting practices comply with Russian accounting rules.

The main procedures used to reduce operational risks include the establishment and implementation of bank policies and procedures; the audit of bank operations and transactions consummated; limits on the functions, powers and responsibilities of employees; collective decision making; establishment of operational limits; automisation of banking operations; implementation of measures ensuring information protection and limited access to informational systems; implementation of measures ensuring physical security of the premises and valuables of VTB and access control; reduction of operational risks connected with separate business processes as a result of outsourcing;

and reduction of employee-related risks, including establishing criteria for employee hiring, background checks and staff training and development.

The Internal Control Division conducts audits of policies and procedures performed at VTB's branches annually and of VTB's Head Office every 12 to 18 months. The head of the Internal Control Department reports directly to VTB's Chairman and Chief Executive Officer and to the Supervisory Council. The Internal Control Department's representatives at VTB's branches are independent of local management.

VTB's Legal Department is responsible for legal compliance, legal policies and developing standardised master agreements. Non-standardised master agreements are reviewed and approved by the Legal Department. The Legal Department also reviews all relevant counterparty documentation. VTB retains recognised international law firms to represent it in international transactions.

Procedures for Prevention of Money Laundering and Terrorist Financing

VTB's anti-money laundering measures are based on relevant Russian legislation, and are designed to detect and prevent money laundering and terrorist financing. See "Banking Regulation in Russia—Anti-Money Laundering Legislation." VTB's Anti-Money Laundering Division is in charge of ensuring implementation of rules and procedures relating to the prevention of money laundering and terrorist financing throughout VTB, and is in charge of reporting to the Financial Monitoring Federal Service. The head of the Anti-Money Laundering Division reports directly to VTB's Chairman and Chief Executive Officer.

VTB's anti-money laundering procedures are designed to ensure that VTB is protected from financial and reputational risks of being associated with money-laundering and terrorist financing activities; banking services are provided only to bona fide customers; transactions covered by Russian anti-money laundering legislation, including those conducted by persons or organisations known to be involved in terrorist activities, are detected and reported to the Financial Monitoring Federal Service on a timely basis; transactions involving persons or entities known to be involved in terrorist activities are suspended for two business days and immediately reported to the Financial Monitoring Federal Service, which has the right to suspend such transactions for further periods; the risk of it being used as a vehicle for money-laundering and terrorist financing is minimised; and that accounts are not opened or transactions are not executed for customers that lack necessary or valid identification or documentation or are known or suspected to be involved in terrorist activities.

VTB's procedures relating to the prevention of money laundering and terrorist financing include "know-your-customer" procedures which require clear identification of both Russian and foreign customers, verification of their identity and appraisal of the risk of their involvement in money-laundering or terrorist financing; detection of transactions that the Russian anti-money laundering legislation places under compulsory control, as well as suspicious transactions and activities; reporting; record keeping; confidentiality and training of personnel. VTB's "know-your-customer" procedures are designed to be consistent with sound business principles; help recognition of suspicious activity in a timely manner; minimise the risk that VTB will be used as a channel for illegal activities of any kind; prevent the establishment of banking relationships with customers until their true identity is known and identify unusual or suspicious transactions or transactions inconsistent with the information that VTB has about the customer or its regular business activities. See "Risk Factors—Risks Relating to the Group's Business and Industry—The Group's measures to prevent money laundering and/or terrorist financing may not be completely effective."

Russian anti-money laundering legislation describes transactions subject to compulsory control and requires daily reporting of such transactions by banks to the Financial Monitoring Federal Service. Transactions and activities which are considered to be suspicious must also be reported. In 2004, 2005 and 2006, VTB reported more than 32,300, 58,300 and 71,700 transactions, respectively, of which 1,289, 1,772 and 2,998, respectively, were considered "suspicious".

VTB acts as a clearing bank for more than 360 Russian credit institutions, 204 of which are located outside Moscow. Transactions through all correspondent accounts are monitored on a daily basis. In 2006, suspicious features were discovered in transactions of 35 banks, as a result of which every payment instruction where one of these banks was involved was determined by the Anti-Money Laundering Division prior to release.

Foreign subsidiary banks comply with anti-money laundering laws and regulations of their respective countries of incorporation and also follow a Group-wide anti-money laundering policy. All Group banks apply anti-money laundering and terrorist financing controls on a permanent basis using best practices in their countries of incorporation in order to mitigate reputational, legal and financial risks.

ICB

The ICB risk management policies and procedures are generally in line with those of VTB, with certain minor exceptions based on variations in ICB's risk management structure. For example, ICB does not implement branch-specific overall exposure limits. Also, ICB has several regional credit committees in addition to its head office and branch credit committees.

VTB24

As part of the strategy of restructuring and expanding its Russian retail operations, VTB began transferring to VTB24 VTB's retail and small business operations along with the related assets and liabilities, and VTB24 is gradually transferring its corporate operations (except for operations with small businesses) and the related assets and liabilities to VTB. As part of this restructuring, VTB24's credit risk management policies as a practical matter now cover both VTB's and VTB24's customer loans to individuals. VTB24's market risks (including currency risk and interest rate risk) and liquidity risks are currently overseen by VTB through a special unit established by the Treasury of VTB. VTB24's credit risk with respect to individuals and small businesses and its credit policies and procedures for individuals and small businesses are described below.

Credit Risk

VTB24 is exposed to credit risk in the context of VTB24's retail and small business lending activities.

Limits are established on VTB24's personal and car finance products by an externally-developed scoring system that takes into account region-specific metrics. With respect to personal loans, the loan approval process is currently automated, and for car finance products the loan approval process is done on a case-by-case basis within given parameters. VTB believes that the standards used by VTB24 to analyse applications for loans are comparatively stringent in relation to the Russian banking industry as a whole. VTB24's credit risk management policies and procedures are periodically reviewed for potential updates or improvements.

VTB24 uses the same credit policies when entering into conditional obligations as it does for on-balance sheet financial instruments, including the use of established credit approvals, risk control limits and monitoring procedures.

Credit Origination and Analysis

Typically, retail and small business customers make a loan application at a retail branch on standardised loan forms. As part of their loan application, individuals must provide information on their income, the purpose of the loan and the proposed collateral. Few individuals in Russia have credit histories and to minimise credit risk, VTB24 conducts thorough investigations of prospective retail borrowers. For non-mortgage loans, loan officers conduct extensive personal interviews with prospective borrowers, and VTB24 verifies and assesses the information provided in the loan application, evaluates the prospective borrower's income, education, employment, employment history and existing indebtedness, reviews supporting documentation, including a letter from the prospective borrower's employer verifying employment and income, and reviews public information for evidence of criminal activities.

For mortgage loans, VTB24's Mortgage and Consumer Lending Department and the relevant branch officers evaluate the prospective borrower's income, education, employment, employment history, existing indebtedness, the ratio of income to obligations (including rent, utility and other payments) and payment history for various obligations, such as mobile telephone and cable television payments, on the basis of the information provided by such prospective borrower. See "Risk Factors—Risks Relating to the Group's Business and Industry—The Group is exposed to substantial credit risk

from both corporate customers and individuals and the increasing proportion of loans made to individuals and small businesses may adversely affect the overall credit quality of its loan portfolio.”

VTB24 takes into account information regarding the credit histories of potential borrowers received from national credit bureaus where available. In addition, VTB24 has implemented an automated internal credit scoring system, which was developed with the Experian-Scorex system and adapted to Russian borrowers with respect to all VTB24 products except mortgages. The internal credit scoring system rates credit applicants for a given product and assigns a grade of “Yes”, “No” or “requires further analysis.” Loan applications which require further analysis typically arise with new customers who either do not exactly fit the profile set for a given product or existing borrowers who would exceed pre-approved amounts for borrowing, and who thus require expert attention to evaluate their credit worthiness.

Interest Rate Determination

VTB24’s asset and liability commission establishes minimum interest rates for certain types of retail loans, as further refined depending on the term and the currency of the loan, and, in some cases, on the risk profile of the potential borrower. The internal credit scoring system is also used to set interest rates on loans. Interest rates may be raised based on the credit standing of the borrower, or on the purpose or currency of the loan.

Collateral and Guarantees Appraisal

VTB24 generally requires collateral and/or third party guarantees in some form for all loans to individuals. As of December 31, 2006, the majority of VTB24’s loans to individuals were fully secured or guaranteed in some form. Acceptable collateral includes real estate, personal property, securities, automobiles and other liquid assets. VTB24 applies discount rates to collateral in assessing potential loan amounts by categorising the liquidity of the relevant collateral; the minimum discount rate is 15%.

The value of collateral is determined by a third party appraiser selected from a list of approved independent appraisers or by the bank itself in certain cases. In cases where no such pre-approved independent appraiser is available, a third party appraisal is obtained from an independent appraiser and VTB24 may conduct an additional evaluation of such appraisal. Mortgage loans must be secured by the purchased residence and are generally extended in amounts equal to no more than 90% of the residence’s purchase price. Mortgage loans used to purchase apartments under construction require additional collateral or guarantees, which are released once the construction is completed, and VTB24’s standard loan agreements provide for the right to request additional collateral if required. See “Business—Principal Business Activities—Retail Banking—Lending.” Retail mortgage loan borrowers are also required to obtain life insurance and to insure the property purchased.

VTB24 also accepts third party guarantees for retail loans from individuals and from its corporate customers. Guarantees are accepted within the credit limits set by VTB24 for the relevant guarantor. In the event that a Group corporate customer is a guarantor for individuals (as a rule, the customer’s employees), such lending operations are subject to a sub-limit established within the framework of the corporate customer’s exposure limit.

As with loans to corporate customers, VTB24 may be unable to realise the full appraised value of collateral due to declines in value, illiquidity or enforcement problems and/or the ability to take advantage of guarantees due to the deterioration of the financial condition of guarantors or their refusal to honor their guarantees. See “Risk Factors—Risks Relating to the Group’s Business and Industry—A decline in the value or illiquidity of the collateral securing the Group’s loans may adversely affect its loan portfolio,” “Risk Factors—Risks Relating to the Group’s Business and Industry—It may be difficult for the Group to enforce security and/or guarantees under Russian law.”

Credit Approval Procedures

VTB24 has established standardised approval procedures with respect to mortgage loans, non-mortgage loans to individuals and small business loans. Each mortgage loan must receive authorisation by the relevant loan officer as well as a risk manager. Non-mortgage loans to individuals up to a certain amount which have received a “Yes” score from the Experian system may be authorised by a loan officer acting alone; otherwise, such loans require authorisation by a risk manager in addition to the loan officer. Small business loan applications are subject to the authorisation of the credit

committee at the appropriate level. The level of authorisation required depends on the size of the relevant loan, the type of loan product being offered and the collateral securing the loan.

Monitoring

VTB24's Mortgage and Consumer Lending Department monitors the value of the collateral on an annual basis throughout the life of the relevant loan. The Mortgage and Consumer Lending Department also begins monitoring the financial condition of individual guarantors if the borrower on the relevant loan experiences payment difficulties or, if in the view of the relevant department, an event that may have a negative effect on a guarantor's ability to fulfil the obligations under a guarantee has occurred. Corporate guarantors for retail loans are monitored in the same manner as corporate borrowers.

Problem Loan Recovery

Branches initially work out problem loans at the branch level in accordance with the procedures implemented by VTB24 across all branches. In general, loans to individuals are transferred to VTB24's Loan Recovery Division when payments are one day overdue; loans to small businesses are transferred at twenty days overdue; and mortgage loans are transferred at sixty days overdue. Once a loan is transferred to the Loan Recovery Division, it contacts the borrower and analyses the reasons for nonpayment. If the borrower is not otherwise able to continue repayment of the loan, VTB24 may attempt to restructure the loan, including rescheduling of interest payments, extension of the term and other ways to restore the borrower's payment capacity so it can resume interest payments or repay the loan. If a loan restructuring is not possible or not successful, VTB24 may bring legal action against the borrower and/or any guarantors. See "Risk Factors—Risks Relating to the Group's Business and Industry—It may be difficult for the Group to enforce security and/or guarantees under Russian law" and "Business—Litigation."

Risk Management Policies of Other Group Banks

The risk management system for each non-Russian Group Bank is structured with due regard for the specifics of the jurisdictions in which such banks operate (CIS, Western Europe, Asia and Africa), accounting primarily for variations in regulation of bank activities and compliance with the applicable regulators of the financial markets and bank systems in which they participate, as well as applicable laws and regulations. For example, VTB Europe operates under the rules and standards of the FSA. VTB currently monitors risk management procedures, policies and performance of its foreign subsidiary and associate banks through the RMC and the other Group-level commissions, and through VTB's representatives on the supervisory boards of subsidiary and associate banks. See "Business—Foreign Banking Operations." Each Group bank is expected to adopt and revise its credit risk management policy on a regular basis in compliance with the oversight and regulatory requirements of the country in which it operates, in line with the RMC's Main Principles and Provisions of VTB Bank Group Credit Policy and other risk management policies promulgated by the RMC from time to time, subject to applicable law.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The financial data set forth below as of and for the years ended December 31, 2006, 2005 and 2004 have been derived from the Annual Financial Statements. The financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Annual Financial Statements and related notes included elsewhere in this Prospectus and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” See also “Presentation of Financial and Other Information” for important information about the financial information presented herein.

	For the year ended December 31,		
	2006	2005	2004
	(\$ millions)		
Selected Income Statement Data			
Net interest income (before provision for loan impairment)	1,745	910	583
Provision for loan impairment	(442)	(103)	(196)
Net interest income (after provision for loan impairment)	1,303	807	387
Net fee and commission income	351	168	106
Gains less losses from available-for-sale financial assets ⁽¹⁾	348	—	—
Gains less losses from financial assets at fair value through profit or loss	187	261	(5)
Foreign exchange translation gains less losses	265	(8)	114
Income arising from non-banking activities	111	155	141
Other	245	140	186
Operating income	2,810	1,523	929
Staff costs and administrative expenses	(1,370)	(739)	(514)
Expenses arising from non-banking activities	(90)	(111)	(114)
Other ⁽²⁾	54	30	—
Profit before taxation	1,404	703	301
Net profit	1,179	511	208
Including net profit attributable to minority interests	42	12	3

(1) Includes gains from the sale of shares in OJSC KamAZ and IMB (net of commission) in 2006. See Note 11 in Annual Financial Statements.

(2) Represents profit from disposal of subsidiaries in 2006 and the excess of fair value of acquired net assets over costs for 2005.

	As of December 31,		
	2006	2005	2004
	(\$ millions)		
Selected Balance Sheet Data			
Loans and advances to customers, net	29,262	19,925	10,169
Securities portfolio ⁽¹⁾	8,957	7,291	3,103
Cash and short-term funds, mandatory cash balances with central banks	4,229	3,096	1,752
Due from other banks, net	6,813	4,141	2,023
Other	3,142	2,270	763
Total assets	52,403	36,723	17,810
Customer deposits	19,988	12,767	6,024
Debt securities issued	11,565	7,241	3,948
Due to other banks	7,587	6,629	3,254
Other borrowed funds	4,468	2,937	1,729
Subordinated debt	1,169	1,161	—
Other	634	719	146
Total liabilities	45,411	31,454	15,101
Equity attributable to shareholders of the Parent	6,604	4,920	2,628
Minority interest	388	349	81
Total equity	6,992	5,269	2,709
Total liabilities and equity	52,403	36,723	17,810

(1) Comprises financial assets at fair value through profit or loss, financial assets available for sale, financial assets held-to-maturity and financial assets pledged under repurchase agreements and loaned financial assets.

	As of and for the year ended December 31,		
	2006	2005	2004
Selected Financial Ratios			
Profitability indicators			
Net interest margin ⁽¹⁾⁽²⁾	4.6%	4.7%	4.7%
Net fee and commissions income to operating income	12.5	11.0	11.4
Cost to income ⁽³⁾	50.8	54.0	65.2
Return on average equity ⁽²⁾⁽⁴⁾	19.7	17.7	8.2
Return on average assets ⁽²⁾⁽⁴⁾	2.6	2.4	1.5
Asset quality			
Overdue loans as % of gross customer loans	1.3%	1.1%	2.6%
Overdue and rescheduled loans as % of gross customer loans	1.8	1.4	3.4
Allowances as % of overdue and rescheduled loans	181.9	211.8	151.5
Group capital adequacy indicators⁽⁵⁾			
Tier 1 ratio	11.6%	11.8%	12.0%
Total capital ratio	14.0	14.1	12.0

(1) Represents the ratio of net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets.

(2) Average balances represent quarterly average for 2005 and 2006 and semi-annual average for 2004. For 2005, average balances exclude the impact of consolidation of the Acquired Subsidiaries in December 2005, as the impact on the income statement was not material for the year.

(3) Staff costs and administrative expenses divided by operating income excluding income arising from non-banking activities.

(4) Represents ratio of net profit expressed as a percentage of average equity (including minorities) or assets, respectively.

(5) Calculated as of the year end in accordance with the Bank for International Settlements (“BIS”) methodology prior to introduction of Basel II.

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

The following discussion of the Group's financial condition and results of operations should be read in conjunction with the Annual Financial Statements and the other information included elsewhere in this Prospectus. This section contains forward-looking statements that involve risks and uncertainties. The Group's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Cautionary Note regarding Forward-Looking Statements."

Overview

The Group is a leading Russian universal banking group offering a wide range of banking services and products across Russia, certain CIS countries and selected countries in Western Europe, Asia and Africa. The Group focuses on providing banking products and services to Russian and CIS clients through its domestic and foreign operations and to foreign clients doing business primarily related to, or in, Russia through its foreign banking subsidiaries and representative offices. The Group is the second largest banking group in Russia by assets, total loans and total deposits. *Global Finance* magazine recognised VTB in 2006 as the best commercial bank in Russia.

The Group has grown significantly since 2003 through organic expansion and selected acquisitions in Russia, the CIS and Western Europe. The Group has achieved its growth while increasing efficiency, as reflected by the Group's ROAE of 19.7% for 2006, compared to 8.2% for 2004. As of December 31, 2006, the Group had \$52,403 million in total assets, \$6,992 million in equity (including minorities) and generated \$1,179 million in net profit (including minorities) for the year ended December 31, 2006.

Factors Affecting Results of Operations and Capital Structure

Historical Acquisitions

The Group has entered into a number of material acquisitions since the beginning of 2004 to expand its geographical presence, increase market penetration, particularly in Russia, and diversify its product offering. These acquisitions have affected the comparability of the Group's financial statements over the periods under review. In particular, although the consolidation of the Acquired Subsidiaries as at December 2005 is reflected in the Group's balance sheet as of December 31, 2005, the principal impact of these acquisitions on the Group's statement of income was not reflected until fiscal year 2006. As a result, the Group's results of operations for the years ended December 31, 2006 and 2005

are not fully comparable. The table below provides certain information regarding the Group's material acquisitions from January 1, 2004 through December 31, 2006.

<u>Date</u>	<u>Target</u>	<u>Country</u>	<u>Stake acquired</u>	<u>Ownership after acquisition⁽¹⁾</u>	<u>Purchase Price</u>	<u>Total Intangibles</u>
			(\$ millions, except percentages)			
Apr-2004	Armsberbank (now VTB Armenia)	Armenia	70%	70%	9	4
Jul-2004	Guta Bank (now VTB24)	Russia	85.8%	85.8% ⁽²⁾	0	71
Jan-2005	UGB (now VTB Georgia)	Georgia	50% plus one share	50% plus one share	7	—
Mar-2005	ICB	Russia	25.0% plus one share	25% plus one share	97	(30) ⁽³⁾
Dec-2005	ICB	Russia	50.0% plus two shares	75% plus three shares	480	336 ⁽⁴⁾
Dec-2005	MNB (now VTB Europe) ⁽⁵⁾	UK	89.1%	89.1%	249	—
Dec-2005	BCEN-Eurobank (now VTB France) ⁽⁵⁾	France	87.0%	87.0%	151	—
Dec-2005	OWH (now VTB Germany) ⁽⁵⁾	Germany	51.6%	83.5%	42	—
Mar-2006	JSCB Mriya (now VTB Ukraine)	Ukraine	98.5%	98.5%	66	19

(1) Represents ownership of voting securities as at the acquisition date.

(2) Guta Bank (now VTB24) was subsequently recapitalised with a total of approximately \$717 million in contributions by VTB during the period from July 2004 through December 2006. Consequently, VTB's interest in Guta Bank increased to 96.7%.

(3) The Group recognised negative goodwill of \$30 million as a result of the acquisition, reflecting the excess net fair value of ICB's identifiable net assets over the purchase price. This negative goodwill was recognised in the Group's income statement in 2005 as a one-off gain.

(4) The Group recognised \$336 million of total intangibles as a result of the acquisition, comprising goodwill of \$182 million and a core deposit intangibles of \$154 million.

(5) These transactions were undertaken as part of the CBR's restructuring of its holdings in the banking sector and represented, in substance, a contribution-in-kind of shares and deposits in certain banks to VTB by the Group's controlling shareholder, the Russian government, acting through the Federal Property Agency. Therefore, the Group recorded the contribution-in-kind as an increase in equity of \$1,763 million, which represented the Group's share in the fair value of the acquired banks. Additionally, the difference of \$63 million between the cash contributed by the Government and the cash paid to the CBR was recorded as a contribution from VTB's controlling shareholder.

Continuing Expansion

As noted, the Group has grown significantly in the periods under review through organic expansion and selected acquisitions. During this period, the Group's cost to income ratio, defined as staff costs and administration expenses divided by operating income, excluding income arising from non-banking activities, declined from 65.2% to 50.8%. The Group's expansion strategy can be expected to result in increasing staff costs and administrative expenses, which may adversely affect the Group's operating efficiency.

Russia's Economic Condition

The majority of the Group's assets and customers are located in, or have businesses related to, Russia. As a result, the Group is substantially affected by Russian economic conditions. The continuing strength of domestic demand following the financial crisis of August 1998, along with high market prices for key export commodities continue to sustain Russia's economic growth. Russia's GDP, GDP per capita and consumer income per capita have continued to increase, and inflation has continued to decline over the periods under review. These positive developments have led to increased corporate

activities and increased personal wealth which have both affected the positive growth in the Russian corporate and retail banking sectors. See also “Banking Sector in Russia.”

Interest Rate Environment and Funding

Changes in interest rates affect the Group’s operations. Over the periods under review, movements in short and long-term interest rates have affected both the Group’s interest income and interest expense, as well as the Group’s level of gains and losses on its securities portfolio. While interest rates in Russia have generally declined in the periods under review, the Group’s net interest margin has remained relatively stable. In addition, since 2002, borrowing conditions for Russian borrowers in the international markets have become more favorable and the Group has repeatedly accessed both Russian and international capital markets for funding to lengthen the terms and diversify the composition of its loan portfolio and to try to match the terms of its assets and liabilities.

Fluctuations in the Value of Securities

As of December 31, 2006, the Group had \$8,957 million, or 17.1%, of its assets invested in securities. The value of the Group’s securities portfolio has fluctuated in the past and will fluctuate in the future, which may have a direct impact on the Group’s results of operations and the structure of its balance sheet. As of December 31, 2006, the majority of the Group’s securities were freely tradable debt securities and, along with short-term placements with other banks, are considered useful in managing the Group’s liquidity position.

Exchange Rate Fluctuations and Reporting Currency

The US dollar is currently both VTB’s functional currency and the Group’s presentation currency. Other subsidiaries within the Group have functional currencies other than the US dollar. See Note 4 to the Annual Financial Statements. As a result, changes in exchange rates may impact the Group’s statement of income and shareholders’ equity. Historically, the strengthening of the ruble against the US dollar has had a positive, non-cash impact on the Group’s results of operations in these periods.

Should the increased demand for rubles in the Russian economy result in the actual and forecasted pre-eminence of VTB’s ruble operations, VTB’s management may conclude, in 2007 or later, that VTB’s functional currency should be the ruble. This determination could have a material effect on the financial condition and results of operations on the Group’s consolidated IFRS financial statements. The nature and extent of this accounting effect would depend on the currency composition of the Group’s balance sheet at the time of, and subsequent to, such determination and movements in exchange rates.

Critical Accounting Policies

The Group’s accounting policies are integral to understanding its results of operations and financial condition presented in the consolidated financial statements and related notes thereto. The Group’s significant accounting policies are described in Notes 3 and 4 to the Annual Financial Statements. The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses during the relevant reporting period. The Group’s management believes that the following significant accounting policies, due to the judgment, estimates and assumptions inherent in the application thereof, are critical to an understanding of the Group’s financial statements. Actual results may differ from estimates, and such differences may be material.

Business Combinations

The Group has entered into a number of business combinations in the periods under review. See “—Historical Acquisitions.” For business combinations with an agreement date on or after March 31, 2004, the Group applies IFRS 3, “Business Combinations”. Goodwill arising from acquisitions is recognised as the excess of the purchase price over the acquirer’s interest in the net fair value of identifiable assets, liabilities and contingent liabilities. In accordance with IFRS, the Group does not amortise goodwill but reviews it for impairment annually or more frequently if events or circumstances indicate that the recoverable amount is less than the carrying amount. Assessing the recoverable amount requires management to make assumptions and use estimates supportable in the existing market environment and commensurate with the risk profile of the cash generating unit to which

goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the income statement, thereby affecting the Group's results of operations. As of December 31, 2006, the Group's consolidated balance sheet included \$294 million of goodwill.

Classification and Measurement of Financial Assets

Financial assets under IAS 32 and IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. See Note 4 to the Annual Financial Statements for definitions of these classifications. The fair value of financial assets that are actively traded is determined by reference to quoted market prices at the close of business on the balance sheet date. For financial assets where there is no active market, fair value is determined using other valuation techniques, including recent arm's length precedent transactions, comparison to market value of similar instruments, and discounted cash flow analysis. As of December 31, 2005, the securities which required management to estimate fair values included the Group's shares in an automobile production company, OJSC KamAZ, and the Group's interest in the Russian bank, "International Moscow Bank" ("IMB"), which together were valued at \$278 million. As of December 31, 2006, the securities which required management to estimate fair values included the Group's interest in CJSC ALROSA, which was valued at \$333 million as of December 31, 2006.

Allowances for Loan Impairment

The Group recognises allowance for loan impairment when there is objective evidence that the Group will not be able to collect the amounts due according to original contractual terms. If the Group identifies indicators of impairment, an assessment is made as to whether the carrying amounts are fully recoverable. If the recoverable amount is less than the carrying amount, an impairment loss is recognised. The Group analyses each of its significant loans for impairment on a quarterly basis. If the Group determines that there is no objective evidence that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Allowance for loan impairment is based on the Group's own loss and recovery experience, as well as on management's judgment of the amount of losses based on debt service capability and repayment history of a particular borrower in light of the existing economic and political situation. Changes in the allowance are reported in the income statement for the relevant period. The Group cannot predict when conditions may change and what effect it could have on the adequacy of the allowances for loan impairment.

Deferred Income Taxes

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. The Group can utilise its deferred tax assets and tax loss carry forwards only to the extent that future taxable profits are available against which the deductions can be made. The Group reviews the deferred income tax assets at each balance sheet date and any such asset is reduced to the extent that it is not longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The estimates of projected future taxable income are based on a variety of factors and assumptions, many of which are subjective and outside management's control. As a result, future taxable profit could be materially different from amounts estimated, in which case the carrying amount would need to be adjusted. Deferred tax assets and liabilities are netted only within individual Group companies. As of December 31, 2006, the Group had deferred tax assets and deferred tax liabilities of \$93 million and \$125 million, respectively.

Recent Developments

As of the date hereof, the Group has not prepared consolidated IFRS financial statements for the first quarter of 2007. VTB is in the process of aggregating consolidated IFRS financial data to be able to assess the Group's financial performance in the first quarter of 2007. VTB believes that the Group's net profit for this period may be lower than it was for the comparable period in 2006. VTB believes

that one of the factors that may lead to this decrease was an \$89 million net profit realized from the sale of KamAZ shares in 2006 (which will not be repeated in the first quarter of 2007). Based on management accounts for VTB and the Group's principal subsidiaries for the first quarter 2007, VTB believes that its lending volumes have continued to expand from the end of 2006.

Results of Operations for the Years Ended December 31, 2006, 2005 and 2004

The Group's net profit increased 130.7% to \$1,179 million in 2006 from \$511 million in 2005, which represented an increase of 145.7% from \$208 million in 2004. The increase in net profit in the periods under review was due to the overall expansion of the Group's business and the impact of the Acquired Subsidiaries. This primarily reflected significant growth in both interest income and non-interest income, including, among others, net fee and commission income. This was partially offset by growth in staff costs and administrative expenses from the ongoing expansion of the Group's business.

The following table sets forth the principal components of the Group's results of operations for the periods indicated.

	For the year ended December 31,		
	2006	2005	2004
	(\$ millions)		
Net interest income	1,745	910	583
Provision for loan impairment	(442)	(103)	(196)
Net interest income after provision for loan impairment	1,303	807	387
Fee and commission income (net)	351	168	106
Gains less losses from available-for-sale financial assets	348	—	—
Gains less losses arising from financial assets at fair value through profit or loss	187	261	(5)
Foreign exchange translation gains less losses	265	(8)	114
Gains less losses from dealing in foreign currencies	73	8	31
Extinguishment of liability	—	14	100
Share in profit of associated companies	15	24	2
Income arising from non-banking activities	111	155	141
Other operating income	157	94	53
Operating income	2,810	1,523	929
Staff costs and administrative expenses	(1,370)	(739)	(514)
Expenses arising from non-banking activities	(90)	(111)	(114)
Profit from disposal of subsidiaries	54	—	—
Excess of fair value of acquired net assets over cost	—	30	—
Profit before taxation	1,404	703	301
Income tax expense	(232)	(195)	(93)
Profit after taxation from continuing operations	1,172	508	208
Profit of discontinued operations	7	3	—
Net profit	1,179	511	208
Attributable to:			
Minority interest	42	12	3
Shareholders of the parent	1,137	499	205

Net Interest Income

Net interest income has historically been the largest component of the Group's operating income. The following table sets forth the Group's interest income, interest expense and net interest income before provision for loan impairment for the periods indicated.

	For the year ended December 31,		
	2006	2005	2004
	(\$ millions)		
Interest income	3,637	1,830	1,058
Interest expense	<u>(1,892)</u>	<u>(920)</u>	<u>(475)</u>
Net interest income before provision for loan impairment	<u>1,745</u>	<u>910</u>	<u>583</u>

Net interest income before provision for loan impairment increased 91.8% to \$1,745 million in 2006 from \$910 million in 2005, representing a 56.1% increase from \$583 million in 2004. The increase in net interest income was primarily due to the increase in average interest earning assets and average interest bearing liabilities.

The following table sets forth the average balances of the Group's assets and liabilities, the related interest income or expense and average rates for the periods indicated. For the purposes of this table, the consolidated average assets and liabilities represent an average of balances as of March 31, June 30, September 30 and December 31, for 2006 and 2005, respectively, and as of June 30 and December 31, for 2004. In order to present what the Group believes is a more meaningful calculation of average balance sheet and interest rate data, the balances of the Acquired Subsidiaries were excluded from the calculation as of December 31, 2005. Including the Acquired Subsidiaries would have had a material impact on the average balances, as the Acquired Subsidiaries were included in the consolidated balances of December 31, 2005, but had a negligible impact on net interest income during the year

ended December 31, 2005. Calculation of these average balances on a quarterly (with respect to 2004), monthly or daily basis could result in materially different average results.

	For the year ended December 31,								
	2006			2005			2004		
	Average balance	Average rate ⁽¹⁾	Interest income/expense	Average balance	Average rate ⁽¹⁾	Interest income/expense	Average balance	Average rate ⁽¹⁾	Interest income/expense
	(\$ millions, except percentages)								
Assets									
Due from banks ⁽²⁾⁽³⁾	6,596	4.6%	306	3,103	4.4%	137	2,364	2.8%	66
Loans and advances to customers ⁽³⁾	25,082	11.5%	2,872	13,112	10.9%	1,425	7,518	10.3%	778
Securities ⁽⁴⁾	6,534	7.0%	459	2,987	9.0%	268	2,447	8.7%	214
Interest-earning assets	38,212	9.5%	3,637	19,202	9.5%	1,830	12,329	8.6%	1,058
Non-interest earning assets	6,631			2,156			1,384		
Total assets	44,843			21,358			13,713		
Liabilities and equity									
Due to banks and other borrowed funds	10,802	5.2%	561	4,912	5.6%	277	3,335	3.2%	107
Customer deposits	17,323	4.3%	740	7,917	4.2%	334	4,822	3.3%	159
Debt securities issued	8,636	6.0%	517	4,764	5.6%	266	2,835	7.4%	209
Subordinated debt	1,162	6.4%	74	535	8.0%	43	—	—	—
Interest bearing liabilities	37,923	5.0%	1,892	18,128	5.1%	920	10,992	4.3%	475
Non-interest bearing liabilities	943			335			193		
Equity	5,977			2,895			2,528		
Total liabilities and equity	44,843			21,358			13,713		
Net interest income			1,745			910			583
Net interest spread ⁽⁵⁾		4.5%			4.4%			4.3%	
Net interest margin ⁽⁶⁾		4.6%			4.7%			4.7%	

- (1) Represents interest income or interest expense divided by the average balance of respective item.
- (2) Includes balances on correspondent accounts with other banks recorded under "Cash and short-term funds."
- (3) Prior to deducting allowance for loan impairment.
- (4) Excludes equity securities, as these securities are not interest earning.
- (5) Represents the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities.
- (6) Represents the ratio of net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets.

The following table sets forth the allocation of changes in the Group's interest income, interest expense and net interest income due to changes in volume and interest rates for the periods indicated. The effect of changes in volume is calculated as the change in average balances multiplied by the interest rate in the previous period, while the effect of changes in rate is calculated as the change in the average rate multiplied by the previous period's average balance. Changes caused by both volume

and rate (change in the average rate multiplied by change in average balances) are allocated between volume change and rate change at the ratio each component bears to the absolute value of their total.

	For the year ended December 31,					
	2006 vs 2005			2005 vs 2004		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net change (\$ millions)	Volume	Rate	Net change
Interest income						
Due from banks ⁽¹⁾	162	7	169	25	46	71
Loans and advances to customers	1,365	82	1,447	600	47	647
Securities	262	(71)	191	47	7	54
Total interest income	1,789	18	1,807	672	100	772
Interest expense						
Due to banks and other borrowed funds	305	(21)	284	66	104	170
Customers deposits	398	8	406	123	52	175
Debt securities issued	231	20	251	117	(60)	57
Subordinated debt	41	(10)	31	43	—	43
Total interest expense	975	(3)	972	349	96	445
Net change in net interest income	814	21	835	323	4	327

(1) Includes balances on correspondent accounts with other banks recorded under "Cash and short-term funds."

Interest Income

The Group generates interest income on loans and advances to customers, its securities portfolio and amounts due from other banks. The following table sets forth the principal components of the Group's interest income for the periods indicated.

	For the year ended December 31,		
	2006	2005	2004
	(\$ millions)		
Interest income			
Loans and advances to customers	2,872	1,425	778
Securities	459	268	214
Due from other banks ⁽¹⁾	306	137	66
Total interest income	3,637	1,830	1,058

(1) Includes interest income accrued on correspondent accounts with other banks recorded under "Cash and short-term funds".

Interest income increased 98.7% to \$3,637 million in 2006 from \$1,830 million in 2005 which represented a 73.0% increase from \$1,058 million in 2004, mainly due to an increase in average interest earning assets. The increase in interest earning assets was primarily driven by the significant increase in loans and advances to customers as the Group continued to expand its business in the periods under review. The average interest rate on interest-earning assets was 9.5% in 2006 and 2005 which was an increase from 8.6% in 2004. While the average interest rate on interest earning assets remained stable in 2006 compared to 2005, the interest rate on loans and advances to customers increased due to a larger proportion of higher-yielding loans and advances to customers, while the average yield on securities decreased. The increase in average interest rates in 2005 compared to 2004 was due to the larger proportion of higher-yielding loans and advances to customers, and an increase in average interest rates on all interest-earning items during the period.

Interest Income on Loans and Advances to Customers

The majority of the Group's interest income in the periods under review was attributable to interest income on loans and advances to customers, which represented 79.0%, 77.9% and 73.5% of total interest income in 2006, 2005 and 2004, respectively. Interest income on loans and advances to customers increased 101.5% to \$2,872 million in 2006 from \$1,425 million in 2005, primarily due to an increase in average loans and advances to customers. The increase in average loan balances in 2006 was primarily due to the ongoing expansion of the Group's business, including its retail operations, as well as the impact of the consolidation of the Acquired Subsidiaries in December 2005. The increase in interest income was also influenced by an increase in the average interest rate to 11.5% in 2006 from 10.9% in 2005, due to the increase in the proportion of loans to individuals and increase in, the amount of longer-maturity loans, all of which yielded higher interest rates.

Interest income on loans and advances to customers grew 83.2% to \$1,425 million in 2005 from \$778 million in 2004, primarily due to the growth of average loans and advances to customers. The increase in the average loan balances was driven by the continued expansion of the Russian economy which resulted in businesses requiring funding for their growth. The increase in interest income on loans and advances to customers in 2005 was also influenced by an increase in the average interest rate to 10.9% in 2005 from 10.3% in 2004. The slight increase was due to an increase in the proportion of loans to individuals, an increase of the proportion of ruble denominated loans, and an increase in the average maturity of the loan portfolio, all of which generally yielded higher interest rates.

Interest Income on Securities

Interest income on the Group's securities portfolio was the second largest component of interest income, representing 12.6%, 14.6% and 20.2% of total interest income in 2006, 2005 and 2004, respectively. Interest income on the Group's securities portfolio increased 71.3% to \$459 million in 2006 from \$268 million in 2005, primarily due to an increase in average debt securities. The growth in the securities portfolio was primarily due to the consolidation of the Acquired Subsidiaries in December 2005, as well as increased securities positions. The average interest rate on the securities portfolio decreased to 7.0% in 2006 from 9.0% in 2005 primarily because the securities portfolios of the Acquired Subsidiaries were more heavily concentrated in government securities which had lower yields.

Interest income on the Group's securities portfolio increased 25.2% to \$268 million in 2005 from \$214 million in 2004, primarily due to an increase in average debt securities coupled with an increase in the average interest rate on the portfolio to 9.0% in 2005 from 8.7% in 2004. The slight increase in yield was due to a gradual shift from investments in Russian government securities to higher-yielding domestic corporate debt securities.

Interest Income on Due From Other Banks

Interest income on due from other banks represented 8.4%, 7.5% and 6.2% of total interest income in 2006, 2005 and 2004, respectively. Interest income due from other banks increased 123.4% to \$306 million in 2006, from \$137 million in 2005 which represented a 107.6% increase from \$66 million in 2004. This increase was attributable to an increase in average balances and also an increase in average interest rates. Average interest rates increased to 4.6% in 2006 from 4.4% in 2005 and from 2.8% in 2004. The increase in interest rates in these periods was primarily due to the increase in LIBOR interest rates, which is the basis for a significant portion of these instruments.

Interest Expense

The Group's interest expense consists primarily of interest expense from customer deposits, debt securities issued, subordinated debt, as well as due to banks and other borrowed funds. The following table sets forth the principal components of the Group's interest expense for the periods indicated.

	For the year ended December 31,		
	2006	2005	2004
	(\$ millions)		
Interest expense			
Customer deposits	740	334	159
Due to banks and other borrowed funds	561	277	107
Debt securities issued	517	266	209
Subordinated debt	74	43	—
Total interest expense	<u>1,892</u>	<u>920</u>	<u>475</u>

Total interest expense increased 105.7% to \$1,892 million in 2006 from \$920 million in 2005, which represented a 93.7% increase from \$475 million in 2004. The increase was primarily due to the increase in average interest bearing liabilities, which resulted from the continued expansion of the Group's operations and impact the consolidation of the Acquired Subsidiaries in December 2005. The average interest rates on the Group's interest bearing liabilities were 5.0%, 5.1% and 4.3% in 2006, 2005 and 2004, respectively. In 2005 and 2006, average interest rates remained relatively stable as the Group successfully managed the composition of its funding structure. The increase in average interest rates in 2005 compared to 2004 was due to an increase in average rates on customer deposits, due to banks and other borrowed funds, which was partially offset by the decline in the average interest rate on debt securities issued.

Interest Expense on Customer Deposits

Interest expense on customer deposits was the largest component of the Group's total interest expense, representing 39.1%, 36.3% and 33.5% in 2006, 2005 and 2004, respectively. Interest expense on customer deposits increased 121.6% to \$740 million in 2006, from \$334 million in 2005, primarily due to an increase in average customer deposits. The increase in customer deposits was due to the ongoing expansion of VTB's branch network, the increase in the Group's client base and the consolidation of the Acquired Subsidiaries, particularly ICB. The average rate on customer deposits increased slightly to 4.3% in 2006 from 4.2% in 2005.

Interest expense on customer deposits increased 110.1% to \$334 million in 2005 from \$159 million in 2004, primarily due to an increase in average customer deposits coupled with an increase in average interest rates during the period. Average customer deposits increased due to the expansion of the Group's client base and the growth of its retail banking business, as well as increased corporate deposits. After the 2004 turmoil in the Russian banking sector, customer confidence grew in Russia's large state-owned banks, including VTB, which attracted new, large customers and increased the deposit balances of its existing customers as they transferred funds away from private commercial banks. During the second and third quarter of 2004, a significant number of new customers, particularly retail customers, preferred to keep their funds on a shorter term basis, which also contributed to a lower cost of funding for the Group. Starting in the fourth quarter of 2004 and continuing throughout 2005, customers increased the maturity of their deposits to normal levels from those prevailing during the turmoil, resulting in an increase in average interest rates on customer deposits to 4.2% in 2005 from 3.3% in 2004.

Interest Expense on Due to Banks and Other Borrowed Funds

Interest expense on due to banks and other borrowed funds represented 29.7%, 30.1% and 22.5% of total interest expense in 2006, 2005 and 2004, respectively. Interest expense on due to banks and other borrowed funds increased 102.5%, to \$561 million in 2006 from \$277 million in 2005, primarily due to an increase in the average balances, and partially offset by a decrease of average interest rates to 5.2% in 2006 from 5.6% in 2005. The increase in average balances was primarily due to the increase in borrowings in the form of syndicated loans.

Interest expense due to banks and other borrowed funds increased 158.9% to \$277 million in 2005 from \$107 million in 2004, due to an increase in the average interest rate coupled with higher average balances. Average balances increased primarily due to an increase of syndicated loans, as well as an increase in due to other banks balances, including sale and repurchase agreements with other banks. The average interest rate on amounts due to banks and other borrowed funds increased to 5.6% in 2005 from 3.2% in 2004, primarily due to the increase in quarterly LIBOR rates, which impacted a significant portion of the Group's interbank borrowings.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 27.3%, 28.9% and 44.0% of total interest expense in 2006, 2005 and 2004, respectively. Interest expense on debt securities issued increased by 94.4% to \$517 million in 2006, from \$266 million in 2005, primarily due to an increase in average balance of debt securities issued. This increase was attributable to the growth of borrowings in the international and local capital markets through the issuance of notes under VTB's loan-participation note programme, as well as ruble-denominated local bonds. This increase was augmented by the increase of average interest rates to 6.0% in 2006 from 5.6% in 2005.

Interest expense on debt securities issued increased 27.3% to \$266 million in 2005 from \$209 million in 2004. This increase was attributable to the growth of average debt securities in issue, which was partially offset by the decrease of average interest rates from 7.4% in 2004 to 5.6% in 2005. The increase in average debt securities in issue primarily reflected the issuance of bonds under the programme. In 2005, the average interest rate on debt securities issued decreased due to the continued issuance of lower-cost US dollar-denominated bonds and the continued decline in the cost of funding in the domestic market.

Interest Expense on Subordinated Debt

Interest expense on subordinated debt represented 3.9%, 4.7% and nil of total interest expense in 2006, 2005 and 2004, respectively. Interest expense on subordinated debt increased to \$74 million in 2006 from \$43 million in 2005, primarily due to the consolidation of ICB, which had issued a \$400 million subordinated bond prior to the acquisition of ICB by VTB. In 2005, interest expense on subordinated debt securities issued primarily reflected the \$750 million subordinated debt issued by VTB in February 2005. The average interest rate on subordinated debt was 6.4% in 2006 and 8.0% in 2005. The decrease in average rate was primarily due to the calculation of average balances which were impacted by the timing of the issuance in 2005. See table on average balances under "Results of Operations for the Years Ended December 31, 2006, 2005 and 2004." If balances had been calculated on a daily basis, the average rate in 2006 would have been substantially similar to those in 2005.

Net Interest Margin and Net Interest Spread

The net interest margin represents the ratio of net interest income before provision for loan impairment to average interest earning assets. The Group's net interest margin remained relatively stable at 4.6% in 2006, 4.7% in 2005 and 4.7% in 2004. The Group managed to grow its net interest income, in line with its total interest-earning assets in the periods under review.

The net interest spread represents the difference between the average yield on interest-earning assets and the average cost on interest bearing liabilities. The Group's net interest spread increased slightly in the period under review to 4.5% in 2006 from 4.4% in 2005 and from 4.3% in 2004, as the Group was able to manage its funding costs through the composition of its funding structure, while the yield on interest earning assets increased.

Provision for Loan Impairment

The provision for loan impairment represents provisions made for loans and advances to customers, as well as for amounts due from other banks. The majority of the provision for loan

impairment is from loans and advances to customers. The following table sets forth the provision for loan impairment and relevant ratios for the periods indicated.

	For the year ended December 31,		
	2006	2005	2004
	(\$ millions)		
Provision for loan impairment on customer loans and advances	442	110	185
Provision for loan impairment on due from banks	—	(7)	11
Total provision for loan impairment	442	103	196
Overdue loans and rescheduled loans/Total customer loans	1.8%	1.4%	3.4%
Allowance for loan impairment/Overdue loans and rescheduled loans	181.9%	211.8%	151.5%
Provision for loan impairment on customer loans and advances/Average customer loans	1.8%	0.8%	2.5%

The provision for loan impairment increased to \$442 million in 2006 from \$103 million in 2005, primarily reflecting the growth of the Group's customer loan portfolio as well as the increase in overdue loans in 2006. The increase in overdue loans was, in part, due to an individual loan in the principal amount of \$100 million which became overdue and required 83% provisioning in 2006. See "Risk Factors—Risks Relating to the Group's Business and Industry—The lack of availability of frequent and reliable information about borrowers in Russia could result in VTB not becoming aware of events of default of its borrowers in a timely manner." In addition, in 2005, the Group adopted revised IAS 39 which changed the way in which the Group assesses provisions. The revised IAS 39 requires objective evidence on impairment prior to incurring provisions. This impacted the rate of provisioning (defined as provision for loan impairment on customer loans and advances as a percentage of average customer loans) in 2005. If the Group had adopted revised IAS 39 prior to this period, the Group estimates that the rate of provisioning in 2005 would have been comparable to the rate of provisioning in 2006. The provision for loan impairment on customer loans and advances decreased to \$103 million in 2005 from \$196 million in 2004, primarily due to the impact of the application of the revised IAS 39 in 2005.

Non-Interest Income

The group generates non-interest income from net fee and commission income, gains on financial assets and certain other operating income. The following table sets forth the principal components of the Group's non-interest income for the periods indicated.

	For the year ended December 31,		
	2006	2005	2004
	(\$ millions)		
Net fee and commission income	351	168	106
Gains and losses from available for sale financial assets	348	—	—
Gains less losses arising from financial assets at fair value through profit or loss . .	187	261	(5)
Foreign exchange translation gains less losses	265	(8)	114
Gains less losses from dealing in foreign currencies	73	8	31
Extinguishment of liability	—	14	100
Share in income of associates	15	24	2
Income arising from non-banking activities	111	155	141
Other operating income	157	94	53
Total non-interest income	1,507	716	542
Net fee and commission income/operating income	12.5%	11.0%	11.4%

Non-interest income represented 53.6%, 47.0% and 58.3% of operating income in 2006, 2005 and 2004, respectively. The Group's non-interest income increased 110.5% to \$1,507 million in 2006 from \$716 million in 2005, which represented a 32.1% increase from \$542 million in 2004. This was mainly due to an increase in net fee and commission income, gains from financial assets, and the impact of foreign exchange translation. In 2006, the increase included the impact from the disposal of shares in

OJSC KamAZ and IMB resulting in a gain of \$348 million. Excluding these significant items, non-interest income would have increased 61.9% in 2006 compared to 2005.

Net Fee and Commission Income

Net fee and commission income is the largest component and represented 23.3%, 23.5% and 19.6% of total non-interest income in 2006, 2005 and 2004, respectively. The following table sets forth the principal components of the Group's net fee and commission income for the periods indicated.

	For the year ended December 31,		
	2006	2005	2004
	(\$ millions)		
Fee and commission income			
Settlement transactions	202	74	34
Cash transactions	75	29	23
Operations with securities	35	12	8
Guarantees issued	61	48	25
Other	28	27	28
Total fee and commission income	401	190	118
Fee and commission expense			
Settlement transactions	(24)	(5)	(3)
Cash transactions	(9)	(6)	(5)
Guarantees received	(3)	(2)	(1)
Other	(14)	(9)	(3)
Total fee and commission expense	(50)	(22)	(12)
Net fee and commission income	351	168	106

Net fee and commission income increased 108.9% to \$351 million in 2006 from \$168 million in 2005, and increased 58.5% from \$106 million in 2004. The increase was due to the expansion of the Group's corporate and retail customer base and average deposit balances which led to a larger volume of commission generating transactions. In addition, the impact of the consolidation of the Acquired Subsidiaries in December 2005 also contributed to the increase in net fee and commission income in 2006. In particular, ICB historically generated higher commission income from its client base.

Gains and Losses from Financial Assets Available-for-Sale

In 2006, net gains from financial assets available-for-sale amounted to \$348 million, due to the sale of OJSC KamAZ shares in February 2006 resulting in a gain of \$116 million and the sale of IMB shares in December 2006 resulting in a gain of \$232 million.

Gains and Losses from Financial Assets at Fair Value through Profit or Loss

Net gains from financial assets at fair value through profit or loss represented 12.4%, 36.5% and a negative 0.9% of total non-interest income in 2006, 2005 and 2004, respectively. In 2006, net gains from financial assets decreased by \$74 million to \$187 million in 2006 from \$261 million in 2005, primarily reflecting the change in general market conditions as the favorable Russian debt and equity market performance in relation to the securities held by the Group was lower in 2006 than in 2005.

In 2005, net gains from financial assets at fair value through profit or loss increased to \$261 million from a net loss of \$5 million in 2004 primarily due to the improvement in market performance of the securities portfolios held by the Group. In the second quarter of 2004, the Group recognised losses on VTB's securities portfolio due to the decline in the prices of Russian securities caused by an adverse change in sentiment to emerging market securities. During the second half of 2004, market prices in Russian corporate and government securities recovered and, as a result, the Group recognised only a minimal net loss in 2004. As market prices continued to rise in 2005, coupled with the increase in the average balance of VTB's securities portfolio, the Group recorded a significant net gain in 2005.

Foreign Exchange Translation Gains Net of Losses

Gains and losses arising from foreign exchange translation represent the impact of translating the Group entities' assets and liabilities denominated in currencies other than their functional currencies into their functional currencies. The Group had net gains from foreign exchange translation of \$265 million in 2006 compared to net losses of \$8 million in 2005, primarily due to an increase in the Group's net ruble balance sheet position and the appreciation of the ruble against the US dollar. The Group's net ruble balance sheet position represents the excess of its ruble-denominated assets over its ruble-denominated liabilities. The exchange rate of the US dollar against the ruble declined from RUR 28.78 per US dollar as of December 31, 2005 to RUR 26.33 per US dollar as of December 31, 2006.

The Group had net losses from foreign exchange translation of \$8 million in 2005 compared to net gains of \$114 million in 2004. The net losses in 2005 were mainly attributable to losses resulting from the Group's net ruble balance sheet position against the US dollar in 2005 which was impacted by the depreciation of the ruble against the US dollar. The exchange rate of US dollar against the ruble increased from RUR 27.75 per US dollar as of December 31, 2004 to RUR 28.78 per dollar as of December 31, 2005. This loss was partially offset by gains from the Group's short net euro position against the US dollar. Net gains in 2004 were primarily caused by the increase in VTB's long ruble balance sheet position and the appreciation of the ruble against the US dollar.

Gains Less Losses from Dealing in Foreign Currencies

Gains less losses from dealing in foreign currencies represents the difference between spot rates and contract rates on customer foreign exchange transactions, as well as realised and unrealised gains and losses in foreign exchange primarily used for the Group's currency hedging. In 2006, gains less losses from dealing in foreign currencies increased to \$73 million in 2006 from \$8 million in 2005. The gains represented current income from customer foreign exchange transactions in the normal course of business, which were offset by realised and unrealised losses on currency swaps and forward transactions. These transactions were conducted in order to offset foreign currency positions arising from borrowing from the international markets in foreign currencies and granting loans to customers in Russian rubles. In 2006, the currency composition of the Group's balance sheet improved, which permitted VTB to decrease the amount of required currency swaps and forward contracts.

In 2005, gains less losses from dealing in foreign currencies decreased to \$8 million from \$31 million in 2004. This was due to offsets of current income from customer foreign exchange transactions in the normal course of business against realised and unrealised losses on currency swaps. These derivatives were entered into by VTB in 2005 and 2004 in order to hedge its currency position.

Extinguishment of Liability

In December 2005, the Group purchased a deposit at a price lower than its carrying value which resulted in the recognition of a \$14 million gain from extinguishment of liability. In December 2004, the Group favorably negotiated the extinguishment of debt related to \$100 million of deposits placed with MNB (now VTB Europe) for the purpose of financing Russian fishing enterprises, which resulted in the recognition of a \$100 million gain. The respective loans for the Russian fishing enterprises had been written off in 2004 as uncollectible.

Income Arising from Non-banking Activities

Income from non-banking activities is presented separate from expenses from non-banking activities from an accounting perspective. The net impact from non-banking activities, defined as income from non-banking activities less expenses from non-banking activities, on the Group's operating results has decreased over the periods under review and was \$21 million, \$44 million and \$27 million in 2006, 2005 and 2004, respectively.

Income from non-banking activities decreased to \$111 million in 2006 from \$155 million in 2005, primarily due to the deconsolidation of several non-banking subsidiaries, including Interbank Trading House (former Trading House VTB) and Insurance Company VTB-Rosno. Income from non-banking activities in 2005 increased to \$155 million from \$141 million in 2004, primarily due to the growth of revenues in Trading House VTB (commodities trading) and CJSC Almaz Press (printing business).

Other Operating Income

Other operating income increased to \$157 million in 2006 from \$94 million in 2005, and from \$53 million in 2004. The increase in 2006 was largely due to a \$52 million gain from the revaluation of investment property and \$42 million increase in dividends received. In 2005, the increase was primarily attributable to a \$21 million gain arising from the disposal of property and a \$27 million reversal of impairment of fixed assets.

Staff costs and administrative expenses

The following table sets forth the principal components of the Group's staff costs and administrative expenses for the periods indicated.

	For the year ended December 31,					
	2006		2005		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(\$ millions, except percentages)					
Staff costs	606	44.2%	334	45.2%	213	41.4%
Defined pension contribution expense	66	4.8	30	4.1	23	4.5
Depreciation and other expenses related to premises and equipment	171	12.5	94	12.7	80	15.6
Leasing and rent expenses	80	5.8	48	6.5	34	6.6
Advertising expenses	74	5.4	40	5.4	20	3.9
Taxes other than income tax	70	5.1	50	6.8	36	7.0
Security expenses	32	2.3	20	2.7	14	2.7
Insurance	47	3.4	14	1.9	3	0.6
Amortisation of core deposit intangible	34	2.5	—	—	—	—
Professional fees	39	2.9	22	3.0	21	4.1
Post and telecommunication expenses	27	2.0	17	2.3	17	3.3
Other	124	9.1	70	9.4	53	10.3
Total staff costs and administrative expenses	1,370	100.0%	739	100.0%	514	100.0%
Cost to income ⁽¹⁾	50.8%		54.0%		65.2%	

(1) Represents staff costs and administrative expenses divided by operating income, excluding income arising from non-banking activities.

Staff costs and administrative expenses increased 85.4% to \$1,370 million in 2006 from \$739 million in 2005 which represented a 43.8% increase from \$514 million in 2004, primarily due to the expansion of the Group's activities, including the promotion of its retail, corporate and investment banking business as well as the consolidation of the Acquired Subsidiaries in December 2005 which impacted 2006 results. Over the same periods, while the Group expanded its business, it improved its efficiency ratio, calculated as staff costs and administrative expenses divided to operating income (excluding income arising from non-banking activities), which decreased to 50.8% in 2006 from 54.0% in 2005 and from 65.2% in 2004.

Staff Costs

Staff costs increased to \$606 million in 2006 from \$334 million in 2005 and from \$213 million in 2004, primarily due to the consolidation of the Acquired Subsidiaries, as well as an increase in the number of the Group's employees to support the expansion of its operations, enlargement of its branch network and the growth of the retail banking operations. The number of employees increased to 28,466 as of December 31, 2006 from 23,145 as of December 31, 2005 and from 13,132 as of December 31, 2004. In 2006, the increase in staff costs was primarily due to the expansion of the Group's retail and investment banking operations, as well as the impact of the Acquired Subsidiaries in December 2005 and the acquisition of JSCB Mriya (now VTB Ukraine) in March 2006.

Defined Pension Contribution Expense

Defined pension contribution expense primarily relates to mandatory pension contributions for the Group's employees to Russian state pension plans. The defined pension contribution expense increased to \$66 million in 2006 from \$30 million in 2005, and from \$23 million in 2004, due to increases in the Group's number of employees.

Depreciation and other expenses related to premises and equipment

Depreciation and other expenses related to premises and equipment increased by 81.9% to \$171 million in 2006 from \$94 million in 2005, primarily reflecting the impact of the Acquired Subsidiaries and the continued expansion of the Group's business. In 2005, depreciation and other expenses related to premises and equipment increased 17.5% to \$94 million from \$80 million in 2004, reflecting the enhancement of the Group's operating network.

Leasing and Rent Expenses

Leasing and rent expenses increased 66.7% to \$80 million in 2006 from \$48 million in 2005, and 41.2% from \$34 million in 2004, primarily as a result of the Group opening a significant number of branches as part of the expansion of its operations during the period and impact of the Acquired Subsidiaries.

Advertising Expenses

Advertising expenses increased to \$74 million in 2006 from \$40 million in 2005 and from \$20 million in 2004. The increase in 2006 was primarily due to costs related to the re-branding of the Group. In addition, the increase in advertising expenses in the periods under review also reflected support for the expansion of the Group's retail network and product range.

Amortisation of Intangibles

In 2006, the Group's recognised \$34 million for the amortisation of core deposit intangible, relating to the acquisition in ICB. The core deposit intangible was identified for ICB's long-dated and well-established relationship with its major customers, where it was determined that the actual maturity of the demand deposits was significantly longer than their contract maturity. The useful life of core deposit intangible was estimated as five years and it is amortised over its useful life.

In addition, the Group wrote off \$14 million of goodwill allocated to CJSC "Almaz-Press" through impairment charge. See "—Critical Accounting Policies—Business Combinations."

Income Tax Expense

Income tax expense comprises the Group's current tax income charge and changes in deferred income tax. Taxes other than income taxes, such as property tax, are recorded within staff costs and administrative expenses.

The following table sets forth the components of the Group's income tax expense for the periods indicated.

	For the year ended December 31,		
	2006	2005	2004
	(\$ millions)		
Current tax charge	366	90	124
Changes in deferred income tax	(134)	105	(31)
Income tax expense	232	195	93

The income tax rate applicable to the majority of the Group's income is 24%, and it has been effective since January 1, 2002. However, each subsidiary is separately taxed, and the Group's effective tax rate was 16.5% in 2006, 27.7% in 2005 and 30.9% in 2004. In Russia, taxable profit is calculated under Russian tax rules, which differ materially from IFRS.

In 2006, the income tax expense increased by 19.0% to \$232 million from \$195 million in 2005, which was in line with the significant improvement of financial results of the Group in 2006. This tax expense increase was partially off-set by non-taxable profits from operating activities relating to the sale of shares of IMB and foreign exchange translation gains less losses. In 2005, the Group incurred an income tax expense of \$195 million, compared to an income tax expense of \$93 million in 2004.

Financial Condition

The following discussion of the Group's assets and liabilities and other balance sheet items should be read in conjunction with "Risk Management."

Total Assets

As of December 31, 2006, the Group had total assets of \$52,403 million, compared to \$36,723 million as of December 31, 2005 and \$17,810 million as of December 31, 2004. In 2006, the increase was primarily due to the growth in the Group's lending activity. In 2005, the growth resulted from increase in customer loans and advances, securities, cash and short-term funds and due from other banks, which reflected the Group's organic growth and consolidation of the Acquired Subsidiaries.

The following table sets forth the principal components of the Group's total assets for the periods indicated.

	As of December 31,					
	2006		2005		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(\$ millions, except percentages)					
Customer loans and advances, net	29,262	55.8%	19,925	54.3%	10,169	57.1%
Securities portfolio ⁽¹⁾	8,957	17.1	7,291	19.9	3,103	17.4
Cash and short term funds and mandatory cash						
balances with central banks	4,229	8.1	3,096	8.4	1,752	9.8
Due from other banks, net	6,813	13.0	4,141	11.3	2,023	11.4
Premises and equipment	1,422	2.7	832	2.3	321	1.8
Intangible assets	455	0.9	451	1.2	102	0.6
Assets of disposal group held for sale	—	—	337	0.9	—	—
Investment property	178	0.3	198	0.5	—	—
Investments in associated banks	200	0.4	118	0.3	77	0.4
Deferred tax assets	93	0.2	82	0.2	74	0.4
Other assets	794	1.5	252	0.7	189	1.1
Total Assets	52,403	100.0%	36,723	100.0%	17,810	100.0%

(1) Comprises financial assets at fair value through profit or loss, financial assets available for sale, financial assets held to maturity and financial assets pledged under repurchase agreements and loaned financial assets.

Net Loans and Advances to Customers

The Group offers a broad range of loan products to its customers through its distribution network. Customer loans and advances net of allowance for loan impairment are the largest component of the Group's total assets, having accounted for 55.8%, 54.3% and 57.1% of total assets as of December 31, 2006, 2005 and 2004, respectively. Customer loans and advances, net of allowance for loan impairment were \$29,262 million as of December 31, 2006, an increase of 46.9% from \$19,925 million as of December 31, 2005, which reflected a 95.9% increase from \$10,169 million as of December 31, 2004. The following table sets forth customer loans and advances, net of allowance for loan impairment, for the periods indicated.

	As of December 31,		
	2006	2005	2004
	(\$ millions)		
Gross loans and advances to customers	30,235	20,533	10,722
Allowance for loan impairment	(973)	(608)	(553)
Total customer loans and advances, net	29,262	19,925	10,169

Gross customer loans and advances to customers increased by 47.3% to \$30,235 million as of December 31, 2006 from \$20,533 million as of December 31, 2005, which reflected a 91.5% increase from \$10,722 million as of December 31, 2004. The increase in 2006 reflected the continued expansion

of the loan portfolio. In 2005, the increase was primarily due to the growth in the Group's operations and the consolidation of the \$4,657 million loan portfolio of the Acquired Subsidiaries in December 2005. The Group's organic growth (excluding the Acquired Subsidiaries) during the period accounted for the remaining \$5,154 million, or a 48.1% increase in the loan portfolio during the period, which reflected the Group's continued growth strategy.

Distribution of Gross Loans and Advances to Customers by Industry

The following discussion is based on gross loans and advances to customers, prior to the allowance for loan impairment. The Group has broad exposure across industries in its customer loan portfolio. The Group's loan portfolio includes loans to state and public organizations and other legal entities (together referred to as "corporate") as well as individuals. The Group classifies its loan portfolio by industry and by loans to individuals. The following table sets forth the distribution of the Group's gross loans and advances to customers for the periods indicated.

	As of December 31,					
	2006		2005		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(\$ millions, except percentages)					
Corporate						
Finance ⁽¹⁾	5,049	17%	4,184	20%	1,709	16%
Trade and commerce ⁽²⁾	4,790	16	3,000	15	1,576	15
Manufacturing ⁽³⁾	4,067	13	2,402	12	2,229	21
Building construction	2,364	8	1,605	8	365	3
Government bodies	1,668	6	959	5	511	5
Metals	1,556	5	1,673	8	1,077	10
Oil and Gas	1,507	5	888	4	553	5
Transport	1,288	4	511	3	350	3
Other	1,229	4	1,075	5	354	4
Food and agriculture	1,104	4	603	3	438	4
Energy ⁽⁴⁾	937	3	706	3	670	6
Chemical	789	3	652	3	235	2
Coal mining	705	2	793	4	170	2
Telecommunications and media	406	1	360	2	351	3
Aircraft	243	1	271	1	4	—
Total corporate loans	27,702	92	19,682	96	10,592	99
Individuals	2,533	8	851	4	130	1
Total loans and advances to customers	30,235	100%	20,533	100%	10,722	100%

(1) Includes loans made for acquisition finance, to insurance and leasing companies, to non-bank investment companies, and to financial arms of Russian industrial groups.

(2) Includes businesses in the retail, wholesale goods and services industries.

(3) Includes all manufacturing industries, including machine building, automotive and ship building.

(4) Includes all businesses in the energy production and transportation fields, excluding oil, gas and coal mining, which are classified separately.

The aggregate amount of loans to borrowers in the finance, trade and commerce, manufacturing and the building construction sectors represented 54%, 55% and 55% of the Group's total loans and advances to customers as of December 31, 2006, 2005 and 2004, respectively. The Group has continued to diversify its loan portfolio in the periods under review, resulting in the reduction of its relative exposure to the manufacturing sector, which historically had been the Group's principal industry concentration.

Distribution of Net Loans and Advances to Customers by Currency

The majority of the Group's loan portfolio is denominated in US dollars and rubles. The following table sets forth the Group's loans and advances to customers, net of allowances for loan impairment, by currency for the periods indicated.

	As of December 31,					
	2006		2005		2004	
	Amount ⁽¹⁾	% of total	Amount ⁽¹⁾	% of total	Amount ⁽¹⁾	% of total
	(\$ millions, except percentages)					
US dollar	13,514	46.2%	9,593	48.1%	5,115	50.3%
Ruble	13,809	47.2	9,408	47.2	4,531	44.6
Euro	1,565	5.3	793	4.0	483	4.7
Other currencies	374	1.3	131	0.7	40	0.4
Total loans and advances to customers	29,262	100.0%	19,925	100.0%	10,169	100.0%

(1) Net of allowances for loan impairment.

Ruble denominated loans became the largest component of net loans and advances to customers by currency in 2006, increasing to \$13,809 million as of December 31, 2006 from \$9,408 million as of December 31, 2005. The increase was primarily due to the growth of customer demand for ruble funding and the growing confidence of the Russian population in the national currency.

As of December 31, 2005, ruble-denominated net loans and advances to customers increased to \$9,408 million from \$4,531 million as of December 31, 2004, primarily due to increased client demand for ruble funding from corporate customers and the impact of the consolidation of the Acquired Subsidiaries. As a result, the share of ruble-denominated loans in the Group's loan portfolio increased to 47.2% as of December 31, 2005 from 44.6% as of December 31, 2004, while the proportion of dollar denominated loans declined. The consolidation of the Acquired Subsidiaries in December 2005 did not materially alter the currency composition of net loans and advances to customers.

Distribution of Net Loans and Advances to Customers by Maturity

The following table sets forth the Group's loans and advances to customers, net of allowances for loan impairment, by maturity for the periods indicated.

	As of December 31,					
	2006		2005		2004	
	Amount ⁽¹⁾	% of loans	Amount ⁽¹⁾	% of loans	Amount ⁽¹⁾	% of loans
	(\$ millions, except percentages)					
On demand and up to 1 month	2,290	7.8%	1,692	8.5%	1,208	11.9%
From 1 month to 6 months	7,477	25.6	5,719	28.7	3,108	30.6
From 6 months to 1 year	5,744	19.6	4,318	21.7	2,105	20.7
More than 1 year	13,672	46.7	8,145	40.9	3,733	36.7
Overdue	79	0.3	51	0.2	15	0.1
Total loans and advances to customers	29,262	100.0%	19,925	100.0%	10,169	100.0%

(1) Net of allowance for loan impairment.

Loans with maturities of less than one year constitute the largest part of the Group's loan portfolio, which is customary in the Russian domestic lending market. The Group anticipates that as the banking sector and the Russian economy continue to develop, it will be able to extend longer maturity loans, and that the proportion of the portfolio attributable to loans with a maturity greater than one year will increase.

Borrower Concentration

The total outstanding gross loans and advances to customers issued by the Group to its ten largest groups of interrelated borrowers comprised \$5,342 million, \$4,049 million and \$3,712 million, or 17.7%, 19.7% and 34.6%, of the gross loans and advances to customers as of December 31, 2006, 2005 and 2004, respectively. The decrease in concentration is due to the Group proactively diversifying its loan portfolio.

Distribution of Gross Loans and Advances to Customers by Status

The following table sets forth the composition of the Group's gross loans and advances to customers for the periods indicated.

	As of December 31,					
	2006		2005		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
Current loans and advances ⁽¹⁾	29,700	98.3%	20,246	98.6%	10,357	96.6%
Overdue loans and advances ⁽²⁾	404	1.3	227	1.1	281	2.6
Rescheduled loans and advances ⁽³⁾	131	0.4	60	0.3	84	0.8
Total loans and advances to customers	30,235	100.0%	20,533	100.0%	10,722	100.0%
Overdue loans/Total gross loans		1.3%		1.1%		2.6%
Overdue loans and rescheduled loans/Total gross loans		1.8%		1.4%		3.4%
Allowance for impairment/Overdue loans and rescheduled loans		181.9%		211.8%		151.5%

- (1) Includes reverse sale and repurchase agreements with customers of \$1,152 million, \$1,168 million and \$76 million, as well as lease receivables of \$469 million, \$141 million and \$18 million as of December 31, 2006, 2005 and 2004, respectively.
- (2) Represents loans and advances where repayment is overdue by one day or more.
- (3) Represents loans and advances where payment terms have been restructured.

The majority of the Group's loan portfolio consisted of current loans and advances, representing 98.3%, 98.6% and 96.6% of total gross loans and advances to customers as of December 31, 2006, 2005 and 2004, respectively. Overdue loans only represent the payment which is overdue and not the entire amount. The increase in current loans and advances reflected the growth of the Group's loan portfolio for the periods under review, and, in 2005, the increase in the amount of reverse sale and repurchase agreements with customers to \$1,168 million as of December 31, 2005 from \$76 million as of December 31, 2004. The portion of the Group's overdue loans and advances has remained low, representing 1.3%, 1.1% and 2.6% of total gross loans as of December 31, 2006, 2005 and 2004, respectively. In 2006, the increase in overdue loans, in part, was due to an individual loan in the principal amount of \$100 million which became overdue, and also the growth of the Group's retail banking business. In 2005, the decrease in overdue loans reflected the overall improvement in the quality of the loan portfolio.

Allowance for Loan Impairment

The following table sets forth the movements in the Group's allowance for loan impairment relating to customer loans and advances during the periods indicated.

	<u>Amount</u> (\$ millions)	<u>% of gross customer loans and advances</u>
Allowance for loan impairment at December 31, 2003	470	8.8%
Provision for loan impairment	185	
Write-offs	(102)	
Allowance for loan impairment at December 31, 2004	553	5.2%
Provision for loan impairment	110	
Write-offs	(55)	
Allowance for loan impairment at December 31, 2005	608	3.0%
Provision for loan impairment	442	
Write-offs	(13)	
Deconsolidation of subsidiary	(74)	
Currency translation difference	10	
Allowance for loan impairment at December 31, 2006	973	3.2%

The Group's allowance for impairment of loans and advances to customers increased to \$973 million as of December 31, 2006 from \$608 million as of December 31, 2005, and the allowance for loan impairment as a percentage of total gross loans and advances to customers increased slightly to 3.2% as of December 31, 2006 from 3.0% as of December 31, 2005. The increase in allowance was primarily due to the increase in the overall loan portfolio, in part, due to an individual loan in the principal amount of \$100 million which became overdue and required 83% provisioning during the period. See "Distribution of Gross Loans and Advances to Customers by Status." In addition, the allowance declined by \$74 million due to the deconsolidation of Trading House VTB. See Note 39 to the Annual Financial Statements.

The Group's allowance for impairment of loans and advances to customers increased to \$608 million as of December 31, 2005 from \$553 million as of December 31, 2004, and the allowance for loan impairment as a percentage of total gross loans and advances to customers decreased to 3.0% as of December 31, 2005 from 5.2% as of December 31, 2004. The increase in the allowance for impairment of loans and allowances was due to the increase of the size of the loan portfolio, while the reduction of the allowance as a percentage of total gross loans and advances to customers reflected the increased diversification of the portfolio, application of revised IAS39 and the impact of the consolidation of the Acquired Subsidiaries at the end of 2005. In accordance with IFRS, the loans from the Acquired Subsidiaries were consolidated at fair value, which is net of allowance for loan impairment. If the Acquired Subsidiaries' customer loans had been accounted for at carrying value with the associated allowance for impairment, the Group's allowance as a percentage of total customer loans and advances would have been higher.

Cash and Due from other Banks

The following table sets forth the Group's net cash position for the periods indicated.

	<u>As of December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(\$ millions)		
Cash and short-term funds and mandatory cash balances with central banks . . .	4,229	3,096	1,752
Term placements with other banks	6,821	4,148	2,134
Allowance for impairment	(8)	(7)	(111)
Cash and due from other banks, net	11,042	7,237	3,775

Net cash and due from other banks increased 52.6% to \$11,042 million as of December 31, 2006 from \$7,237 million as of December 31, 2005, which represented a 91.7% increase from \$3,775 million as of December 31, 2004. The increase in 2006 and 2005 was primarily due to growth in the Group's operations. In addition, in 2005, the growth, in part, reflected the impact of the acquisitions of OWH (now VTB Germany), BCEN-Eurobank (now VTB France) and MNB (now VTB Europe). The growth of cash and short-terms funds was caused mostly by the increase in balances with local central banks for support of settlement transactions, cash on hand and correspondent accounts with other banks.

The Group's allowance for loan impairment on amounts due from other banks was \$8 million, \$7 million and \$111 million as of December 31, 2006, 2005 and 2004, respectively. As of December 31, 2004, the allowance for impairment on amounts due from other banks included an aggregate of \$100 million allowance in respect of loans extended in prior years to OJSC Most-Bank, which were written off in 2005.

Financial assets and investment securities held to maturity (securities portfolio)

Financial assets and investment securities held to maturity (securities portfolio) comprised 17.1%, 19.9% and 17.4% of the Group's total assets as of December 31, 2006, 2005 and 2004, respectively. In the periods under review, the majority of the Group's securities portfolio consisted of debt securities. As of December 31, 2006, VTB accounted for approximately 60% of the Group's total securities portfolio, and VTB Europe and VTB Austria accounted for 18% and 8%, respectively.

The Group presents its securities portfolios in its balance sheet under the following captions: (i) financial assets at fair value through profit or loss (which includes securities held for trading), (ii) financial assets available for sale, (iii) financial assets held to maturity and (iv) financial assets pledged under repurchase agreements and loaned financial assets. The following table sets forth information relating to each of these portfolios for the periods indicated. See "—Critical Accounting Classification and Measurement of Financial Assets."

	As of December 31,					
	2006		2005		2004	
	Amount	% of the total	Amount	% of the total	Amount	% of the total
	(\$ millions, except percentages)					
Financial assets at fair value through profit or loss	5,120	57.2%	5,051	69.3%	2,566	82.7%
Financial assets available for sale	888	9.9	881	12.1	190	6.1
Financial assets held-to-maturity	11	0.1	7	0.1	7	0.2
Financial assets pledged under repurchase agreements and loaned financial assets	2,938	32.8	1,352	18.5	340	11.0
Total securities	8,957	100.0%	7,291	100.0%	3,103	100.0%

Total securities increased to \$8,957 million as of December 31, 2006 from \$7,291 million as of December 31, 2005 and \$3,103 million as of December 31, 2004. The increase in 2006 primarily reflected the Group's purchase of 41 million shares, or approximately 5% of the share capital of EADS, in the third quarter. The increase in 2005 was primarily due to the impact of the consolidation of the Acquired Subsidiaries in December 2005.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss is the largest component of the Group's total securities portfolio, representing 57.2%, 69.3% and 82.7% of the total securities portfolio as of

December 31, 2006, 2005 and 2004, respectively. The following table sets forth information relating to the Group's financial assets at fair value through profit or loss for the periods indicated.

	As of December 31,					
	2006		2005		2004	
	Amount	% of the total	Amount	% of the total	Amount	% of the total
	(\$ millions, except percentages)					
Promissory notes and debentures	2,179	42.6%	1,576	31.2%	1,245	48.5%
Corporate bonds	1,321	25.8	1,287	25.5	582	22.7
State and government bonds	1,231	24.0	1,483	29.4	565	22.0
Equity securities	308	6.0	664	13.1	153	6.0
Other	81	1.6	41	0.8	21	0.8
Total financial assets at fair value through profit or loss	<u>5,120</u>	<u>100.0%</u>	<u>5,051</u>	<u>100.0%</u>	<u>2,566</u>	<u>100.0%</u>

The Group's financial assets at fair value through profit or loss includes both securities held for trading and other securities and financial assets designated irrevocably to this category. In the periods under review, the financial assets have primarily consisted of debt securities. Financial assets at fair value through profit or loss increased slightly to \$5,120 million as of December 31, 2006 from \$5,051 million as of December 31, 2005. As of December 31, 2006, VTB held about 70% and VTB Austria held 12% of the Group's total financial assets at fair value through profit or loss.

The Group's financial assets at fair value through profit or loss increased to \$5,051 million as of December 31, 2005 from \$2,566 million as of December 31, 2004, primarily reflecting the consolidation of the Acquired Subsidiaries, which contributed \$2,421 million of the overall \$2,485 million increase.

Financial assets available for sale

The Group's portfolio of financial assets available for sale were \$888 million, \$881 million and \$190 million as of December 31, 2006, 2005 and 2004, respectively. During 2006, the Group purchased a 10.6% interest in OJSC Alrosa, a diamond mining and manufacturing company, which as of December 31, 2006 accounted for \$333 million, and sold shares in automobile company OJSC KamAZ for \$135 million and in IMB for \$395 million. In 2005, the increase was primarily due to the impact on the securities portfolio consolidated from the Acquired Subsidiaries in December 2005 and, to a smaller extent, the appreciation in the shares of OJSC KamAZ, which was offset in part by the sale of the shares of OJSC AvtoVAZ.

Financial assets pledged under repurchase agreements

Financial assets pledged under repurchase agreements were \$2,938 million, \$1,352 million and \$340 million as of December 31, 2006, 2005 and 2004. The increase in 2006 was primarily caused by the purchase of EADS shares in the third quarter of 2006, which accounted for \$1,402 million as of December 31, 2006. In 2005, the increase was primarily a result of the consolidation of the Acquired Subsidiaries.

Premises and Equipment

Premises and equipment increased to \$1,422 million as of December 31, 2006 from \$832 million as of December 31, 2005 and from \$321 million as of December 31, 2004, primarily due to the Group's expansion, the opening of new branches, the revaluation of the Group's premises and, in 2005, the consolidation of the Acquired Subsidiaries.

Intangible Assets

The following table sets forth the principal components of the Group's intangible assets for the periods indicated.

	As of December 31,		
	2006	2005	2004
	(\$ millions)		
Goodwill	294	270	88
Core deposit intangibles	140	154	—
Computer software	21	27	14
Total intangible assets	455	451	102

Intangible assets increased to \$455 million as of December 31, 2006 from \$451 million as of December 31, 2005, primarily due to the effect of foreign exchange translation gains on goodwill, which was partially offset by the amortisation of core deposit intangibles associated with the acquisition of ICB.

Intangible assets increased to \$451 million as of December 31, 2005 from \$102 million as of December 31, 2004, primarily due to the acquisition of ICB, which resulted in goodwill of \$182 million and a core deposit intangible of \$154 million as of the acquisition date. The acquisition of the other Acquired Subsidiaries in December 2005 created an insignificant amount of intangibles.

Investments in Associates

Investments in associates represent the Group's interest in entities in which it owns less than 50% but more than 20% of the share capital as of the end of a financial period. Investments in associates amounted to \$200 million, \$118 million and \$77 million as of December 31, 2006, 2005 and 2004, respectively. As of December 31, 2006, the changes in investments in associates reflected primarily the deconsolidation of EWUB, Trading House VTB and Insurance Capital and their consequent transformation from subsidiaries into associates. In 2005, the increase was primarily due to the acquisitions of MNB (now VTB Europe) and BCEN-Eurobank (now VTB France) in 2005, which had 20% and 8% interests in Eurofinance Mosnarbank, respectively. As a result, the Group increased its stake in this bank to 32.65%, which resulted in this bank becoming an associate. In 2005, the increase in interests in EWUB to 51% and OWH (now VTB Germany) to 84% resulted in these entities ceasing to be associates and becoming subsidiaries.

Assets of Disposal Group Held for Sale

Assets are classified as assets of disposal group held for sale if management has approved and initiated a programme to locate a buyer for the assets and the sale is expected within one year. As of December 31, 2006 and 2004, the Group had no assets of disposal group held for sale. As of December 31, 2005, assets of disposal group held for sale amounted to \$337 million and represented the consolidated assets of CJSC Sales. The Group sold an 81.25% interest in CJSC Sales to an unrelated party for \$122 million in 2006 and continues to own an 18.75% interest in CJSC Sales as financial assets available for sale.

Other Assets

Other assets increased to \$794 million as of December 31, 2006 from \$252 million as of December 31, 2005, primarily due to the Group's right to construct and receive ownership title of premises in VTB's new offices in Federation Tower (Moscow), an increase of trade debtors and prepayments, an increase of inventories, as well as an increase of taxes recoverable.

Other assets increased to \$252 million as of December 31, 2005 from \$189 million as of December 31, 2004. The increase in 2005 was primarily due to the growth in taxes recoverable, accounting for a receipt of a put option premium and an increase in deferred expenses.

Deferred Tax Assets and Liabilities

Deferred tax assets are assessed separately for each entity of the Group. VTB and its subsidiaries have no right to set off tax assets and tax liabilities between different legal entities. The Group recognised a deferred tax asset of \$93 million, \$82 million and \$74 million as of December 31, 2006, 2005 and 2004, respectively. In 2006, the increase was primarily attributable to the increase in temporary differences relating to allowances for loan impairment. In 2005, the increase was primarily attributable to the recognition of an additional portion of a previously unrecognised tax loss carried forward at VTB Austria.

The Group recognised a net deferred tax liability of \$125 million, \$162 million and \$1 million as of December 31, 2006, 2005 and 2004, respectively. The decrease in 2006 was primarily attributable to temporary differences relating to revaluation of securities. The increase in 2005 was primarily attributable to the recognition of a deferred tax liability relating to the revaluation of premises and equipment and the increase in fair values of the Group's securities.

As of December 31, 2006, the Group had approximately \$641 million of tax losses available for relief against future profits, compared with \$419 million as of December 31, 2005. The tax losses are mainly attributable to VTB Austria and VTB Germany. Tax losses of VTB Austria do not expire and losses of VTB Germany would expire as a result of its reorganisation into a branch of VTB.

Total liabilities

As of December 31, 2006, the Group had total liabilities of \$45,411 million, compared to total liabilities of \$31,454 million as of December 31, 2005 and \$15,101 million as of December 31, 2004. The increase in total liabilities was primarily due to increases in customer deposits, debt securities issued, other borrowed funds and due to other banks, as well as subordinated debt.

The following table sets forth the Group's liabilities for the periods indicated.

	As of December 31,					
	2006		2005		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
Customer deposits	19,988	44.0%	12,767	40.6%	6,024	39.9%
Debt securities issued	11,565	25.5	7,241	23.0	3,948	26.1
Due to other banks	7,587	16.7	6,629	21.1	3,254	21.5
Other borrowed funds	4,468	9.8	2,937	9.3	1,729	11.5
Subordinated debt	1,169	2.6	1,161	3.7	—	—
Other liabilities	634	1.4	520	1.7	146	1.0
Liabilities of disposal group held for sale	—	—	199	0.6	—	—
Total liabilities	45,411	100.0%	31,454	100.0%	15,101	100.0%

Customer Deposits

Customer deposits are the Group's primary source of funding, representing 44.0%, 40.6% and 39.9% of total liabilities as of December 31, 2006, 2005 and 2004, respectively. The following table sets forth the Group's deposits by type of customer and product for the periods indicated.

	As of December 31,					
	2006		2005		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(\$ millions, except percentages)					
State and public organisations						
Current/settlement accounts	774	3.9%	574	4.5%	609	10.1%
Term deposits	1,398	7.0	582	4.5	339	5.6
Total state and public organisations	2,172	10.9	1,156	9.0	948	15.7
Other legal entities						
Current/settlement accounts	5,598	28.0%	3,863	30.3%	1,575	26.1%
Term deposits	4,883	24.4	2,566	20.1	1,390	23.1
Total other legal entities	10,481	52.4	6,429	50.4	2,965	49.2
Individuals						
Current/settlement accounts	1,777	8.9%	1,010	7.9%	312	5.2%
Term deposits	5,549	27.8	4,170	32.7	1,799	29.9
Total individuals	7,326	36.7	5,180	40.6	2,111	35.1
Sale and repurchase agreements	9	—	2	—	—	—
Total customer deposits	19,988	100.0%	12,767	100.0%	6,024	100.0%

Customer deposits increased by 56.6% to \$19,988 million as of December 31, 2006 from \$12,767 million as of December 31, 2005, which represented a 111.9% increase from \$6,024 million as of December 31, 2004. The increase was primarily attributable to the Group's expansion strategy, the improved conditions in the Russian economy, expansion of VTB's branch network, general growth in customer confidence in state-owned Russian banks after the banking crisis in 2004 and the impact of the consolidation of the Acquired Subsidiaries in December 2005. The consolidation of Acquired Subsidiaries increased the Group's customer deposits by \$3,249 million as of December 31, 2005, including \$2,978 million from ICB which accounted for the majority of the acquired growth in 2005. Organic growth (excluding the impact of the Acquired Subsidiaries) increased customer deposits by \$3,494 million, or 58.0% in 2005.

Deposits by Industry

The Group obtains funding from its broad client base across industry sectors. The Group's customer deposits includes deposits of state and public organizations and other legal entities (together referred to as "corporate"), as well as individuals. Historically, corporate deposits have been the majority of deposits, but as the Group's retail business has continued to expand, individual deposits

have become significantly more important. The following table sets forth concentrations within the Group's customer deposits for the periods indicated.

	As of December 31,					
	2006		2005		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(\$ millions, except percentages)					
Individuals	7,326	37%	5,180	41%	2,111	35%
Corporate						
Finance	2,943	15	2,623	21	915	15
Government bodies	1,538	8	398	3	370	6
Trade and commerce	1,429	7	616	5	340	6
Metals	1,198	6	863	7	885	15
Manufacturing	903	5	416	3	201	3
Building construction	859	4	460	4	63	1
Oil and gas	827	4	428	3	194	3
Transport	420	2	187	1	44	1
Food and agriculture	374	2	115	1	10	0
Energy	350	2	674	5	433	7
Coal mining	274	1	7	0	34	1
Chemical	261	1	55	0	2	0
Aircraft	241	1	73	1	75	1
Telecommunications and media	185	1	145	1	74	1
Other	860	4	527	4	273	5
Total corporate deposits	<u>12,662</u>	<u>63%</u>	<u>7,587</u>	<u>59%</u>	<u>3,913</u>	<u>65%</u>
Total customer deposits⁽¹⁾	<u>19,988</u>	<u>100%</u>	<u>12,767</u>	<u>100%</u>	<u>6,024</u>	<u>100%</u>

(1) Customer deposits include restricted deposits, which serve as collateral for matching deposits placed by the Group in escrow accounts, amounting to \$10 million as of December 31, 2006, \$77 million as of December 31, 2005 and \$80 million as of December 31, 2004, as well as restricted deposits held as collateral against import letters of credit amounting to \$66 million as of December 31, 2006, \$55 million as of December 31, 2005 and \$60 million as of December 31, 2004.

In 2006, corporate deposits represented 63% of total customer deposits and grew by \$5,075 million to \$12,662 million. The increase was primarily attributable to deposits by government bodies, trade and commerce and building and construction entities. In addition, individual deposits grew by \$2,146 million to \$7,326 million during the period. The increase in corporate and retail deposits was due to the ongoing expansion of the Group's business.

In 2005, corporate deposits grew by \$3,674 million to \$7,587 million. The increase was primarily attributable to deposits by companies operating in finance, building and construction as well as trade and commerce industries. Deposits by individuals grew by \$3,069 million to \$5,180 million and comprised 41% of total customer deposits. The increase reflected the growth of the Group's retail activities through VTB24 and the acquisition of ICB which contributed \$1,291 million to the Group's retail deposits as of December 31, 2005.

Deposits by Maturity

The Group accepts a broad range of deposits with different maturities. The following table sets forth the Group's customer deposits for the periods indicated.

	As of December 31,					
	2006		2005		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(\$ millions, except percentages)					
On demand and less than one month	10,205	51.1%	7,219	56.5%	3,267	54.2%
One to six months	5,603	28.0	2,693	21.1	1,682	28.0
Six to 12 months	2,275	11.4	1,565	12.3	635	10.5
More than one year	1,905	9.5	1,290	10.1	440	7.3
Total	19,988	100.0%	12,767	100.0%	6,024	100.0%

Although a substantial portion of customer deposits are on demand and less than one month, the Group believes based on its past experience that the diversification of these deposits by number and type of depositors result in such deposits providing long-term and stable source of funding for the Group.

Debt Securities Issued

Debt securities represent funding from both domestic and international capital markets. Debt securities issued represented 25.5%, 23.0% and 26.1% of total liabilities as of December 31, 2006, 2005 and 2004, respectively. The following table sets forth the principal components of the Group's debt securities in issue for the periods indicated.

	As of December 31,		
	2006	2005	2004
	(\$ millions)		
Bonds	9,341	5,060	2,227
Promissory notes	1,877	1,736	1,521
Deposit certificates	106	288	200
Debentures	241	157	—
Total debt securities issued	11,565	7,241	3,948

Debt securities issued increased by 59.7% to \$11,565 million as of December 31, 2006 from \$7,241 million as of December 31, 2005, which represented a 83.4% increase from \$3,948 million as of December 31, 2004. The increase in 2006 was largely due to the \$4,281 million increase in bonds that were primarily issued by VTB, VTB24, VTB Europe and VTB Austria. See Note 21 to the Annual Financial Statements. The increase in 2005 was driven by the \$2,833 million increase in bonds in issue, the \$215 million increase in promissory notes in the domestic markets and the \$157 million increase in debentures.

Due to Other Banks

Due to other banks represented 16.7%, 21.1% and 21.5% of the Group's total liabilities as of December 31, 2006, 2005 and 2004, respectively. The following table sets forth the Group's due to other banks for the periods indicated.

	As of December 31,		
	2006	2005	2004
	(\$ millions)		
Correspondent accounts and overnight deposits	1,931	1,554	465
Sale and repurchase agreements with banks	2,576	1,288	181
Term loans and deposits	3,080	3,787	2,608
Total due to other banks	7,587	6,629	3,254

Due to other banks increased by 14.5% to \$7,587 million as of December 31, 2006 from \$6,629 million as of December 31, 2005 and from \$3,254 million as of December 31, 2004. In 2006, total due to other banks increased as a result of the Group's increased operations. In particular, the increase in sale and repurchase agreements primarily represented the acquisition of EADS shares in a sale and repurchase transaction. See "—Financial Assets Pledged under Repurchase Agreements." Term loans and deposits decreased over the same period. The increase in 2005 was primarily attributable to the Group obtaining more funding in the interbank market, where the cost of such funding was generally lower than other funding sources, as well as the impact from the consolidation of the Acquired Subsidiaries in December 2005.

Other Borrowed Funds

Other borrowed funds represented 9.8%, 9.3% and 11.5% of total liabilities as of December 31, 2006, 2005 and 2004, respectively. The following table sets forth the principal components of the Group's other borrowed funds for the periods indicated.

	As of December 31,		
	2006	2005	2004
	(\$ millions)		
CBR deposits	653	982	694
Syndicated loans	2,864	1,426	885
Revolving credit lines	15	8	146
Non-revolving credit lines	936	521	4
Total other borrowed funds	4,468	2,937	1,729

Other borrowed funds increased 52.1% to \$4,468 million as of December 31, 2006 from \$2,937 million as of December 31, 2005, which represented a 69.9% increase from \$1,729 million as of December 31, 2005. In these periods, the overall increase was primarily due to an increase in syndicated loans and non-revolving credit lines, which was partially offset by a decrease in funding from the CBR in 2006.

Subordinated debt

The Group issues subordinated debt in the international capital markets. Subordinated debt represented 2.6% and 3.7% of total liabilities as of December 31, 2006 and 2005, respectively. In both periods, subordinated debt primarily comprised (i) a \$750 million bond issuance in February 2005 by VTB, due February 2015; and (ii) a \$400 million subordinated bond issuance in 2005 by ICB, due September 2015. In 2005, subordinated debt also included a RUR 220 million subordinated loan taken out by ICB, due December 2016, which was redeemed in 2006.

Other Liabilities

Other liabilities primarily include trade creditors and prepayments, settlements on foreign exchange operations, liabilities on pension plans, balances arising from derivative financial instruments and obligation to deliver securities. Other liabilities increased to \$634 million as of December 31, 2006 from \$520 million as of December 31, 2005 and from \$146 million as of December 31, 2004. The increase in these periods primarily reflected the continued expansion of the Group's operations.

Equity

The following table sets forth the Group's equity for the periods indicated.

	Share capital	Share premium	Unrealised gain on financial assets available-for-sale	Fixed assets revaluation reserve	Currency translation difference	Retained earnings	Total	Minority interest	Total equity
As of December 31, 2004	2,153	34	58	—	184	199	2,628	81	2,709
As of December 31, 2005	2,500	1,513	89	72	86	660	4,920	349	5,269
As of December 31, 2006	2,500	1,513	154	341	352	1,744	6,604	388	6,992

The Group's equity attributable to shareholders of the parent increased to \$6,604 million as of December 31, 2006 from \$4,920 million as of December 31, 2005, primarily due to profit for the period, revaluation of fixed assets due to a positive change in the market prices on the Group's real estate, especially in Moscow, an increase in unrealised gain on financial assets available-for-sale and an increase in currency translation difference.

The Group's equity attributable to parent company shareholders increased to \$4,920 million as of December 31, 2005 from \$2,628 million as of December 31, 2004, primarily due to the increases in share capital and the share premium effected in 2005 from the impact of the acquisition of the Acquired Subsidiaries, as well as an increase in retained earnings from the Group's net profit, net of dividends. In 2006, the parent company paid dividends to shareholders in the amount of \$63 million for 2005.

At the end of December 2005, VTB purchased from the CBR 89% of the ordinary shares of MNB (now VTB Europe), 87% of the ordinary shares of BCEN-Eurobank (now VTB France), 15% of the ordinary shares of Donau-Bank (now VTB Austria) (thereby increasing its stake to 100%), 15% of the ordinary shares of EWUB (increasing the Group's stake to 51%, as 2% was held by VTB France) and 52% of the ordinary shares of OWH (now VTB Germany) (thus increasing the Group's stake to 84%). Additionally, certain deposits in the above banks were transferred to VTB. See "—Factors Affecting Results of Operations and Capital Structure—Historical Acquisitions." To finance these transactions, on December 26, 2005, the Government contributed cash in the amount of \$1,303 million to the capital of VTB, and VTB paid the purchase consideration for the shares and deposits in the above banks to the CBR in the total amount of \$1,240 million. Due to the substance of the transaction, VTB believes that it represented a contribution-in-kind of shares and deposits of acquired banks by its controlling shareholder and recorded this contribution as an increase in equity at the Group's share in the fair value of the banks contributed, which comprised \$1,763 million. Additionally, the difference between the cash contributed by the Government and the cash actually paid to the CBR for the banks in the amount of \$63 million was also recorded as a contribution from the controlling shareholder. For further detail, refer to Note 39 of Annual Financial Statements.

Analysis by Segment

The Group's primary format for reporting segment information is geographical. Since January 1, 2006, the Group has reported under three geographical segments: Russia, Other CIS and Europe. Russia is the Group's largest geographical segment which represented 76.8% of total revenues, 75.0% of total assets and 75.9% of total liabilities in 2006, in each case, primarily attributable to VTB, VTB24 and ICB. The Other CIS segment represented 2.6% of the Group's total revenues, 2.3% of total assets and 2.2% of total liabilities in 2006, whereas Europe represented 20.6%, 22.7% and 21.9%, respectively. In 2006, 66% of Europe's profit before tax consisted of the \$232 million gain on the sale of the IMB shares. If the gain on the sale of IMB shares had been reported in the Russian segment, Russia would have contributed approximately 91% of the Group's profit before tax for the period. The Group's purchase of its European subsidiary banks, including MNB (now VTB Europe), BCEN-Eurobank (now VTB France), Donau-Bank (now VTB Austria) and OWH (now VTB Germany), in December 2005 significantly increased the Group's operations in Europe.

The following table set forth certain data for the Group for its geographical segments as of and for the year ended December 31, 2006.

	As of and for the year ended December 31, 2006				
	Russia	Other CIS	Europe	Intersegment eliminations	Total
	(\$ millions)				
Income statement data					
Total revenues	4,088	138	1,099	(131)	5,194
Profit before taxation	1,045	9	350	—	1,404
Balance sheet data					
Segment assets (including tax assets)	41,177	1,237	12,457	(2,468)	52,403
Segment liabilities (including tax liabilities)	36,354	1,053	10,472	(2,468)	45,411

Contingencies, Commitments and Derivative Financial Instruments

The Group enters into certain financial instruments with off-balance sheet risk in the ordinary course of business to meet its clients' needs. These instruments, which include guarantees, letters of credit, undrawn credit lines, and commitments to extend credits, involve varying degrees of credit risk and are not reflected in the Group's consolidated balance sheet. The Group uses similar credit approval policies in undertaking off-balance credit related commitments as it does for its on-balance sheet operations. See "Risk Management—Credit Risk." A majority of the guarantees issued by VTB are not collateralised, but have guarantee or assurance arrangements and are issued within risk limits for off-balance sheet instruments approved by VTB's Credit Committee. Guarantees issued by other Group banks are subject to their respective credit approval procedures. See "Risk Factors—Risks Relating to the Group's Business and Industry—The Group has significant off-balance sheet credit related commitments that may lead to potential losses."

The following table sets forth the Group's credit related commitments for the periods indicated.

	As of December 31,		
	2006	2005	2004
	(\$ millions)		
Credit related commitments			
Undrawn credit lines	3,944	2,828	995
Guarantees issued ⁽¹⁾	3,164	2,040	1,908
Import letters of credit ⁽²⁾	999	559	389
Commitments to extend credit ⁽³⁾	1,814	1,023	477
Other credit related commitments ⁽⁴⁾	—	10	510
Total credit related commitments	9,921	6,460	4,279
Less: Provision for losses on credit related commitments	(3)	—	(18)
Total	9,918	6,460	4,261

(1) As of December 31, 2006, included in guarantees issued are guarantees issued to one major Russian company amounting to \$806 million, or 25%, of guarantees issued at that date. These guarantees amounted to \$445 million, or 22% of guarantees issued as of December 31, 2005, and \$930 million, or 49%, of guarantees issued as of December 31, 2004. These guarantees were secured by cash collateral amounting to \$1 million as at December 31, 2006. As of December 31, 2005, guarantees were secured by promissory notes issued by VTB and by special-purpose deposits, together amounting to \$93 million and by promissory notes issued by VTB amounting to \$517 million as of December 31, 2004.

(2) Written undertakings by the Group on behalf of a client authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions. See "Business—Banking Services and Activities—Corporate Banking—Services—Foreign Trade Transactions." Commitments under import letters of credit were collateralised by client deposits amounting to \$66 million as of December 31, 2006, \$55 million as of December 31, 2005, \$60 million as of December 31, 2004.

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

(4) As of December 31, 2004, other credit related commitments included a commitment of the Group to guarantee the repayment of a loan issued to a Russian company operating in the energy sector in the amount of \$500 million. The commitment expired and was cancelled in February 2005.

Total credit related commitments increased to \$9,921 million as of December 31, 2006 from \$6,460 million as of December 31, 2005 and from \$4,279 million as of December 31, 2004. The increase in 2006 was primarily attributable to an increase in undrawn credit lines by \$1,116 million and an increase in guarantees issued by \$1,124 million, both of which were in line with the increase of the Group's customer base and operations. The increase in 2005 was primarily attributable to the increase in undrawn credit lines by \$1,833 million, including the growth in VTB by \$1,142 million.

As of December 31, 2005 other credit related commitments decreased by \$500 million or 98.0% due to expiration and cancellation, in February 2005, of a \$500 million commitment to guarantee the repayment of a loan issued to one Russian company operating in the energy sector.

The Group uses derivative instruments primarily for risk management and enters into derivative contracts on standardised terms and conditions. Such contracts are generally traded in the over-the-counter market. To keep its open foreign currency position within reasonable limits and meet

the local regulatory requirements, the Group enters into currency swap and forward contracts. The following table sets forth the Group's derivative financial instruments for the periods indicated.

	As of December 31,		
	2006	2005	2004
	(\$ millions)		
Derivative financial instruments			
<i>Principal or agreed amount</i>			
Term contracts	3,492	3,274	889
Swap contracts	2,644	1,411	1,135
Option contracts	2,722	793	—
Total	8,858	5,478	2,024
<i>Positive (negative) fair value</i>			
Term contracts	26	(2)	(12)
Swap contracts	(8)	(11)	17
Option contracts	6	—	—
Total	24	(13)	5

The principal, or agreed amount, of derivative financial instruments increased to \$8,858 million as of December 31, 2006 from \$5,478 million as of December 31, 2005, which, in turn, represented an increase from \$2,024 million as of December 31, 2004. The 2006 and 2005 increase was in line with the development of Group's business. As of December 31, 2006, the Group recognised a net positive fair value of derivatives in the amount of \$24 million, which principally reflected profits from term contracts with securities. As of December 31, 2005, the Group had \$13 million of losses, which principally reflected losses from foreign exchange term and swap contracts as a result of entering into contracts for the purchase of foreign currencies using exchange rates that compared unfavorably to average market exchange rates. See “—Results of Operations for the Years ended December 31, 2006, 2005 and 2004—Non-Interest Income—Gains Less Losses from Dealing in Foreign Currencies.”

Capital Adequacy

Each of the Group's banking subsidiaries is regulated by the CBR or the relevant banking regulator in the respective jurisdiction in which it operates. Each banking regulator oversees capital adequacy based on local accounting standards in the relevant jurisdiction. VTB and each of its banking subsidiaries is in compliance with its respective capital requirements.

Each of VTB, VTB24 and ICB must meet the CBR's capital adequacy requirements, based on its RAS stand-alone financial statements. The following table sets forth the CBR's capital adequacy requirements for VTB stand-alone for the periods indicated.

	As of December 31,		
	2006	2005	2004
	(\$ millions, except percentages)		
Total regulatory capital	3,697	2,860	2,022
Risk weighted assets	25,432	18,750	12,995
Capital adequacy	14.5%	15.2%	15.6%

Despite the continued growth in the Group's business, VTB's capital adequacy ratio has remained well above the 8.0% minimum required by the CBR according to the Basel Accord.

The Group is continually exploring ways to strengthen its capital position. Regulatory changes in Russia have recently allowed for the utilisation of upper Tier 2 capital for regulatory capital purposes, further supporting and diversifying the capital base of the Group's Russian banking entities. In February 2005, VTB received approval for Tier 2 capital treatment from the CBR for a \$750 million subordinated debt due February 2015. ICB issued in September 2005 \$400 million subordinated bonds due September 2015 which also received Tier 2 treatment.

While the Group is not required to report its capital adequacy on a group-wide basis, the Group discloses its capital adequacy under IFRS pursuant to the covenants in its outstanding debt securities. The following table sets forth certain capital ratios of the Group as of December 31, 2006, 2005 and 2004, calculated in accordance with the Basel Accord guidelines under IFRS accounting.

	As of December 31,		
	2006	2005	2004
	(\$ millions, except percentages)		
Share capital	2,500	2,500	2,153
Share premium	1,513	1,513	34
Other equity components less deductions	2,344	914	353
Total Tier 1 capital	6,357	4,927	2,540
Subordinated debt	1,169	1,161	—
Fixed asset revaluation reserves	341	72	—
Total Tier 1 and Tier 2 capital	7,867	6,160	2,540
Deducted from total capital	(221)	(262)	—
Total capital	7,646	5,898	2,540
Risk weighted assets	54,644	41,839	21,092
Total capital ratio ⁽¹⁾	14.0%	14.1%	12.0%

(1) Represents total capital divided by risk weighted assets.

MANAGEMENT AND CORPORATE GOVERNANCE

Introduction

In accordance with VTB's charter and Russian legislation governing joint stock companies, VTB is principally governed by its shareholders through their annual and extraordinary meetings (each a "**General Shareholders Meeting**"), its Supervisory Council, its Management Board and a chief executive officer (the "**Chairman of the Management Board**").

General Shareholders Meeting

The General Shareholders Meeting is VTB's highest governance body. An annual General Shareholders Meeting must be held every year and extraordinary General Shareholders Meetings can be called by the Supervisory Council, the Statutory Audit Commission, VTB's external auditor or shareholders holding not less than 10% of the voting shares of VTB. Each ordinary share of VTB carries the right to cast one vote at any General Shareholders Meeting.

The following summarises certain key decisions that must be taken by VTB's General Shareholders Meeting:

- the alteration of VTB's charter and material bylaws;
- the alteration of the size and composition of VTB's authorised share capital, excluding share capital increases by issuance of additional ordinary shares or securities convertible into ordinary shares constituting 25% or less of the number of issued ordinary shares by means of an open subscription;
- the election and early termination of powers of the members of the Supervisory Council;
- the approval of certain major transactions and interested party transactions;
- the reorganisation or liquidation of VTB;
- the approval of VTB's independent auditor;
- the approval of VTB's statutory annual financial statements;
- the approval of dividends; and
- certain other matters provided for by law and VTB's charter. See "Description of Share Capital and Certain Requirements of Russian Law—Share Capital."

Supervisory Council

The Supervisory Council is responsible for overseeing VTB's general management and establishing VTB's strategy, excluding matters that are the exclusive responsibility of the General Shareholders Meeting. Members of the Supervisory Council are elected by the General Shareholders Meeting and serve until the next annual General Shareholders Meeting, and may be re-elected an unlimited number of times. VTB currently has eleven members on its Supervisory Council, two of whom are independent representatives. A meeting of the Supervisory Council may be called by the Chairman of the Supervisory Council at his own initiative, at the demand of a member of the Supervisory Council, the Statutory Audit Commission or VTB's independent auditor, the Management Board, or the Chairman of the Management Board. The Supervisory Council typically meets once every three months or more often as required. See "Description of Share Capital and Certain Requirements of Russian Law—Supervisory Council."

The current members of the Supervisory Council were last elected by a General Shareholders Meeting on April 4, 2007. The name, first year of appointment and position for each member of the Supervisory Council are set out below.

<u>Name</u>	<u>Year of Appointment</u>	<u>Position</u>
Alexei L. Kudrin	2002	Chairman
Kirill G. Androsov	2007	Member
Anton V. Drozdov	2002	Member
Arkady V. Dvorkovich	2002	Member
Andrei L. Kostin	2002	Member
Yuriy M. Medvedev	2007	Member
Alexey L. Savatyugin	2006	Member
Yves-Thibault de Silguy	2007	Member (independent)
Sergei A. Stortchak	2004	Member
Alexei V. Ulyukaev	2002	Member
Matthias Warnig	2007	Member (independent)

Alexei L. Kudrin (b. 1960) has served as the Chairman of the Supervisory Council of VTB since 2002. Mr. Kudrin has been the Minister of Finance of Russia since 2004. From 2000 to 2004, he served as the Deputy Chairman under the Minister of Finance. From 1997 to January 1999 and from June 1999 to May 2000, he served as First Deputy Minister of Finance of Russia. From January to June 1999, he was the First Deputy Chairman of the Management Board of RAO UES of Russia. From 1996 to 1997, Mr. Kudrin was the Deputy Head of the Presidential Executive Office and Chief of the Presidential Control Directorate. Mr. Kudrin serves as Chairman of the Supervisory Council of CJSC AK ALROSA, Chairman of the Board of Directors of the State Corporation Deposit Insurance Agency and as a member of the Supervisory Council of JSC Sberbank. Mr. Kudrin graduated from Leningrad State University (now St. Petersburg State University) in 1983. He holds a Ph.D. in economics.

Kirill G. Androsov (b. 1972) has served as a member of the Supervisory Council of VTB since April 2007. Since 2005, Mr. Androsov has been the Deputy Minister for Economic Development and Trade of Russia. From 2004 to 2005, he was Director of the Department of State Regulation of Tariffs and Infrastructure Reforms of the Ministry for Economic Development and Trade of Russia. Mr. Androsov served as First Deputy General Director of OAO Lenenergo in 2000 and Development Deputy General Director of OAO Lenenergo in 1999. He was the Director of the City Property Economics Department of the Committee on St. Petersburg City Property Management from 1998 to 1999, Head of Investment Projects Office of the Committee on St. Petersburg City Property Management from 1997 to 1998 and Economic Issues Adviser of the Deputy Head of the Committee on St. Petersburg City Property Management from 1996 to 1997. In 1995, Mr. Androsov held the position of Investment Manager with Hansa Investments, a Finnish banking and investment company. In 1994, he was Project Head at AOZT Don Plus Agency. Mr. Androsov graduated from St. Petersburg State Maritime Technical University in 1994 and the University of Chicago Business School in 2005. He received a Ph.D. in economics in 2000.

Anton V. Drozdov (b. 1964) has served as a member of the Supervisory Council of VTB since 2002. Since 2004, Mr. Drozdov has been the Head of the Economic and Financial Department of the Russian Government Administration. From 2003 to 2004, he served as the Deputy Head of the Russian Government Administration. From 1999 to 2003, Mr. Drozdov served as the Head of the Financial Department of the Russian Government Administration. From 1994 to 1999, he was the Deputy Chief of the Main Department of the Federal Treasury of the Ministry of Finance of Russia. Mr. Drozdov graduated from Moscow Finance Institute in 1986 with a specialisation in economics.

Arkady V. Dvorkovich (b. 1972) has served as a member of the Supervisory Council of VTB since 2002. Since 2004, Mr. Dvorkovich has been the Head of the Presidential Experts Directorate. From 2000 to 2004, he served as the Adviser to the Minister and Deputy Minister of the Ministry of Economic Development and Trade of Russia. From 1994 to 2000, he held the positions of Adviser, Senior Expert, General Director and Science Supervisor of CJSC Economic Expert Group. Mr. Dvorkovich serves as a member of the CBR National Banking Board, a member of the Supervisory Councils of OJSC The Agency for Housing Mortgage Lending and JSC Sberbank and a member of the Boards of Directors of OJSC Transneft, the State Corporation Deposit Insurance Agency, the Guild of

Investment & Financial Analysts and Russian Economic School. Mr. Dvorkovich graduated from Moscow State University in 1994 and Duke University in 1997.

Andrei L. Kostin (b. 1956) has served as a member of the Supervisory Council of VTB since 2002. Mr. Kostin has been the Chairman and CEO of the Management Board of VTB since 2002. Mr. Kostin serves as the Chairman of the Supervisory Councils of ICB and VTB24, the Chairman of the Board of Directors of RCB-Cyprus and the Chairman of the Advisory Committee of VTB Europe. Mr. Kostin also serves as a member of the Boards of Directors of OJSC Rosneft, OJSC Sovkomflot and OJSC “United Aircraft Building Corporation” and President of the Russian Federation of Sport Gymnastics. From 1996 to 2002, Mr. Kostin served as the Chairman of Vnesheconombank. From 1995 to 1996, he served as the First Deputy Chairman of the National Reserve Bank. Mr. Kostin graduated with honors from the Economics Department of the Moscow State University in 1979. He holds a Ph.D. in economics (2001). In 1998 and 2001 Mr. Kostin was awarded the Honorable Charters of the Government of Russia. In October 2006, Russian President Putin presented Mr. Kostin with the “For Services to the Fatherland” Award (IV Degree) for his significant contributions to the development of the Russian banking sector.

Yuriy M. Medvedev (b. 1948) has served as a member of the Supervisory Council of VTB since April 2007. Mr. Medvedev has been the Deputy Head of the Federal Agency for Federal Property Management since 2004. From 2000 to 2004, he served as the First Deputy Minister for Property Relations of Russia. From 1998 to 2000, he was the First Deputy Minister for State Property of Russia. From 1997 to 1998, he was appointed the Plenipotentiary of the President in the Volgograd Region. From 1992 to 1997, he held the positions of Deputy Head of the Volgograd Region Administration and Head of the Local Committee for State Property Management. Mr. Medvedev graduated from the Tambov Institute for Chemical Engineering Industry in 1971 as a specialist in chemical engineering and equipment construction. He received a Ph.D. in philosophy in 1997.

Alexey L. Savatyugin (b. 1970) has served as a member of the Supervisory Council of VTB since 2006. Mr. Savatyugin has served as the Director of the Financial Policy Department in the Ministry of Finance of Russia since 2004. From 1992 to 2004, he held the positions of faculty assistant and senior faculty member at the St. Petersburg State University. Mr. Savatyugin serves as the Chairman of the Board of Directors of OJSC Rosgosstrakh and is a member of the Supervisory Councils of OJSC The Agency for Housing Mortgage Lending, OJSC Russian Agricultural Bank, JSC Sberbank and a member of the Board of Directors of the State Corporation Deposit Insurance Agency. Mr. Savatyugin graduated from the St. Petersburg State University in 1992 with a major in economics.

Yves-Thibault de Silguy (b. 1948) has served as an independent member of the Supervisory Council since April 2007. Mr. de Silguy has been the President of the Administrative Council of the VINCI Group since 2006 and President of the Administrative Council, Agronomic National Institute of Paris-Grignon since 2005. Between 2004 and 2006, he was Vice President for International Development of the Suez Environment and President of the Association of Friends of the French University in Egypt. From 1995 to 1999, Mr. de Silguy was a member of the European Commission, responsible for economic, monetary, and financial affairs. Between 1985 and 1986, Mr. de Silguy worked at the French Embassy in Washington D.C., where he was Counselor for Economic Affairs. From 1981 to 1984, Mr. de Silguy worked at the Commission of the European Communities as an advisor, and later as Deputy Head of Cabinet to Mr. Xavier Ortoli, Vice President of the Commission for Economic and Monetary Affairs. Mr. de Silguy worked at the Ministry of Foreign Affairs from 1976 to 1981. Mr. de Silguy is a Knight of the Order of the Legion d’Honneur, second class, and a Knight of the National Order of Merit, second class. Mr. de Silguy graduated with a degree in law from Rennes University in 1971, a Higher Studies Diploma in Public Law in 1972 from the University of Paris I, and a Diploma of the Paris Institute of Political Studies in 1972.

Sergei A. Stortchak (b. 1954) has served as a member of the Supervisory Council of VTB since 2004. Mr. Stortchak has served as a Deputy Minister of Finance of Russia since 2005. From 2004 to 2005, he served as the Director of the Department of Foreign Affairs, State Debt and Financial Assets of the Ministry of Finance of Russia. From 1998 to 2004, he served as a Deputy Chairman of Vnesheconombank. From 1994 to 1998, Mr. Stortchak held the positions of a Deputy Head of the Department of Foreign Credit and External Debt of the Russian Ministry of Finance. From 1988 to 1994, he served as the Second Secretary of the Permanent Mission of the USSR and, subsequently, the Russian Federation to the United Nations and other international organisations. He graduated from the

Moscow State Institute of International Relations in 1981. Mr. Stortchak holds a Ph.D. in economics received in 1983.

Alexei V. Ulyukaev (b. 1956) has served as a member of the Supervisory Council of VTB since 2002. Since 2004, Mr. Ulyukaev has served as the First Deputy Chairman of the CBR. From 2000 to 2004, Mr. Ulyukaev served as the First Deputy Minister of Finance of Russia and Full State Counsellor 1st Class of the Ministry of Finance of Russia. From 1999 to 2000, Mr. Ulyukaev served as Deputy Director of the Fund “Institute for Economy in Transition”. From 1998 to 1999, he served as a Deputy Director of the Institute for the Problems of Economy in Transition. From 1996 to 1998, Mr. Ulyukaev was a member of the Moscow City Duma. Mr. Ulyukaev serves as a member of the Advisory Committee of VTB Europe and as a member of the Supervisory Council of VTB France. He also serves as a member of the Supervisory Council of OJSC Russian Bank for Development and Deputy Chairman of the Supervisory Council of JSC Sberbank. Mr. Ulyukaev graduated from the Economics Department of the Moscow State University in 1979. He received a doctorate in economics in 1998.

Matthias Warnig (b. 1955) has served as an independent member of the Supervisory Council since April 2007. Mr. Warnig is currently the Managing Director of Nord Stream (formerly the North European Gas Pipeline Company) and a member of the Board of Directors of Dresdner Bank ZAO. Mr. Warnig served as Chairman of the Board of Directors of Dresdner Bank ZAO from 2005 to 2006. He was Chairman of the Managing Committee of Dresdner Kleinwort for Russia and the CIS from 2004 to 2005, as well as the President of Dresdner Bank ZAO from 2002 to 2005. Prior to that, he was Chief Coordinator of the Dresdner Bank Group in Russia from 2000 to 2004. Mr. Warnig was the General Director of the St. Petersburg Office from 1999 to 2001, after serving as the deputy manager of the Bank’s Moscow Branch from 1997 to 1999. Mr. Warnig was previously an advisor on CIS states to the Management Board of Dresdner Bank AG, and coordinated the establishment of a subsidiary bank in St. Petersburg—BNP-Dresdner Bank (Russia)—one of the first Russian banks with 100% foreign capital, which was later renamed Dresdner Bank ZAO. From 1981 to 1990, Mr. Warnig served in the Ministry of Foreign Trade and the Cabinet of the German Democratic Republic. He was an officer with the German Main Intelligence Directorate, from which he retired in 1989 at the rank of major. Mr. Warnig graduated from the Higher School of Economics (Berlin) in Economics of the National Economy in 1981.

The business address of Messrs. Kudrin, Savatyugin and Storchak is 9 Ilyinka Street, Moscow 109097, Russian Federation. The business address of Mr. Medvedev is 9 Nikolsky Lane, Moscow, 103685, Russian Federation. The business address of Mr. Drozdov is 2 Krasnopresnenskaya Embankment, Moscow 103274, Russian Federation. The business address of Mr. Dvorkovich is 4 Staraya Square, Moscow 103132, Russian Federation. The business address of Mr. Kostin is 6 Lesnaya Street, Moscow 125047, Russian Federation. The business address of Mr. Androsov is 1/3 1st Tverskaya-Yamskaya Street, Moscow 125993, Russian Federation. The business address of Mr. Ulyukaev is 12 Neglinnaya Street, Moscow 107016, Russian Federation. The business address of Mr. de Silguy is 1, cours Ferdinand de Lesseps, F-92851 Rueil-Malmaison Cedex, France. The business address of Mr. Warnig is Grafenauweg 2, 6304, Zug, Switzerland.

In April 2007, VTB obtained the services of James D. Wolfensohn, who serves as an advisor to the Supervisory Board in his capacity as Chairman of Wolfensohn Associates, L.L.C. Mr. Wolfensohn advises on Group strategy, investment banking and international expansion. Mr. Wolfensohn is also currently Chairman of the Advisory Board of Citi International and advisor to Citi’s senior management on global strategy and on international matters. Mr. Wolfensohn served as the ninth President of the World Bank Group from 1995 to 2005. Mr. Wolfensohn has held a number of senior positions in finance including, Executive Partner of Salomon Brothers in New York and head of its investment banking department, Executive Deputy Chairman and Managing Director of Schroders Ltd. in London, President of J. Henry Schroders Banking Corporation in New York and Managing Director of Darling & Co. in Australia. Mr. Wolfensohn has previously served on governing boards for a number of educational institutions and social organisations, including the Institute for Advanced Study at Princeton University, New York’s Carnegie Hall and Trustees of the John F. Kennedy Center for the Performing Arts in Washington, D.C. Mr. Wolfensohn served as an Officer in the Royal Australian Air Force and was a member of the 1956 Australian Olympic Fencing Team. Mr. Wolfensohn has been decorated by the governments of Australia, Belgium, Brazil, France, Japan, Germany, Georgia, Mexico, Morocco, The Netherlands, Norway, Peru, Pakistan and Russia. He holds BA and LLB degrees from the University of Sydney and an MBA from the Harvard Graduate School of Business.

Management Board

The Management Board, VTB's collective executive body, and the Chairman of the Management Board, VTB's chief executive officer, are elected by the Supervisory Council and are responsible for the day-to-day management and administration of the Group's activities. Members of the Management Board serve for a period prescribed by the Supervisory Board, which may not exceed five years. Members 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 a simple majority vote, provided that a quorum of half of the elected members is present. In case of a tie vote, the Chairman of the Management Board casts the tie-breaking vote. A meeting of the Management Board may be convened at the request of the Supervisory Council.

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

<u>Name</u>	<u>Year of Appointment</u>	<u>Position</u>
Andrei L. Kostin	2002	Chairman and CEO
Vadim O. Levin	2002	First Deputy Chairman
Igor N. Zavyalov	2002	Deputy Chairman
Gennadi V. Soldatenkov	2001	Deputy Chairman
Alexei I. Akinshin	2003	Deputy Chairman
Yulia G. Chupina	2005	Member
Vasily V. Kirpichev	2005	Member
Konstantin G. Kozhevnikov	2005	Member
Erkin R. Norov	2002	Member
Vasily N. Titov	2004	Member

Andrei L. Kostin has served as the Chairman and CEO of the Management Board of VTB since June 2002, and was recently reappointed to another five-year term. See “—Supervisory Council.”

Vadim O. Levin (b. 1963) has served as a member and First Deputy Chairman of the Management Board of VTB since August 2002. From 1997 to 2002, he served as a Deputy Chairman of Vnesheconombank. From 1994 to 1997, he held various positions at the St. Petersburg branch of Imperial Bank. Mr. Levin currently serves as the Chairman of the Supervisory Council of Eurofinance Mosnarbank, Chairman of the Council of VTB Armenia, is a member of the Supervisory Councils of VTB24, ICB and VTB Georgia and a member of the Board of Directors of RCB-Cyprus. Mr. Levin graduated from the Leningrad Financial Economic Institute in 1985. He received a Ph.D. in economics in 1988.

Igor N. Zavyalov (b. 1960) has served as a member and Deputy Chairman of the Management Board of VTB since July 2002 and is responsible for the Corporate Banking Business Department. Mr. Zavyalov serves as the Chairman of the Supervisory Council of Bank VTB Broker, Vneshtorgbank (Ukraine), VTB Ukraine, VTB France, VTB Austria and Euroleasing GmbH and Chairman of the Boards of Directors of CJSC “RusspetsStal”, VTB-Leasing and VTB-ROSNO Insurance Company. Mr. Zavyalov also serves as a member of the Boards of Directors of VTB24 and OJSC KamAZ. From 1999 to 2002, Mr. Zavyalov served as a Deputy Chairman of Vnesheconombank. From 1998 to 1999, he served as a Deputy Chairman of the Management Board of the National Reserve Bank. In 1998, he served as the Head of the Engineering Sector Business Development Department of Inkombank. Mr. Zavyalov graduated from Moscow Aviation Institute with the specialisation of engineer-economist in 1986.

Gennadi V. Soldatenkov (b. 1952) has served as a member and Deputy Chairman of the Management Board of VTB since January 2001 and is responsible for the oversight of Regional Business and the IT Projects Coordination Department. In 2001, Mr. Soldatenkov served as a Deputy Chairman of the Management Board of JSC Sberbank. From 1991 to 2001, he served as the Chairman of the Moscow Bank of Sberbank of Russia. Mr. Soldatenkov serves as a member of the Exchange Council of the Moscow Stock Exchange and the Presidium of the Moscow Chamber of Commerce &

Industry. He graduated with honors from the Moscow Financial Institute with a specialisation in finance and credit in 1975.

Alexei I. Akinshin (b. 1959) has served as a Deputy Chairman of the VTB Management Board since December 2004 and has been a member of the Management Board of VTB since July 2003. From 2002 to 2003, he was a Vice President and then a Senior Vice-President of VTB. Mr. Akinshin serves as a member of the Supervisory Council of ICB, is a member of the Boards of Directors of CJSC MICEX and CJSC MICEX Stock Exchange and is a member of the Council of the National Securities Market Association. From 1996 to 2002, Mr. Akinshin held various positions at Vnesheconombank. From 1994 to 1996, he served as a Deputy Chairman of the Management Board and Head of the Credit and Economic Department of Russian-German Trade Bank. Mr. Akinshin graduated from the Moscow Financial Institute in 1982 with a specialisation in international economic relations.

Yulia G. Chupina (b. 1970) has served as a member of the Management Board of VTB since September 2005. She joined VTB in 2004 and currently serves as a Senior Vice-President and Head of the Corporate Development and Financial Subsidiaries Department. Ms. Chupina serves as a member of the Supervisory Councils of VTB24, ICB, VTB Austria, VTB Ukraine, and Vneshtorgbank (Ukraine). She also serves as a member of the Board of Directors of VTB-ROSNO Insurance Company, a member of the Advisory Committee of VTB Europe and a Deputy Chair of the Supervisory Council of VTB France. From 1998 to 2003, she worked at McKinsey & Company Inc. FSU as a consultant and project manager. Ms. Chupina received a joint MBA degree in finance and international management from ESADE in Spain and Leonard Stern Business School at New York University in the USA in 1997. She graduated with honors from the Moscow State Linguistic University in 1993.

Vasily V. Kirpichev (b. 1972) has served as a member of the Management Board of VTB and Senior Vice President—Investments since November 2005. From 1998 to 2005, he held various positions at Vnesheconombank, including Deputy Chairman. Mr. Kirpichev serves as a member of the Advisory Committee of VTB Europe. He also serves as a member of the Council of the National Securities Market Association. Mr. Kirpichev graduated from St. Petersburg University of Economics and Finance with a specialisation in finance and credit in 1995.

Konstantin G. Kozhevnikov (b. 1967) has served as a member of the Management Board of VTB since July 2005. Mr. Kozhevnikov joined VTB in 2004 and currently serves as a Senior Vice-President and Head of the Non-Financial Assets Department. From 2001 to 2004, he served as a Vice-President of the Banking Council and Deputy Chairman of the Management Board of Sobinbank. From 1999 to 2001, Mr. Kozhevnikov served as the President of Energy & Resources Conservation Supply Saving, a non-commercial partnership. From 1998 to 1999, he served as a Vice-President of the Economic Policy Foundation. From 1997 to 1998, he held various positions at the Presidential Administration of Russia. Mr. Kozhevnikov serves as the Chairman of the Board of Directors of CJSC Almaz Press, CJSC VTB-Invest and Interbank Trading House, LLC. Mr. Kozhevnikov also serves as a member of the Board of Directors of OJSC Aviadvigatel, JCS Terminal and East-West United Bank. He is also the President of the Russian Golf Association. In 1990, Mr. Kozhevnikov graduated from the Russian Academy for Sports and Physical Culture. In 2000, he graduated from the Russian State Academy of Governmental Service under the President of the Russian Federation. He holds a Ph.D. in economics.

Erkin R. Norov (b. 1954) has served as a member of the Management Board of VTB since July 2002 and currently serves as Senior Vice-President and Head of the Credit and Risk Control Department. From 1999 to 2002, he was a Member of the Management Board and Director of the Development and Strategic Planning Department of Vnesheconombank. In 1999, Mr. Norov was Head of the Tax Planning Income and Tax Basis Calculation Department at the Russian Ministry of Taxation. From 1992 to 1999, he held several positions at OJSC AvtoVAZ, including OJSC AvtoVAZ Deputy Chairman on Development, Director of Marketing and Trade, General Director of the Economics and Finance Department, Vice-President—General Director's Deputy of the Finance, Economics, Marketing, Trade and Motor-Car Maintenance Department and Vice-President—Head of Moscow Representative Office of OJSC AvtoVAZ. Mr. Norov graduated from Lomonosov Moscow State University in 1976 and from the Academy of National Economy under the Government of the Russian Federation in 2001 with a Ph.D. in economics.

Vasily N. Titov (b. 1960) has served as a member of the Management Board of VTB since October 2004 and as Senior Vice-President, Head of the PR and Marketing Department. From 1998 to

2002, Mr. Titov was a Deputy Head of the Administrative Department and PR Director—Head of the Information and External Affairs Department of Vnesheconombank. From 1996 to 1998, he served as a Deputy General Director of JSC Russian Automobile Alliance. Mr. Titov serves as a member of the Supervisory Councils of VTB France and VTB Ukraine and is a member of the Board of Directors of CJSC Almaz-Press. In addition, Mr. Titov serves as a member of the Boards of Directors of Interfax-China and Russian Automobile Alliance and is a member of the board of JSC AutoVaz and Supervisory Council of Automobile Banker's House. He graduated from the Leningrad State University in 1983 and from the Finance Academy of the Government of the Russian Federation in 2002.

The business address of each member of the Management Board is 6 Lesnaya St., Moscow 125047, Russian Federation.

Chairman and CEO of the Management Board

The Chairman and CEO of the Management Board is the chief executive officer of VTB. According to the Joint Stock Companies Law and VTB's charter, the Chairman and CEO of the Management Board shall, in particular:

- operate in the name of VTB, including representing VTB's interests, concluding transactions and signing documents, without a power of attorney;
- make decisions to establish or disband internal departments of VTB (but not offices of VTB);
- approve personnel arrangements, issue orders and give instructions binding on all staff members of VTB;
- issue powers of attorney, establish procedures for concluding agreements and authorise others to act as representatives of third parties;
- make decisions concerning the participation of VTB in other legal entities (except for financial industrial groups, associations and unions of other commercial entities), if VTB's participation does not exceed 5% of the share capital of such entity;
- appoint and dismiss VTB employees, and approve candidates for the positions of deputy head and deputy chief accountant of VTB's branches; and
- decide other matters in the normal course of business.

The current Chairman and CEO of VTB's Management Board is Andrei L. Kostin. See “—Management Board.”

Statutory Audit Commission

VTB's Statutory Audit Commission is a statutory audit commission required under the Russian legislation governing joint stock companies. The Statutory Audit Commission oversees VTB's financial and economic activity. The Statutory Audit Commission is different from the Audit Committee. See “—Audit Committee.” The exact composition of the Statutory Audit Commission is determined by a decision of the annual General Shareholders Meeting and its members serve until the next annual General Shareholders Meeting. Members of the Statutory Audit Commission may not also be members of the Supervisory Council or other senior management bodies of VTB.

The current members of the Statutory Audit Commission are set out below.

Vladimir V. Lukov (b. 1963) currently serves as the Chairman of VTB's Statutory Audit Commission. Since 2001, Mr. Lukov has held various positions in the Ministry of Finance of Russia, including Deputy Department Director, Deputy Department Head and acting Department Head. In 2001, he served as a Department Director of Energoresursosberezheniye, a non-commercial partnership. From 1999 to 2000, he served as a Deputy Department Head of the Russian Government Administration. From 1998 to 1999, Mr. Lukov served as a faculty member of the State University Higher School of Economics. From 1997 to 1998, he served as an Advisor to the Administration of the Deputy of the Presidential Executive Officer. From 1996 to 1997, he served with the Russian Government Administration. In 1996, Mr. Lukov served as a consultant to the Presidential Executive Office. He serves as a member of the Boards of Directors of the State Corporation Deposit Insurance Agency and OJSC Russian Financial Corporation. Mr. Lukov graduated from the Moscow Regional Pedagogical Institute in 1989. He holds a Ph.D. in economics.

Olga A. Lusak (b. 1956) currently serves as a member of VTB's Statutory Audit Commission and as a Department Head of the Federal Property Agency. From 1998 to 2004, Ms. Lusak served as a Deputy Department Head of the Russian Ministry of Property. She serves as the Chairman of the Boards of Directors of Russian Financial Corporation Bank, Orelgiprozem, Mashinoimport and Razdan Power Company (Republic of Armenia) and as a Deputy Chairman of the Board of Directors of OJSC Diamond World. Ms. Lusak also serves as a member of the Boards of Directors of OJSC Urengoitruboprovodstroi, OJSC Rosagroleasing, OJSC Transcreditbank, CJSC Roseximbank, Stankoimport, Tekhnopromexport and OJSC Sverdlovkoblغاز and as a member of the Supervisory Councils of OJSC Federal Center of Project Finance, CJSC Konversbank and VTB24. In addition, she serves on the Management Boards of JV Sipromfiko (Vietnam) and JV Visoroutex (Vietnam). Ms. Lusak graduated from the Kiev Technology Institute in 1981 and the Tyumen State University in 1999.

Victor A. Rusakov (b. 1970) currently serves as a member of VTB's Statutory Audit Commission. Mr. Rusakov served as a Deputy Division Head of the Ministry of Economic Development and Trade from 2002 until 2007. From 1996 to 2002, he served as a Leading Inspector and Chief Inspector of the Accounts Chamber of Russia. From 1991 to 1996, Mr. Rusakov served as a Department Head and Deputy Chairman of the Management Board of Ekobank. Mr. Rusakov graduated from the State Finance Academy in 1992 and the Russian Academy of State Service in 2003.

The business address of Mr. Lukov is 9 Ilyinka Street, Moscow 109097, Russian Federation. The business address of Ms. Olga A. Lusak is 9 Nikolsky Lane, Moscow 109012, Russian Federation. The business address of Mr. Rusakov is 18/1 Ovchinnikovskaya Embankment, 115324 Moscow, Russian Federation.

Banking Group Management Committee

The Group has created a Banking Group Management Committee (the "BGMC"), which performs the functions of an interbank coordination body aimed at improving centralised oversight of the Group. The BGMC is responsible for the approval of the business plans for the Group and its subsidiaries, aligning policies (including risk management), optimising business processes, overseeing corporate governance and forming a unified culture of the Group. The majority of members on the BGMC are representatives of VTB, and the remaining members are representatives from certain subsidiaries. The BGMC had its first meeting in March 2006, and is required to meet at least quarterly.

The BGMC has established specialised sub-committees, including a financial management committee, an internal audit committee, a brand and marketing committee, an asset and liability management committee and a risk management committee.

Decisions made by the BGMC are further approved by the Supervisory and Management Boards of the relevant banks in line with the local regulations of the country where the bank operates. VTB representatives form the majority on the boards of its subsidiaries, thereby ensuring ratification of, and compliance with, BGMC decisions at the subsidiary level.

The members of the BGMC are set out below.

Andrei L. Kostin is the chairman of the BGMC. See "—Supervisory Council."

Alexei I. Akinshin, see "—Management Board."

Yulia G. Chupina, see "—Management Board."

Evgeniy M. Grevtsev (b. 1949) has served as a managing director of VTB Europe's Singapore branch since 2001. Mr. Grevtsev serves as the Director of VTB Bank Europe Nominees pte Limited (Singapore) and as an executive director and member of the Board of Directors of VTB Europe. From 1994 to 1997, he served as a Vice-President and General Representative of Most-Bank in London. From 1990 to 1994, he served as a Deputy Chairman of the Management Board and General Manager of Moscow Narodny Bank, London. From 1988 to 1990, Mr. Grevtsev held various positions at Vnesheconombank, including as a member of the Management Board and as a department head. From 1983 to 1987, he held various positions at Vneshtorgbank of the USSR, including serving on the Management Board and as head of the personnel department. From 1980 to 1983, he served as a Commissioner of Vneshtorgbank of the USSR and Moscow Narodny Bank in Indonesia. From 1970 to 1979, Mr. Grevtsev served as an economist and then as the Head of the Planning and Economics

Department of Vneshtorgbank of the USSR. Mr. Grevtsev graduated from Moscow Financial Institute in 1970. He holds a Ph.D. in economics.

Vasilij V. Kirpichev, see “—Management Board.”

Nikolay A. Kuznetsov (b. 1964) has served as a Senior Vice-President and Head of the Banking Subsidiaries Division, Corporate Development and Financial Subsidiaries Department of VTB since May 2006. From 2005 to 2006, Mr. Kuznetsov served as an Executive Director of JSC Ilyushin Finance Co. From 2003 to 2005, he served as a Deputy General Director for Economics and Finance of OJSC Power Machines. From 1999 to 2003, he served as a Deputy General Director for Finance and Planning of OJSC Aeroflot—Russian Airlines. From 1996 to 1999, Mr. Kuznetsov served as the Head of Treasury, Executive Vice-President, member of the Management Board and acting Chairman of the Management Board of OJSC BANK MENATEP. He currently serves as the Chairman of the Supervisory Council of VTB Germany, is a member of the Council of VTB Armenia, a member of the Supervisory Councils of VTB Georgia, VTB Ukraine, RKB-Zurich and CJSC VTB-Capital. Mr. Kuznetsov graduated from the Moscow Management Institute in 1986 and Pierre Mandes University (France) Grenoble in 1994. He holds a Ph.D. in economics.

Erkin R. Norov, see “—Management Board.”

Andrei S. Puchkov (b. 1977) joined VTB in 2002 and has served as a Senior Vice-President and the Head of the Legal Department since 2005. He currently serves as a member of the Board of Directors of RCB-Cyprus, as Chairman of the Supervisory Council of CJSC VTB-Capital, is a member of the Supervisory Councils of VTB Ukraine, Vneshtorgbank (Ukraine), VTB France, VTB24 and ICB and is a member of the Advisory Committee of VTB Europe. From 1999 to 2002, Mr. Puchkov was a member of the Moscow Bar. Mr. Puchkov graduated from the Moscow State University in 1998.

Igor G. Suvorov (b. 1948) has served as the Chairman of the Board of Directors and General Director of VTB Europe since 1997. Mr. Suvorov also serves as the Director of VTB Europe Strategic Investments Ltd. and as Director of VTB Europe Strategic Investments (Russia) Ltd. From 1991 to 1997, he served as a Director and General Director of Moscow Narodny Bank’s Singapore branch. From 1988 to 1991, Mr. Suvorov held various positions at Vnesheconombank. From 1987 to 1988, he served as a Deputy Department Head of Vneshtorgbank of the USSR. From 1980 to 1987, Mr. Suvorov served as a Deputy Department Head of the Moscow Narodny Bank’s Singapore branch. From 1972 to 1980, he held various positions at the State Bank of the USSR. Mr. Suvorov graduated from the Moscow Financial Institute in 1972.

Nikolai V. Tsekhomsky (b. 1974) has served as a Senior Vice-President and as the CFO of VTB since October 2005. Mr. Tsekhomsky is a member of the Supervisory Councils of VTB24, ICB, and VTB Ukraine, is a member of the Advisory Committee of VTB Europe, and a member of the supervisory board of VTB Austria. From 2002 to 2005, Mr. Tsekhomsky served as a Vice-President for Finance and Investments and was the CFO of OJSC Mobile TeleSystems. From 1999 to 2002, Mr. Tsekhomsky served as the Head of the Finance Department at Renaissance Capital. Mr. Tsekhomsky graduated from the St. Petersburg State Academy for Engineering and Economics in 1996. He received a Ph.D. in economics in 1999.

Mikhail M. Zadornov (b. 1963) has served as the Chairman of the Management Board of VTB24 since July 2005. From 1999 to 2005, Mr. Zadornov served as a member of the State Duma of Russia and served on various Duma committees in different capacities, including as deputy chairman of the budget and taxes committee. From 1997 to 1999, he served as the Minister of Finance of Russia and held other positions in the Russian government. From 1993 to 1997, he served as a member of the State Duma of Russia and served as the chairman of the committee on budget, taxes, banks and finances. From 1990 to 1993, he was a member of the State Economy Reform Committee of the RSFSR Council of Ministers. From 1989 to 1990, Mr. Zadornov held various expert and consultant positions with academic institutions and governmental agencies. Mr. Zadornov currently serves as a member of the Supervisory Council of VTB24. He graduated from the Moscow Institute of National Economy in 1986. Mr. Zadornov holds a Ph.D. in economics.

Igor N. Zavyalov, see “—Management Board.”

Compensation

In 2006, the Group paid remuneration to the members of VTB's Management Board, VTB's Statutory Audit Commission and management bodies of VTB's subsidiaries totalling \$40.5 million in salary, bonuses and other benefits.

As of December 31, 2006, VTB had no service contracts with the members of its Supervisory Council, except with Andrei L. Kostin, who has an employment contract with VTB. In addition, VTB is currently negotiating employment agreements with the newly-appointed independent members of the Supervisory Council, Mr. de Silguy and Mr. Warnig. The members of its Management Board enter into employment contracts with VTB, which set forth their compensation.

Loans to Management

As of December 31, 2006, the Group had outstanding loans and guarantees to members of the Supervisory Council and the Management Board in an amount not exceeding \$12 million.

Share Ownership

Members of the Supervisory Council and the Management Board own in the aggregate less than 0.1% of VTB's issued and outstanding shares.

Certain of the Group's directors, officers and employees plan to purchase Securities in the Retail Offering on terms identical to the ones offered to the other investors in the Retail Offering. In addition, the Group may decide at some point in the future to adopt a share option or share purchase program for the Group's directors, officers and employees.

Corporate Governance

The ordinary shares have been listed on the RTS and MICEX since April 2007, and, as a result, VTB is required to comply with a number of corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Such requirements include, *inter alia*: (i) the obligation to have at least one independent director on the Supervisory Board, (ii) the formation of an audit committee of the Supervisory Council, (iii) the adoption of a bylaw on insider trading, and (iv) the implementation of internal control procedures. VTB is in full compliance with these requirements. The independent director is "independent" in accordance with the criteria set out in the FSFM legal regulations and VTB's internal corporate governance regulations, which differ in some respects from the criteria for independent directors that are set out in the UK Combined Code and under applicable listing requirements in the United States.

Audit Committee

In anticipation of the Global Offering, VTB established the Audit Committee in April 2007. The Audit Committee consists of three members who are appointed by the Supervisory Council. The Audit Committee is chaired by Mr. Warnig, an independent director. The other members are Mr. Ulyukaev and Mr. Savatyugin. The Audit Committee is responsible for the quality and integrity of the Group's financial statements, compliance with legal and regulatory requirements, the independence of external auditors, monitoring the audit process, coordinating internal audits and other matters.

Litigation Statement about Management

At the date of this Prospectus, for at least the previous five years, none of the members of the Supervisory Council, the Statutory Audit Commission or the Management Board or other members of senior management listed above:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified

by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Other Interests

As set out in the biographies above, certain of VTB's directors and executive officers serve as directors and officers of affiliates of VTB (including the controlling shareholder, VTB Europe, VTB Germany, RKB-Zurich, VTB Austria, VTB France, VTB Ukraine, VTB Armenia, VTB Georgia, VTB24 and ICB. VTB engages in transactions with some of these affiliates, including transactions in the ordinary course of business. See "Related Party Transactions." Certain of VTB's directors and executive officers also serve as directors of some of VTB's competitors. For example, Mr. Kudrin, Mr. Dvorkovich and Mr. Savatygin are members of Supervisory Board of JSC Sberbank. As a result, potential conflicts of interest between these directors' and officers' duties to VTB and their duties to other companies could arise. Under Russian legislation, certain transactions defined as "interested party transactions" require approval by VTB's disinterested directors or shareholders. See "Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions."

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the ownership of the ordinary shares as at the date of this Prospectus and as adjusted to reflect the Global Offering.

Owner	Ordinary shares owned immediately prior to the Global Offering		Ordinary shares owned immediately after the Global Offering ⁽²⁾		Ordinary shares owned immediately after the expiry of the Stabilisation Period ⁽³⁾			
	Number	Percent	Number	Percent	Direct		Indirect ⁽⁴⁾	
					Number	Percent	Number	Percent
The Russian Federation, acting through the Federal Property Agency	5,209,084,700,000	99.9%		%		%		%
Other ⁽¹⁾	2,027,700,000	0.1%		%		%		%
Free float (including GDR holders)	—	—		%		%		%
Total	<u>5,211,112,400,000</u>	<u>100.0%</u>	<u>—</u>	<u>100.0%</u>	<u>—</u>	<u>100%</u>	<u>—</u>	<u>100%</u>

(1) Comprising 60 entities and individuals.

(2) Prior to any exercise of the Repurchase Option.

(3) Assuming the Repurchase Option is exercised in full, following which the number of Shares available to the public will be reduced by .

(4) Refers to Shares held in treasury by ITC, and therefore held indirectly through interests in VTB.

None of VTB's shareholders has voting rights that differ from any other holder of the ordinary shares. VTB is not aware of any arrangements that may result in a change of control of VTB.

RELATED PARTY TRANSACTIONS

According to IFRS, 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's financial or operational decisions, as defined by IAS 24 "Related Party Disclosures." In determining each possible related party relationship, one must consider the substance of the relationship and not merely the legal form.

At present, state-controlled entities are no longer exempt from disclosing transactions with other state-controlled entities. Since VTB is a state-owned entity, VTB introduced a policy in accordance with which it discloses transactions and outstanding balances as well as details of off-balance sheet credit related commitments or with directly or indirectly state-owned entities.

The Group enters into banking transactions in the normal course of business with (i) its controlling shareholder, the Russian Federation, acting through the Federal Property Agency, (ii) entities controlled, directly or indirectly, by Russia and (iii) its affiliates. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. Transactions are priced predominantly at market rates.

In 2006, the IFRS department created a database for related party transactions and has been updating it on a quarterly basis with up-to-date information collected from the accounting systems and the Group's client-facing departments. This database is not universal to the Group and it is not integrated in the Group's accounting systems. As a result, the IFRS department currently manually checks material balance sheet items to identify related party transactions for IFRS purposes. The identification is based on contracts, counterparty charter documents and other sources as VTB does not have formalized IT-supported procedures to identify state controlled counterparties. Interest income, interest expense and provision for loan impairment attributable to related party transactions are calculated using, among other, analytical approaches and disclosed in accordance with the IFRS financial statements. This manual process typically requires substantial additional work to verify and reconcile related party transactions by VTB and its external auditors. See "Risk Factors—VTB's management has recognized a material weakness in the Group's internal controls over the closing process relating to the preparation of VTB's consolidated IFRS annual and interim financial statements."

The following table sets forth assets, liabilities and credit related commitments resulting from transactions and balances with related parties as of December 31, 2006, 2005 and 2004, in each case

within the meaning of IFRS. Since December 31, 2006, VTB has continued to enter into related party transactions within the normal course of business.

	As of December 31,		
	2006	2005	2004
	(\$ millions)		
Assets			
Cash and short-term funds	1,236	1,212	215
Mandatory cash balances with local central banks	571	329	232
Due from other banks	803	354	338
Financial assets at fair value through profit or loss	2,456	2,873	1,365
Financial assets pledged under repurchase agreements and loaned financial assets	207	454	322
Financial assets available for sale	470	301	176
Loans to customers	5,500	4,429	2,599
Allowance for loan impairment	(111)	(99)	(134)
Liabilities			
Due to other banks	502	1,242	566
Customer deposits	4,227	1,975	1,613
Other borrowed funds	653	982	694
Credit Related Commitments			
Guarantees issued	1,758	1,044	1,026
Undrawn credit lines	1,079	501	157
Import letters of credit	100	79	27
Commitments to extend credit	367	183	85
Other credit related commitments	102	—	—

The following table sets forth interest income and interest expense resulting from transactions and balances with customers controlled by the Russian Federation and with the Group's associate companies for the years ended December 31, 2006, 2005 and 2004, in each case within the meaning of IFRS.

	For the year ended		
	December 31,		
	2006	2005	2004
	(\$ millions)		
Interest income			
Loans and advances to customers	436	293	198
Securities	214	109	129
Due from other banks	30	22	10
Interest expense			
Customer deposits	(138)	(58)	(60)
Due to other banks	(79)	(85)	(11)
Extinguishment of liabilities	—	100	—
Reversal of allowance (provision) for impairment	(12)	35	34
Gains from disposal of subsidiaries	51	—	—

BANKING REGULATION IN RUSSIA

Banking activity in Russia is governed primarily by the Central Bank Law, the Banking Law, CBR regulations and, to a limited extent, Federal Law No. 173-FZ on currency regulation and currency control (the “**Currency Law**”). While the CBR is the primary regulator of the banking sector, other governmental entities also exercise regulatory and supervisory functions over banks in Russia. For example, the FSFM issues licenses to banking institutions to act as broker/dealers or to provide custodian services, among others, in the Russian securities market, and tax authorities supervise the tax assessments of banks.

Banking Reform

On April 5, 2005, the Government and the CBR issued their joint Strategy for the Development of the Banking Sector of Russia until 2008 (the “**Strategy**”). Pursuant to the Strategy, the main objective of the development of the Russian banking sector is to increase the stability of the banking system. As part of the improvement of legislative regulation of banking activities, the Strategy outlines, *inter alia*, the following steps: (i) improving the protection of creditors’ rights (in particular, those secured by collateral), (ii) improving the procedures for the liquidation of credit organisations whose banking licenses have been revoked; (iii) simplifying the procedures for mergers and acquisitions of credit organisations; (iv) facilitating an efficient system for the collection and use of credit history data; and (v) continuing the improvement of the taxation regime for credit organisations.

Role of the CBR

The CBR is the primary authority responsible for the regulation of banking institutions in Russia and also acts as Russia’s central bank. The principal responsibilities and functions of the CBR include:

- elaborating and pursuing a single state monetary policy in interaction with the Government of Russia;
- exercising its exclusive right to issue currency and managing currency circulation;
- acting as the lender of last resort for credit organisations and managing the system for refinancing such credit organisations;
- setting the rules to effect settlements in Russia;
- setting the rules to conduct banking activities;
- managing all categories of budget accounts, unless otherwise stipulated by federal laws, by effecting settlements upon appropriate instructions;
- efficiently managing its international reserves;
- managing the state registration of credit organisations, issuing banking licenses to credit organisations and suspending and revoking banking licenses;
- supervising the activities of credit organisations and banking groups;
- registering the issue of securities by credit organisations in compliance with federal laws;
- conducting all types of banking operations and other transactions necessary for the fulfillment of its functions;
- organising and implementing foreign exchange regulations and foreign exchange controls in compliance with federal legislation;
- establishing the procedure for effecting settlements with international organisations, foreign states and also legal entities and private individuals;
- setting accounting and reporting rules for the Russian banking sector;
- setting and publishing the official exchange rates of foreign currencies against the ruble;
- participating in drafting the Russian balance of payments forecast and organising the compliance of the balance of payments of Russia;

- establishing the procedure and terms and conditions for the organisation by foreign currency exchanges of operations to buy and sell foreign exchange and issuing, suspending and revoking permits granted to such currency exchanges;
- analysing and making forecasts on the state of the Russian economy as a whole and by region, especially with regard to monetary, foreign currency, finance and price relationships, and publishes corresponding materials and statistical data; and
- performing other functions in pursuance of federal laws.

The CBR is authorised to implement regulations on various banking and currency control issues and it has actively used this authorisation in recent years, creating a detailed and extensive body of regulations.

Licensing Requirements

A license must be obtained from the CBR in order for any institution to engage in banking activity as defined in the Banking Law. Applicants must be incorporated within Russia and registered with the CBR as a credit organisation, and submit inter alia a feasibility report and detailed information on the suitability of the applicant's management team. A banking license may be denied for a number of reasons, including if the financial standing of the founders of the bank is deemed by the CBR to be unsatisfactory or if the proposed candidates for the senior management of the bank, including members of the management board and the chief executive officer, are deemed to be unsuitable or do not meet the qualification requirements.

Pursuant to the Banking Law, a bank's license may be revoked by the CBR if: (1) the information upon which the license has been issued is untrue and misleading; (2) the bank delays the commencement of its operations for more than one year from the issue of the license; (3) information that the bank is required to disclose is materially untrue and misleading; (4) the bank delays submission of its monthly report to the CBR for more than 15 days; (5) the bank conducts banking operations (or a single operation) not permitted by its license; (6) the bank's activities do not comply with Russian banking or anti-money laundering legislation or regulations of the CBR; (7) the bank does not carry out court decisions on the collection of funds from client accounts; (8) in cases of insolvency, the revocation of the banking license is requested by the temporary administration appointed to the bank; (9) the bank repeatedly fails to submit updated information required to be reflected in the State register of legal entities; or (10) a bank involved in mortgage-backed asset management operations does not comply with Russian mortgage-backed securities legislation.

The CBR must revoke a bank's license if: (1) its capital adequacy ratio falls below 2%; (2) its regulatory capital is less than its minimal charter capital as set by the CBR; (3) the bank fails to adjust its charter capital to its regulatory capital according to CBR requirements within 45 days of CBR notification; (4) the bank fails to satisfy the claims of its creditors or make mandatory payments (e.g., taxes and duties) amounting to an aggregate minimum of RUR 100,000 within 14 days of their maturity; or (5) the amount of the bank's regulatory capital is less than a certain statutory threshold during a certain defined period of time.

Capital requirements

The Banking Law sets a minimum equity (charter capital) requirement for banking institutions which is currently the ruble equivalent of EUR 5 million for each newly established bank. Existing banks having less than the ruble equivalent of EUR 5 million charter capital as of January 1, 2007, may continue their activity providing that their charter capital will not be less than the capital they had as at January 1, 2007. The ruble equivalent is determined quarterly by the CBR in accordance with Directive No. 1755-U of the CBR of December 11, 2006. If a bank's regulatory capital falls below its charter capital, it is required to adjust its regulatory capital (or, if impossible, its charter capital, within applicable limits) in accordance with procedures set by the CBR in Directive No. 1260-U of the CBR of March 24, 2003, as amended.

Accounting policies and reporting requirements

The CBR establishes accounting rules and procedures for banks, as well as a standard format for the presentation of financial and statistical data by credit organisations and for recording banking transactions. Starting in 2004, all credit organisations in Russia have been required to prepare their

financial statements according to both RAS and IFRS. Banking groups or other consolidated groups over which a bank exercises control (i.e., banking groups in which one bank directly or indirectly controls decisions of the governing bodies of the other banking/non-banking legal entities within the group) must periodically submit their consolidated accounts to the CBR. The Banking Law requires that the annual balance sheets and other financial statements of banks be certified by an auditor licensed in accordance with Russian law. Russian banks (including VTB) must submit to the CBR balance sheet data, monthly financial statements and other financial information showing the actual financial position of the bank at intervals ranging from daily to annually, depending on the type of information. They must also inform the CBR of the provision of any loans that exceed 5% of the bank's regulatory capital, starting from the report month when the loan was extended. The CBR may at any time and does carry out full or selective checks of VTB's submissions and inspect any of VTB's books and records.

Mandatory ratios

The CBR has established various capital adequacy and liquidity requirements for banks and, as the case may be, banking groups, in order to ensure the integrity of the banking system. The table below describes the mandatory ratios which banks are required to observe on a daily basis, and which apply to VTB's Russian Group banks.

Mandatory Ratios	Objective	Definition	CBR Maximum/Minimum Mandatory Ratio Requirements
Capital adequacy ratio (N1)	To manage (limit) the risk of a bank's insolvency and sets the minimum regulatory capital for a bank necessary to cover credit and market risks.	Represents a ratio of a bank's regulatory capital to its risk-weighted assets.	Minimum: <ul style="list-style-type: none"> • 11%, where a bank's regulatory capital is below €5 million, and • 10%, where a bank's regulatory capital is equal to or more than €5 million
Instant liquidity ratio (N2)	To manage (limit) the risk of a bank's liquidity loss within one operational day.	Represents the minimum ratio of a bank's highly-liquid assets to its liabilities payable on demand.	Minimum 15%
Current liquidity ratio (N3)	To manage (limit) the risk of a bank's liquidity loss for the next 30 calendar days.	Represents the ratio of a bank's liquid assets to its liabilities due within the next 30 calendar days.	Minimum 50%
Long-term liquidity ratio (N4)	To manage (limit) a bank's long-term liquidity risk resulting from its long-term assets.	Represents the ratio of a bank's credit claims maturing in more than one calendar year, to the aggregate amount of a bank's regulatory capital and its liabilities maturing in more than one calendar year.	Maximum 120%
Maximum exposure to a single borrower or group of related borrowers (N6)	To manage (limit) the credit exposure of a bank to one borrower or a group of related borrowers.	Represents the ratio of a bank's claims to a single borrower or a group of related borrowers to a Bank's related regulatory capital.	Maximum 25%
Maximum amount of major credit risks (N7)	To manage (limit) the aggregate amount of a bank's major credit risks ⁽¹⁾ .	Represents the ratio of an aggregate amount of a bank's major credit risks to its regulatory capital.	Maximum 800%
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	To manage (limit) a bank's credit exposure to its participants (shareholders).	Represents the ratio of a bank's loans, bank guarantees and sureties extended to its participants (shareholders) to the bank's regulatory capital.	Maximum 50%

Mandatory Ratios	Objective	Definition	CBR Maximum/Minimum Mandatory Ratio Requirements
Aggregate amount of exposure to a bank's insiders (N10.1)	To manage (limit) the aggregate credit exposure of a bank to its insiders (i.e., individuals capable of influencing the bank's credit decisions).	Represents the ratio of the bank's aggregate amounts of credit claims to its insiders to the bank's regulatory capital.	Maximum 3%
Ratio for the use of the bank's regulatory capital to acquire shares (participation interests) in other legal entities (N12)	To manage (limit) the aggregate risk of a bank's investments into shares (participation interests) in third party entities.	Represents the ratio of a bank's investments into shares (participation interests) in third party entities to its regulatory capital.	Maximum 25%

(1) According to the Central Bank Law, a major credit risk is defined as the aggregate amount of all credits, guarantees and suretyships in favor of one client of a bank if such amount is in excess of 5% of a bank's regulatory capital.

The regulatory capital of a bank consists of core capital and additional capital. Core capital includes, among other items, charter capital, share premium, retained earnings and reserve and funds. Additional capital includes, among other items, asset revaluation reserves, general loan loss reserves (allowances) and subordinated debt. In order to assess the capital adequacy of banks under the risk-based capital guidelines, a bank's regulatory capital is related to the aggregate risk (quality) of its assets and off-balance sheet exposures, which are weighted according to five broad risk (quality) categories.

VTB's Russian Group banks are, and have always been, in compliance with the above mandatory ratios or have otherwise received waivers from the CBR.

Mandatory cash balance requirements

Pursuant to the Central Bank Law, the CBR may establish mandatory cash balance requirements for banks. From July 2004, mandatory cash balances are calculated by banks in accordance with CBR Regulation No. 255-P of March 29, 2004, as amended. Banks are currently required to post mandatory cash balances to be held in non-interest bearing accounts with the CBR in an amount equal to 3.5% of funds in rubles and foreign currency deposits from legal entities and individuals. Banks with good reserves and credit history are offered a mechanism that would allow the posting of mandatory cash balances in accordance with certain calculated averages. Mandatory cash balance requirements must not exceed 20% of a bank's liabilities and the requirements vary for different categories of banks.

If a bank does not comply with the mandatory cash balance requirements, the CBR may impose a fine and directly debit the bank's correspondent account with the CBR in respect of the shortfall in reserve amounts. The CBR and its regional bodies have the right to conduct unscheduled inspections of banks to check their compliance with those requirements.

Provisioning and loss allowances

The CBR has established certain rules regarding allowances for loan losses on loans extended by banks. Regulation No. 254-P of March 26, 2004, as amended, requires banks to adopt procedures for calculating and posting allowances for loan losses and for continuously monitoring the financial position of the banks' borrowers and the quality of their debt service. The regulation requires banks to rank their loans into the following categories: (1) no credit risk; (2) moderate credit risk; (3) serious credit risk; (4) high credit risk; or (5) the value of a particular loan is going to be lost completely. The amount of allowance for loan losses is calculated as a certain percentage of the loan depending on its category, i.e. the framework for each category indicated above is, respectively: (1) 0%; (2) 1% to 20%; (3) 21% to 50%; (4) 51% to 100%; and (5) 100%.

Allowances for loan losses are calculated at the end of each month in rubles, and are only used to cover losses relating to the principal amount of the loans made by banks and/or amounts of promissory notes that exclude the relevant interest and discount. The CBR has also established certain rules regarding allowances for possible losses, other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts at other banks, contingent liabilities, forward and other transactions. The CBR Regulation No 283-P of March 20, 2006 requires banks to

rank such assets and operations into five risk groups (referred to as “**quality categories**”) similar to the loan categories described above as follows: (1) no real or potential threat of losses; (2) moderate potential threat of losses; (3) serious potential or moderate real threat of losses; (4) simultaneous potential and moderate real threat of losses or material real threat of partial losses; and (5) the value of a particular type of asset or operation is going to be lost completely. Banks are then required to provide allowances for each type of asset or operation in amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively: (1) 0%; (2) 1% to 20%; (3) 21% to 50%; (4) 51% to 100%; and (5) 100%. Banks must report to the CBR on the amounts of non-loan allowances monthly.

Mandatory provisions also exist for operations with offshore residents (as defined in CBR Regulation No 1584-U of June 22, 2005). The amount of such provision is calculated depending on the classification of the offshore relevant area and accounts for 0% to 50% of the respective asset or operation.

The CBR has established certain rules regarding exposure of banks to foreign currency and precious metals (collectively, “**currency exposure**”), as well as controls over such exposure, as set forth in its Instruction No. 124-I of July 15, 2005. The CBR requires banks to comply on a daily basis with the following requirements: (1) the total amount of all long (short) open currency positions in currencies and precious metals must not exceed 20% of the bank’s regulatory capital; and (2) any long (short) open currency position in a particular currency or precious metal, as well as the balancing position in rubles, must not exceed 10% of the bank’s regulatory capital. Furthermore, banks are required to periodically report to the CBR regarding their open currency positions.

Anti-Money Laundering Legislation

Russia, as a member of the Financial Action Task Force (“**FATF**”), has developed and enacted certain anti-money laundering legislation. The basic Russian anti-money laundering law is Federal Law “On Combating Legalisation (Laundering) of Criminally Gained Income and Financing of Terrorism” No. 115-FZ dated August 7, 2001 (as amended) (the “**Anti-Money Laundering Law**”). The Anti-Money Laundering Law follows the FATF Forty Recommendations and the FATF Special Recommendations on Terrorist Financing and provides for measures to combat money laundering in Russia to be implemented by individuals and organisations, including Russian banking institutions, involved in transactions with money and certain property. Pursuant to the Anti-Money Laundering Law, Russian banks are obligated to *inter alia*: (1) establish and maintain systems of internal control ensuring that the bank and its clients are in compliance with Russian anti-money laundering legislation; (2) monitor and record certain client transactions, as specified in the Anti-Money Laundering Law; and (3) report certain client transactions specified by the Anti-Money Laundering Law to the relevant Russia authorities. Furthermore, in certain cases Russian banks must suspend client transactions and inform the relevant Russian authorities. The current Anti-Money Laundering Law does not permit banks to suspend or freeze client transactions for longer than two business days unless extended by the authorised body to a longer period.

The Federal Services on Financial Monitoring is the main governmental authority acting as a financial intelligence unit, and, together with the CBR, exercises control over banks’ compliance with the Anti-Money Laundering Law. Russian banks are obligated to report through the CBR to the Federal Services on Financial Monitoring with respect to the types of transactions mentioned above.

Failure by Russian banks and/or their officers to comply with the requirements of the Anti-Money Laundering Law may result in the imposition of sanctions, including the revocation of a banking license (with a subsequent liquidation of the bank) and criminal penalties for individuals.

CBR Intervention

Failure by Russian banks to comply with the CBR’s capital adequacy or regulatory capital requirements or to meet the obligations to its creditors when due may lead to the intervention of the CBR as further described below.

Insolvency Regime

Pursuant to the Federal Law “On insolvency (bankruptcy) of credit organisations” No 40-FZ of February 25, 1999, as amended (the “**Bank Insolvency Law**”), bankruptcy proceedings may not be

initiated against a bank prior to the revocation of its banking license. If a bankruptcy petition is filed with a court and the banking license of the allegedly insolvent bank is not revoked the court must adjourn the petition and request the CBR for an opinion on whether there are grounds for revocation of the bank's banking license or as the case may be to provide a copy of the CBR order by which the bank's license has been revoked. If the CBR issues a negative opinion or fails to respond within a one-month period, the bankruptcy petition must be dismissed. In the latter case, the CBR is liable for any losses a creditor will incur as a result of non-revocation of the banking license.

Temporary Administration

Upon revocation of a banking license, the CBR must appoint a temporary administration for the relevant bank, which oversees the bank's operations, identifies debtors of the bank and collects its assets. The temporary administration performs its functions until the appointment of a liquidator or bankruptcy manager.

Under the Bank Insolvency Law, a temporary administration may also be appointed for the bank prior to the revocation of its banking license if: (1) the bank fails to satisfy claims of creditors or make mandatory payments (e.g., taxes and duties) within seven days from the date of their maturity due to the absence or lack of funds in its correspondent accounts; (2) the bank's regulatory capital falls more than 30% below the maximum amount of regulatory capital of the bank during the last 12 months with simultaneous violation of one of the bank's mandatory ratios; (3) the bank breaches its current liquidity ratio by more than 20% during the preceding month; (4) the bank does not fulfill the CBR requirement to change management, undertake financial rehabilitation measures or reorganisation in instances specified in the Bank Insolvency Law; or (5) there are grounds for revocation of the bank's license under the Banking Law.

Upon appointment of the temporary administration, the powers of the bank's management may be limited or suspended in which case the bank's management functions are performed by the temporary administration. During the term of its appointment, the temporary administration analyses the bank's financial standing, establishes whether there are grounds for revocation of the bank's banking license, participates in the development of measures for the financial rehabilitation of the bank, oversees the bank's operations, issues approvals for operations in respect of assets valued at more than 1% of the total balance sheet value of the bank's assets, and may repudiate certain contracts of the bank and file claims for the invalidation of certain transactions of the bank, including certain interested party transactions or transactions at under value. Pursuant to the Bank Insolvency Law, the temporary administration may in certain defined circumstances request that the CBR impose a moratorium for up to three months on the performance of the bank's monetary obligations that arose prior to the appointment of the temporary administration regardless of the maturity date of such obligations.

Winding Up and Bankruptcy Proceedings

Upon revocation of its banking license, the performance of a bank's obligations is prohibited. The bank must be liquidated through bankruptcy proceedings if it is unable to meet its obligations in an aggregate principal amount of RUR 100,000 within 14 days after they fall due or the assets of the bank are insufficient to satisfy the claims of its creditors.

Under the Bank Insolvency Law, if a bank is declared bankrupt, unsecured creditors' claims are generally subordinated to current liabilities (i.e., claims that arose after the initiation of bankruptcy proceedings and costs related to bankruptcy litigation) as well as certain priority claims.

Claims of secured creditors are satisfied from the proceeds of the sale of the pledged assets in priority to other creditors' claims, except for priority claims. Any obligations of secured creditors that remain unsatisfied following the sale of the pledged assets will rank as claims of unsecured creditors.

Generally, under the Bank Insolvency Law taxes and other payment obligations to the Government are satisfied *pari passu* with the claims of unsecured creditors. The Civil Code, however, provides for a different order of priority for creditors' claims in the event of liquidation and the application of these provisions remains untested.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LAW

The following text describes the rights attaching to the ordinary shares, the material provisions of VTB's charter and certain requirements of Russian law. GDR holders will be able to exercise their rights with respect to the ordinary shares underlying the GDRs only in accordance with the provisions of the Deposit Agreement and the relevant requirements of Russian law. See "Terms and Conditions of the Global Depositary Receipts" for more information.

Corporate Purpose

Article 3.1 of VTB's charter provides that VTB's primary purpose is to earn a profit by conducting banking activities.

Share Capital

General

Pursuant to its charter, VTB has the right to issue registered ordinary shares and other securities provided for by Russian securities law. VTB's charter does not currently allow for the issuance of preferred shares, but could be amended to allow such issuance by a three-quarters majority vote taken at a General Shareholders Meeting.

As of the date of this Prospectus, VTB's charter capital consists of 5,211,112,400,000 issued, fully paid and outstanding ordinary shares each with a nominal value of RUR 0.01, which totals RUR 52,111,124,000 of charter capital. VTB is authorised under its charter to issue an additional 5,000,000,000,000 ordinary shares (the "Authorised Shares"). Immediately following the completion of the Global Offering, assuming all of the Shares offered are placed, VTB's charter capital will consist of 6,945,446,266,664 issued, fully paid and outstanding ordinary shares, and the number of Authorised Shares will be reduced by the number of Shares placed in the Open Subscription and the Global Offering including any Shares in the form of GDRs acquired by the Group under the Repurchase Option.

The Joint Stock Companies Law requires a joint stock company to dispose of any of its shares that it acquires within one year of their acquisition or, failing that, reduce its charter capital. For purposes hereof, such shares are referred to as treasury shares. Russian legislation does not allow for the voting of such treasury shares. Currently, VTB does not have treasury shares. Any of VTB's shares that are owned by its subsidiaries are not considered treasury shares under Russian law (i.e., they are considered outstanding shares and unless the context requires otherwise, such shares are considered outstanding for purposes of the ownership percentages presented in this Prospectus), and VTB's subsidiaries are able to vote such shares and dispose of such shares without any further corporate actions by VTB's shareholders or Supervisory Council. None of VTB's shares is owned by its subsidiaries. In VTB's Annual Financial Statements prepared under IFRS, such shares would be considered treasury shares (i.e., they are considered not outstanding).

History of Share Issuances

The following table sets forth VTB's ordinary share issuances over the past three financial years.

Year	Event	Outstanding ordinary shares	Nominal Value per share (RUR)
2004	Ordinary shares at the beginning of the year	42,137,236	1,000.00
2005	Ordinary shares at the beginning of the year	42,137,236	1,000.00
Dec 13 to 23	Closed Subscription to 9,973,888 ordinary shares at RUR 3,760 per ordinary share	52,111,124	1,000.00
2006	Ordinary shares at the beginning of the year	52,111,124	1,000.00
Sept 29	Split of existing ordinary shares into ordinary shares with smaller face value	5,211,112,400,000	0.01
2007	Ordinary shares at beginning of the year	5,211,112,400,000	0.01

Rights Attaching to the Ordinary Shares

In accordance with the Joint Stock Companies Law and VTB's charter, all of the ordinary shares have identical par value, and each holder of ordinary shares has identical rights. Each fully paid ordinary share gives its holder the right to, *inter alia*:

- (i) freely transfer the shares without VTB's consent or the consent of other shareholders;
- (ii) receive dividends (not applicable to treasury shares);
- (iii) participate in shareholders' meetings and vote on all matters within the competence of shareholders (not applicable to treasury shares);
- (iv) transfer voting rights to its representative pursuant to a power of attorney;
- (v) exercise its preemptive rights in certain circumstances;
- (vi) participate in the election and early termination of members of the Supervisory Council and Statutory Audit Commission (not applicable to treasury shares);
- (vii) make proposals for the agenda of the annual General Shareholders Meeting and nominate candidates for the Supervisory Council and the Statutory Audit Commission, if holding, alone or with other holders, 2% or more of the issued and outstanding ordinary shares, within 60 days after the end of VTB's fiscal year;
- (viii) demand that the Supervisory Council calls an extraordinary General Shareholders Meeting or an unscheduled audit by the Statutory Audit Commission or by an independent auditor, if holding, alone or with other holders, 10% or more of the issued and outstanding ordinary shares;
- (ix) demand, under the following circumstances, that VTB buy out some or all of the ordinary shares owned by it, as long as such shareholder votes against, or does not participate in voting on, a decision approving any:
 - (a) reorganisation;
 - (b) major transaction, as defined in Russian law (see "—Major Transactions"); or
 - (c) amendment of VTB's charter restricting shareholders' rights;
- (x) upon liquidation of VTB, receive a pro rata amount of VTB's property after its obligations are discharged;
- (xi) have access to certain company documents and receive copies for a reasonable fee and, if holding alone or with other shareholders 25% or more of the outstanding ordinary shares, have free access to accounting documents and minutes of the Management Board; and
- (xii) exercise other rights of a shareholder under VTB's charter, Russian legislation and decisions of General Shareholders Meeting.

Preemptive Rights

The Joint Stock Companies Law provides existing shareholders with a preemptive right to purchase shares or securities convertible into shares during (i) an open subscription in an amount proportionate to their existing shareholdings and (ii) during a closed subscription in an amount proportionate to their existing shareholdings if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The price of newly issued shares for existing shareholders exercising their preemptive right to purchase shares could be less than the price paid by third parties, but not less than 90% of the price paid by third parties. VTB must provide its shareholders with written notice of their preemptive right to purchase ordinary shares and the period during which shareholders can exercise their preemptive rights. VTB may not begin selling the ordinary shares, or securities convertible into ordinary shares, until the end of such period.

Dividends

Under its charter, VTB may distribute dividends based on its first quarter, six month, nine month or annual results prepared in accordance with RAS. The amount of a dividend is recommended by a majority of the Supervisory Council and then approved by a majority vote of the shareholders. The

dividend approved at the shareholders meeting may not exceed the amount recommended by the Supervisory Council. A decision on quarterly, six month and nine month dividends must be taken within three months after the end of the respective period; a decision on annual dividends must be taken at the annual General Shareholders Meeting. Dividends are distributed to holders of ordinary shares as of the record date for determining the holders entitled to attend the shareholders' meeting to approve the dividends. See “—Shareholders Meeting—Notice and Participation.” The Joint Stock Companies Law allows dividends to be paid only out of net profits calculated under RAS and as long as the following conditions have been met:

- (i) the charter capital of the company has been paid in full;
- (ii) the value of the company's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company;
- (iii) the company has repurchased all shares from shareholders having the right to demand repurchase; and
- (iv) the company is not, and would not become as a result of the payment of dividends, insolvent.

Distribution to Shareholders on Liquidation and Bankruptcy

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and VTB's charter allow VTB to be liquidated by either a three quarters majority vote of the General Shareholders Meeting or a court order.

Following a decision to liquidate, the right to manage VTB's affairs would pass to a liquidation commission appointed at a General Shareholders Meeting. In the case of an involuntary liquidation, the court may vest the duty to liquidate VTB in its shareholders. Creditors may file claims within a period to be determined by the liquidation commission that is not less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- (i) individuals owed compensation for injuries, deaths or moral damages; individuals who (a) entered into deposit agreements or bank account agreements with the bank, with the exception of certain claims, and (b) are entitled to compensation under mandatory deposit insurance law; employees;
- (ii) federal and local government entities claiming taxes and similar payments to the federal and local budgets and to non-budgetary funds; and
- (iii) other creditors in accordance with Russian law.

Claims of creditors secured by a pledge of the company's property, or secured claims, are satisfied out of the proceeds of the sale of the pledged property, prior to claims of any other creditors, except for (i) above, provided that claims of such creditors arose before the pledge agreements in respect of the company's property were made. To the extent that the proceeds of the sale of the pledged property are not sufficient to satisfy the secured claims, the latter will be satisfied simultaneously with claims of creditors under (ii) above.

The Federal Law on Insolvency (Bankruptcy) No. 127-FZ dated October 26, 2002, as amended (the “**Law on Insolvency (Bankruptcy)**”) and the Bank Insolvency Law, however, provide for a different order of priority for creditors' claims in the event of bankruptcy. Under these laws, the remaining assets of a company must be used to:

- (i) repurchase shares from shareholders having the right to demand buy out;
- (ii) pay declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by the company's charter, if any; and
- (iii) pay holders of ordinary and preferred shares.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when a company, as shareholder, wields influence over another company. The company is called an “effective parent” and the company over which it wields influence is called an “effective subsidiary.” The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary if:

- (i) this decision making capacity is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- (ii) the effective parent gives binding instructions to the effective subsidiary.

GDR holders will not be personally liable for VTB’s obligations or those of its effective subsidiaries unless such GDR holders control VTB’s business, and the conditions set forth above are met.

In addition, an effective parent can be held secondarily liable in some circumstances for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt as a result of the fault of an effective parent. Liability attaches, however, only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency of this effective subsidiary. This is the case no matter how the effective parent’s capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary’s losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Charter Capital Increase

VTB may increase its charter capital by:

- (i) issuing new shares; or
- (ii) increasing the nominal value of previously issued shares.

A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting more than 25% of the number of issued ordinary shares, requires a three quarters majority vote of a General Shareholders Meeting. A decision on the issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting 25% or less of the number of issued ordinary shares, requires unanimous approval by the Supervisory Council. A decision to increase the charter capital by increasing the nominal value of issued shares requires a majority vote of a General Shareholders Meeting. In addition, the issuance of shares above the number of authorised and non-issued shares provided in VTB’s charter necessitates a charter amendment, which requires a three quarters majority vote of a General Shareholders Meeting.

The Joint Stock Companies Law requires that the value of newly issued shares be determined by the Supervisory Council based on their market value but not less than their nominal value. The Supervisory Council must value any in-kind contribution for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a bank organised as a joint stock company. These procedures require:

- (i) prior registration of a share issuance with the CBR;
- (ii) public disclosure of information relating to the share issuance in certain defined cases; and
- (iii) following the placement of the shares, registration and, in certain defined cases, public disclosure of the results of the placement of shares. See “Registration of Placement Report.”

Charter Capital Decrease; Share Repurchase and Buy out

The Joint Stock Companies Law does not allow a company to reduce its charter capital (i) below the minimum capital required by law as of the date the charter relevant to amendment filing for registration (currently RUR100,000 for an open joint stock company) or (ii) below the minimum charter capital required by law as of the date of the company's registration.

The Joint Stock Companies Law requires that any decision to reduce VTB's charter capital, whether through a repurchase and cancellation of shares or a reduction of the nominal value of the shares, be made by a majority vote at a General Shareholders Meeting. Additionally, within 30 days of a decision to reduce VTB's charter capital, VTB must issue written notice to its creditors and publish this decision. VTB's creditors would then have the right to demand, within 30 days of publication or receipt of VTB's notice, early termination or discharge of relevant obligations by VTB, as well as compensation for damages.

VTB's charter allows the Supervisory Council to authorise the repurchase of up to 10% of VTB's shares in exchange for cash. The repurchased shares must be resold at a price no less than market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital. The shares repurchased pursuant to a decision of a General Shareholders Meeting to decrease the overall number of shares are cancelled at their redemption. Russian legislation does not permit voting by, or payment of dividends on, repurchased shares.

The Joint Stock Companies Law allows VTB to repurchase its shares only if, at the time of repurchase:

- (i) the charter capital is paid in full;
- (ii) VTB is not and would not become, as a result of the repurchase, insolvent;
- (iii) the value of VTB's net assets at the time of repurchase of its shares is not less (and would not become less, as a result of the proposed repurchase) than the sum of the charter capital, the reserve fund and the difference between the liquidation value and par value of the issued and outstanding preferred shares; and
- (iv) VTB has bought out all shares from shareholders having the right to demand buy-out of their shares in accordance with Russian law.

VTB's subsidiaries are not restricted from purchasing its shares, and such subsidiaries can vote these shares.

The Joint Stock Companies Law and VTB's charter provide that shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- (i) reorganisation;
- (ii) conclusion of a major transaction, as defined under Russian law; or
- (iii) amendment of VTB's charter or approval of a restated version of the charter in a manner which restricts shareholder's rights.

VTB may spend up to 10% of its net assets calculated under Russian accounting standards on the date of the adoption of the decision which gives rise to a share redemption demanded by the shareholders. If the value of the shares with respect to which shareholders have exercised their right to demand buy out exceeds 10% of the net assets, VTB will buy out shares from each such shareholder on a pro-rata basis.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company maintain a register of its shareholders. Ownership of the ordinary shares is evidenced solely by entries made in such register. Any of VTB's shareholders may obtain an extract from the register certifying the number of shares in such shareholder's name. CJSC Central Unified Registrar, located at 23 Pravdi Street, 125040 Moscow, Russian Federation, maintains VTB's shareholder register.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a depositary if shares are

held by a depository. The registrar or depository may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed, provided that the transfer documents comply with Russian law requirements. Such refusals may be challenged in court.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. VTB's charter provides for a reserve fund of 5% of VTB's charter capital, funded through mandatory annual transfers of at least 5% of VTB's net profits until the reserve fund has reached the 5% requirement.

Disclosure of Information

Under Russian securities regulations, VTB is required to make the following public disclosures and filings on a periodic basis:

- (i) quarterly reports with the CBR containing information about VTB, its shareholders and depository, the structure of its management bodies, the members of the Supervisory Council, its branches and representative offices, its shares, bank accounts and auditors, important developments during the reporting quarter and other information about its financial and business activity and disclosing the same on its corporate website;
- (ii) to the CBR and an authorised news agency, as well as on VTB's website, any information concerning material facts and changes in its financial and business activity, including any reorganisation, certain changes in the amount of its assets, decisions on share issuances, certain changes in ownership and shareholding, as well as resolutions taken at a meeting of the shareholders or the Supervisory Council;
- (iii) information on various stages of share placement, issuance and registration;
- (iv) VTB's charter and internal corporate governance documents on its website;
- (v) VTB's annual reports and Annual Financial Statements prepared in accordance with Russian accounting standards;
- (vi) to the CBR an updated list of VTB's affiliated persons and disclosing the same on VTB's corporate website; and
- (vii) other information as required by applicable Russian securities legislation.

Shareholders Meetings

Procedure and Competence

The subjects within the competence of the shareholders, and which must be approved at a General Shareholders Meeting, are set forth in the Joint Stock Companies Law and in VTB's charter and are listed below. A General Shareholders Meeting may not decide on issues that are not included in the list of its competence by the Joint Stock Companies Law. Voting at a General Shareholders Meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Supervisory Council, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at the meeting. However, the Joint Stock Companies Law and VTB's charter require a three quarters majority vote of the voting shares present at a General Shareholders Meeting for some actions, as indicated below:

- (i) charter amendments (three quarters majority vote);
- (ii) reorganisation or liquidation (three quarters majority vote);
- (iii) determination of the number, nominal value and category (type) of authorised shares and rights granted by such shares (three quarters majority vote);
- (iv) increase of the charter capital through (a) the increase of the nominal value of shares; (b) open subscription of ordinary shares representing more than 25% of issued and

outstanding shares; and (c) closed subscription of additionally issued shares ((b) and (c) require three quarters majority vote);

- (v) decrease of the charter capital (three quarters majority vote);
- (vi) determination of the number, appointment and early removal of the Supervisory Council and Statutory Audit Commission;
- (vii) payment of compensation and fees to the members of the Supervisory Council and the Statutory Audit Commission;
- (viii) appointment of the independent auditor;
- (ix) determination of the procedure for conducting General Shareholders Meetings;
- (x) approval of the annual report and annual financial statements, including the balance sheet and the profit and loss statement;
- (xi) approval of certain interested party transactions;
- (xii) approval of major transactions involving assets in excess of 50% of the balance sheet value of VTB's assets and major transactions involving assets from 25% to 50% of the balance sheet value of VTB's assets if the Supervisory Council has not unanimously approved the transaction (three quarters majority vote);
- (xiii) distribution of profits and losses, including approval of dividends;
- (xiv) decision on VTB's participation in financial industrial groups, associations, or other unions of commercial entities;
- (xv) approval of internal documents regulating the activity of the General Shareholders Meeting, Supervisory Council, Management Board and Statutory Audit Commission;
- (xvi) repurchase by VTB of issued shares (three quarters majority vote);
- (xvii) split and consolidation of shares; and
- (xviii) other issues, as provided for by the Joint Stock Companies Law and VTB's charter.

A general meeting of shareholders may consider and decide on matters (ii) (with regard to reorganisation only), (iv) and (xii) through (xvi) above only if such matters have been proposed for their consideration by the Supervisory Council (with (xiii) limited to the amount of dividends).

The quorum requirement for a General Shareholders Meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another General Shareholders Meeting with the same agenda may (and, in the case of an annual General Shareholders Meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual General Shareholders Meeting must be convened by the Supervisory Council between March 1 and June 30 of each year, and the agenda must include the following items:

- (i) election of members of the Supervisory Council;
- (ii) approval of the annual report and annual financial statements, including the balance sheet and profit and loss statement;
- (iii) approval of distribution of profits and losses, including approval of annual dividends, if any;
- (iv) appointment of an independent auditor; and
- (v) election of the members of the Statutory Audit Commission.

An extraordinary General Shareholders Meeting may be called by the Supervisory Council on its own initiative, or at the request of the Statutory Audit Commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general meeting of shareholders may be held in the form of a meeting or by absentee ballot. However, the following issues cannot be decided by a General Shareholders Meeting by absentee ballot:

- (i) election of the members of the Supervisory Council;
- (ii) election of the Statutory Audit Commission;
- (iii) approval of an independent auditor; and
- (iv) approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distributions of profits and losses, including approval of annual dividends.

Notice and Participation

All shareholders entitled to participate in a General Shareholders Meeting must be notified of the meeting no less than 30 days prior to the date of the meeting, or 70 days prior if it is an extraordinary General Shareholders Meeting to elect the Supervisory Council or with regard to a reorganisation in the form of merger, accession, division or spin-off. Such notification shall include the agenda for the meeting, and only items appearing on such agenda may be voted upon at the meeting.

All shareholders listed in the shareholder register, as of a date chosen by the Supervisory Council which falls between the date of adoption of the board resolution to hold a General Shareholders Meeting and the 50th day prior to the meeting, or the 65th day prior to the meeting in the case of an extraordinary General Shareholders Meeting to elect the Supervisory Council, are entitled to participate in a General Shareholders Meeting.

A shareholder may exercise the right to participate in a general meeting of shareholders by:

- (i) personally participating in the discussion of agenda items and voting thereon;
- (ii) sending an authorised representative to participate in the discussion of agenda items and to vote thereon;
- (iii) absentee ballot; or
- (iv) delegating the right to fill out the absentee ballot to an authorised representative.

Supervisory Council

VTB's Supervisory Council is up for election at each annual General Shareholders Meeting and is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to the Supervisory Council, and the shareholder may give all such votes to one candidate or allocate them between two or more candidates. Before the expiration of their term, the director-members of the Supervisory Council may be removed as a group at any time without cause by a majority vote of the shareholders.

The Joint Stock Companies Law requires at least a five-member supervisory council for a joint stock company with less than 1,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the supervisory council. Members of the supervisory council are not required to be shareholders of the company. The number of members of VTB's Supervisory Council is determined by VTB's charter, which provides that the number shall be determined by a vote at a General Shareholders Meeting. VTB's Supervisory Council currently consists of eleven members.

The Joint Stock Companies Law generally prohibits the supervisory council from acting on issues that fall within the exclusive competence of the shareholders. VTB's Supervisory Council has responsibility for the general management of VTB, and the power to, among other things:

- (i) determine the business priorities of VTB;
- (ii) convene annual and extraordinary General Shareholders Meetings, except under certain circumstances specified in the Joint Stock Companies Law;
- (iii) approve the agenda for General Shareholders Meetings and determine the record date for shareholders entitled to participate in a General Shareholders Meeting;

- (iv) place bonds and other securities;
- (v) increase the charter capital of VTB by issuing additional ordinary shares or securities convertible into ordinary shares constituting 25% or less of the total number of issued ordinary shares by means of open subscription;
- (vi) introduce certain changes to VTB's charter;
- (vii) determine the price of property and securities to be placed or repurchased;
- (viii) buy back shares, and other securities in certain cases;
- (ix) appoint and remove the Chairman of the Management Board and members of the Management Board and determine their compensation and fees;
- (x) recommend the amount of a dividend and payment procedure to shareholders for a vote;
- (xi) recommend the amount of remuneration and compensation to be paid to the members of the Statutory Audit Commission to shareholders for a vote;
- (xii) approve the fees payable for the services of an independent auditor;
- (xiii) use VTB's reserve fund and other funds;
- (xiv) create and liquidate VTB branches and representative offices;
- (xv) approve VTB's internal documents, except for those that require shareholder or other approval;
- (xvi) approve certain major and interested party transactions, except for those that require shareholder approval;
- (xvii) approve the share registrar and the terms of its contract;
- (xviii) write off bad debts in amounts exceeding \$1 million per a single borrower; and
- (xix) other issues, as provided for by the Joint Stock Companies Law and VTB's charter.

VTB's charter generally requires a majority vote of the directors present for an action to pass, with the exception of certain issues that require the vote of a three quarters majority of the directors and actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described herein. A meeting of the Supervisory Council is considered duly assembled and legally competent to act when at least half of the elected directors are present.

Interested Party Transactions

Under the Joint Stock Companies Law, certain transactions defined as "interested party transactions" require approval by the disinterested directors or shareholders of the company. "Interested party transactions" include transactions involving a director or member of any executive body of the company (including the company's chief executive officer and/or the company's managing organisation), any person that owns, together with any affiliates, at least 20% of a company's issued voting stock or any person who is able to direct the actions of the company, if that person, and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or affiliates, is/are:

- (i) a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- (ii) the owner of at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- (iii) a director or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a director or a member of any management body of a management organisation of such company.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For purposes of this rule, an "independent director"

is a person who is not, and within the year preceding the decision to approve the transaction was not, the general director, a member of any executive body or an affiliate of the company, or a director or a member of any management body of the company's management organisation. Additionally, such person's spouse, parents, children, adoptive parents or children, brothers or sisters may not, and within the year preceding the decision to approve the transaction may not, occupy positions in the executive bodies of the company or positions on the board of directors (supervisory council) or of any management body of the company's management organisation.

For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- (i) the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company's assets determined under Russian accounting standards;
- (ii) the transaction or a number of interrelated transactions involves the issuance, by subscription, of voting shares or securities convertible into voting shares, or secondary market sale of such securities, in an amount exceeding 2% of the company's issued voting stock;
- (iii) the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- (iv) all directors of the company are interested parties, and/or none of them is an independent director.

Approval by a majority of disinterested shareholders of an interested party transaction may not be required until the next annual shareholders meeting, if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following cases:

- (i) a company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- (ii) all shareholders of the company are deemed interested in such transactions;
- (iii) shareholders execute their pre-emptive rights to purchase newly issued shares and securities convertible into shares of the company;
- (iv) repurchase and buy-out by the company of its issued shares;
- (v) merger with another company; or
- (vi) transactions that are mandatory for a company pursuant to Russian law and must be concluded on the basis of fixed prices and tariffs adopted by a competent state body.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction (including a loan, pledge or guarantee), or a number of interrelated transactions involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly), of property having a value of 25% or more of the balance sheet value of the assets of a company as determined under RAS, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement (secondary market sale) of ordinary shares or the placement of securities convertible into ordinary shares. Major transactions involving assets having a value ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all directors or, failing to receive such approval, a simple majority vote at a shareholders meeting. Major transactions involving assets having a value in excess of 50% of the balance sheet value of the assets of a company require a three quarters majority vote at a shareholders meeting.

Change in Control

Anti-takeover Protection

Russian legislation requires the following:

- (i) a person intending to acquire more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates), will be entitled to make a public tender offer to other holders of such shares or securities convertible into such shares by sending an offer to the company addressed to shareholders holding corresponding types of shares;
- (ii) a person who has acquired more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares, at a price that is not less than the price determined based on the weighted average market price of the shares over the six month period before the filing of the offer with the FSFM as described below, if the shares are publicly traded, or on the price supplied by an independent appraiser if the shares have no or insufficient trading history. The public tender offer price may not be less than the highest price at which the offeror or its affiliated persons purchased or undertook to purchase the relevant securities over the six-month period before the offer was sent to the company. From the moment of acquisition of more than 30% of the shares (or 50% and 75% in cases referred to in the next sentence) until the date the offer was sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). These rules also apply to acquisitions resulting in a person or a group of persons owning more than 50% and 75% of a company's issued ordinary shares and voting preferred shares;
- (iii) a person who, as a result of an offer described in either of the preceding paragraphs becomes (individually or with its affiliates) the owner of more than 95% of the company's ordinary shares and voting preferred shares, must buy out the remaining shares of the company as well as other securities convertible into such shares upon request of the holders of such shares or other securities, and may require such holders to sell such shares and other securities at a price determined in the manner described in the preceding paragraph but not less than the highest price of the preceding acquisitions by the offeror;
- (iv) an offer of the kind described in either of the preceding three paragraphs must be accompanied by a bank guarantee of payment. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules; and
- (v) once such an offer has been made, competing offers for the same securities can be made by third parties and, in certain circumstances, acceptance of the initial offer may be withdrawn by the security holders who choose to accept such competing offer. From the making of a public tender offer until 20 days after its expiry (which period may, in certain cases, exceed 100 days) the company's shareholders will have the sole power to make decisions on charter capital increase, issuance of securities, approval of major, interested party and certain other transactions, and on certain other significant matters.

The above rules may be supplemented through FSFM rulemaking, which may result in a wider, narrower or more specific interpretation of these rules.

Under Russian law, the Depositary may be considered the owner of the Shares underlying the GDRs. Upon completion of the Global Offering, the GDR program will contain approximately % of the ordinary shares. The Depositary may be subject to the above rules in the future if additional shares are deposited into the GDR program. The Depositary may, pursuant to the Deposit Agreement, take such steps as are, in its opinion, necessary or desirable to remedy the consequences and to comply with applicable law, directives or regulations, including without limitation causing pro rata cancellation of GDRs and withdrawal of the Shares from the GDR program to the extent necessary or desirable to

so comply. The Depositary may also close its books to the issuance of GDRs against new deposits of Shares in such circumstances. For additional information, see “Terms and Conditions of the Global Depositary Receipts.”

Approval of the Russian Federal Anti-Monopoly Service (the “FAS”)

On October 26, 2006, the new Federal Law on the Protection of Competition (the “**Competition Law**”) came into effect. A summary of the relevant provisions of the Competition Law are set out below, although you should note that it is still unclear how such provisions will be applied in practice.

Under the Competition Law, an investor or “a group of persons” (entities and/or individuals) should obtain FAS clearance, in particular:

- (i) for the initial acquisition of more than 25% of the voting shares in a joint stock company, or 33.3% of the participation interest in a limited liability company, provided that the acquirer did not previously own any shares (or any participation interest) in such company or had less than the above threshold before the acquisition;
- (ii) for the subsequent acquisition of the voting shares in a joint stock company or participation interest in a limited liability company such that after the mentioned acquisition the level of the acquirer’s holding of the company’s shares (or any participation interest) passes the threshold of 50% or 75% of the voting shares in a joint stock company or 50% or 66.6% of the participation interest in a limited liability company;
- (iii) for the acquisition of fixed and/or intangible assets if the book value of such assets exceeds 20% of the fixed and intangible assets of the seller (transferor);
- (iv) for the acquisition of rights to control the business decisions or performance of chief executive officer functions of another entity;
- (v) for the merger of commercial companies (non-financial); or
- (vi) for the merger of financial companies including banks.

Prior FAS clearance is required for non-financial companies if:

- (i) either the aggregate value of assets under the latest financial statements of the acquirer and the target and the companies of their respective groups exceeds RUR 3 billion, and the aggregate value of assets of the target and the companies of its group exceeds RUR 150 million; or
- (ii) the aggregate value of revenues of the acquirer and the target and the companies of their respective groups in the last calendar year exceeds RUR 6 billion, and the aggregate value of assets under the latest financial statements of the target and the companies of its group exceeds RUR 150 million; or
- (iii) one of the entities mentioned above is entered in the Russian register of businesses with a market share exceeding 35%.

Prior FAS clearance is required for non-financial companies if the aggregate balance value of their assets under the latest financial statements exceeds the amount stipulated by the Russian government (together with the CBR for banks).

Post-completion notification is also required in certain cases.

Intra-group transfers are no longer subject to prior approval by the FAS, but are subject to post-completion notifications, if one of the parties files a “list of its group members” with the FAS not later than one month prior to completion. The list should specify the reasons for including each of the group members in the group and should not be changed until the completion date.

The Competition Law expressly provides for its extraterritorial application to transactions which are effected outside Russia but lead, or may lead, to the restriction of competition in Russia and relate to fixed or intangible assets located in the territory of Russia or to the shares (or participation interests) in Russian companies or rights in relation to such companies. Under Russian law, the Depositary may be considered the owner of the shares underlying the GDRs. The Depositary may be subject to the above rules in the future if additional shares are deposited into the GDR program. However, the general interpretation of the Russian anti-monopoly authorities to VTB’s knowledge is

that a depositary need not obtain the approval referred to in the preceding paragraph in connection with depositary receipt programs such as VTB's. If the Russian anti-monopoly authorities rescind or disregard this interpretation, the Depositary may have to obtain such approval in the future or sell some of the ordinary shares.

Approval by the CBR

The purchase and/or receipt on trust (hereinafter referred to as “**acquisition**”) of over 1% of the shares of a credit organisation as a result of one or more transactions by a legal entity or natural person, or a group of legal entities and/or natural persons pursuant to an agreement, or a group of legal entities acting as subsidiaries, must be reported to the CBR. The acquisition by one of the above-mentioned persons of more than 20% of the shares of a credit organisation must have the prior approval of the CBR. See “Risk Factors—Some interested party transactions of Russian banks in the Group require the approval of disinterested directors or disinterested shareholders.”

The CBR may block an acquisition of more than 20% of the shares of a credit organisation, *inter alia*, if the financial standing of the buyer or buyers is found to be unsatisfactory.

The CBR may refuse to grant its consent to the acquisition of more than 20% of the shares of a credit organisation if a court decides that the acquirer was guilty of causing a loss to any other credit entity while it was serving as a member of its board of directors (supervisory board), or as chief executive officer or deputy, or as a member of its collective executive body.

Share Ownership and Disclosure

Under Russian law, a holder of ordinary shares will be required to publicly disclose an acquisition of 5% or more of the issued ordinary shares of VTB as well as any change in the amount of ordinary shares held by such holder if, as a result of such change, the percentage of ordinary shares held by the holder becomes greater or lesser than 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the issued ordinary shares of VTB.

Exchange Controls

The Currency Law empowers the Russian government and the CBR to regulate and restrict certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities, including GDRs and domestic securities, including ordinary shares, as well as certain types of settlements between residents and non-residents of Russia. Although in the past, the CBR had imposed restrictions, at present most of these restrictions have been abolished.

Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions covering, in particular, certain types of secured financing).

Foreign Ownership

Participation of Foreign Capital in the Russian Banking System

Before January 11, 2007, the acquisition of an interest in a Russian bank by a foreign investor was subject to prior approval by the CBR. Among other things, an application to the CBR seeking approval for the establishment of a bank with foreign capital or the sale of an interest in a Russian bank to a non-resident, was required to contain information about potential foreign investors. In the event of an initial public offering, such information did not have to be disclosed if the aggregate participation of non-residents in the banks' charter was limited to 1% or less. New banking legislation has recently abolished these requirements.

The Federal Law on Banks and Banking Activity of December 2, 1990 (as amended) empowers the CBR to set forth additional limitations on banks with foreign capital and branches of foreign banks relating to the reporting rules, approval of banks' management and the scope of banking operations.

Notification of Tax Authorities

Natural persons, including foreigners, registered in Russia as individual entrepreneurs who acquire shares in a Russian joint stock company, and companies, including foreign ones, that acquire shares in a Russian joint stock company must notify the Russian tax authorities within one month following such

acquisition. However, the notification procedure for a foreign company that is not yet registered with such tax authorities at the time of their share acquisitions is unclear.

Restrictions on the Remittance of Dividends, Interest or Other Payments to Non-residents

The Federal Law on Foreign Investments in the Russian Federation of July 9, 1999, specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect the ability to do so.

Currently, ruble dividends on ordinary shares may be converted into US dollars without restriction. However, the ability to convert rubles into US dollars is also subject to the availability of US dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into US dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt Certificate.

The Global Depositary Receipts (“**GDRs**”) represented by this certificate are issued in respect of equity Shares of nominal value 0.01 ruble each (the “**Shares**”) in JSC VTB Bank (“**VTB**”), with one GDR issued in respect of 2,000 Shares pursuant to and subject to an agreement dated April 23, 2007, and made between VTB and The Bank of New York as depositary (the “**Depositary**”) for the “**Regulation S Facility**” and the “**Rule 144A Facility**” (such agreement, as amended from time to time, being hereinafter referred to as the “**Deposit Agreement**”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed OAO Bank VTB as Custodian (as defined below) to receive and hold on its behalf the Share certificates in respect of certain Shares (the “**Deposited Shares**”) and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “**Deposited Property**”). The Depositary shall hold Deposited Shares for the benefit of the Holders (as defined below) in an omnibus account held for each Holder in proportion to the number of Shares in respect of which the GDRs held by such Holder are issued. In these terms and conditions (the “**Conditions**”), references to the “**Depositary**” are to The Bank of New York and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the “**Custodian**” are to JSC VTB Bank or any other Custodian from time to time appointed under the Deposit Agreement and references to the “**Office**” mean, in relation to the Custodian, its office at 29 Bolshaya Morskaya Street, St. Petersburg 190000, Russian Federation (or such other office as from time to time may be designated by the Custodian with the approval of the Depositary). Deposited Shares are subject to the law or market practice of a jurisdiction outside the United Kingdom therefore may be registered or recorded in the name of the Depositary or the Custodian where the Depositary takes reasonable steps to determine that it is in the best interests of the Holders to register or record the Deposited Shares in this way, or it is not feasible to do otherwise, because of the nature of the applicable law or market practice. Each Holder is hereby notified that any registration of Deposited Shares in the name of the Depositary may mean that the Deposited Shares are not segregated from the assets of the Depositary and in the event of the insolvency of the Depositary, the Holder’s Deposited Shares may not be as well protected from claims made on behalf of the general creditors of the Depositary.

References in these Conditions to the “**Holder**” of any GDR shall mean the person registered as Holder on the books of the Depositary maintained for such purpose (the “**Register**”). These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement, and shall become bound by these Conditions and the Deposit Agreement upon becoming a Holder of GDRs. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, VTB or the Depositary. However, the Deed Poll executed by VTB in favour of the Holders provides that, if VTB fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “**Depositary**” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate.

1. Deposit of Shares and Other Securities

- (A) After the initial deposit of Shares in connection with the Initial Offering, unless otherwise agreed by the Depositary and VTB and permitted by applicable law, only the following may be deposited under the Deposit Agreement in respect of such GDR:
- (i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;
 - (ii) Shares subscribed or acquired by Holders from VTB through the exercise of rights distributed by VTB to such persons in respect of Deposited Shares pursuant to Condition 7;

- (iii) securities issued by VTB to the Holders in respect of Deposited Shares as a result of any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to “Deposited Shares” or “Shares” shall include any such securities, where the context permits; and
 - (iv) (to the extent permitted by applicable law and regulation) any other Shares in issue from time to time.
- (B) The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, VTB must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.
- (C) The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by VTB that VTB has restricted the transfer of such Shares to comply with ownership restrictions under applicable Russian law or that such deposit would result in any violation of any applicable Russian laws or governmental or stock exchange regulations. VTB may, following receipt from the relevant Russian authority or regulator of formal approval given in anticipation of a further issue of Shares and GDRs to increase the number of Shares that may be deposited in the Regulation S Facility or the Rule 144A Facility, as applicable, instruct the Depositary to refuse to accept for deposit any Shares that would not have been permitted to be so deposited had such formal approval not been obtained, for a period ending no later than the relevant issue date of such further Shares and GDRs and the Depositary will refuse to accept such Shares. The Depositary may also refuse to accept Shares for deposit in certain other circumstances as set out in the Deposit Agreement.
- (D) Unless requested in writing by VTB to cease doing so, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a “Pre-Release”). The Depositary may, pursuant to Condition 1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the “Pre-Releasee”) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of VTB, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection herewith, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1(D) shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

- (E) In the event that a Placement Report is not registered with the CBR, in respect of the New Shares, within 75 calendar days of the first closing date of the Initial Offering or, in respect of any subsequent issue of new Shares, within a reasonable period of time of the last closing date of the issue of such Shares, as the case may be, or such other time as may be agreed between VTB and the Joint Global Coordinators (in respect of the New Shares only) or the Depositary (in respect of any other new Shares) or any new Shares are to be cancelled, whether or not a Placement Report in respect of such Shares has been registered, VTB will notify the Depositary in writing of the number of (i) New Shares or new Shares, as the case may be, which have been or are to be cancelled, (ii) the number of Deposited Shares which have been or are to be cancelled and (iii) the number of GDRs to be cancelled. Upon receipt of this notice and on payment by or on behalf of VTB or other relevant persons (if applicable) to the Depositary or its nominee of the amount of the subscription monies paid in respect of the Deposited Shares which are to be cancelled, the Depositary will, as soon as practicable, give notice to the Holders in accordance with Condition 23 of the cancellation of such number of GDRs as notified to the Depositary by VTB, and will cancel such number of GDRs on a pro rata basis or such other basis as the Depositary determines is practicable in its sole discretion. To the extent that the Depositary receives any such amount from or on behalf of VTB or other relevant persons (if applicable), the Depositary will promptly distribute such amount to the Holders of the GDRs cancelled pursuant to this Condition 1(E) pro rata to the number of GDRs cancelled in accordance with Condition 4.
- (F) By purchasing GDRs, each Holder of GDRs representing in aggregate more than 1% of the ordinary shares of VTB at any one time shall be deemed to have represented that such Holder will disclose to the Depositary when requested to do so the following information: (i) its full registered name; (ii) address; and (iii) the number of GDRs held by such Holder (the “**Required Information**”).

The Depositary has undertaken in the Deposit Agreement to make Holders aware of the above-mentioned obligation from time to time, including on each occasion that the Depositary gives notice to Holders of any meeting at which the holders of Shares or other Deposited Properties are entitled to vote or engages in any other communication with Holders pursuant to the terms of the Deposit Agreement.

In addition, the Depositary has undertaken in the Deposit Agreement to engage a shareholder identification organization to collect periodically (or at the request of VTB) the Required Information in respect of the Holders.

2. Withdrawal of Deposited Property

- (A) Deposited Property may not be withdrawn until the Depositary has received a written confirmation from VTB that the Shares are listed on the Russian Stock Exchange. The Depositary shall notify the Holders of such listings in accordance with Condition 23 as soon as is practically possible after receiving such written confirmation. Subject as set out in this Condition 2, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Office of the Custodian, or (at the request, risk and expense of the Holder and only if permitted by applicable law from time to time) at the specified office from time to time of the Depositary or any Agent to, or to the

order in writing of, the person or persons designated in such order and a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable, provided that during any period prior to the Depositary being notified in writing by VTB that the Placement Report with respect to the New Shares has been registered with the CBR or at any time between the deposit of any subsequent issue of new Shares and the Depositary being notified in writing by VTB that the Placement Report with respect to such new Shares has been registered with the CBR, Holders shall not be entitled to request withdrawal of any Deposited Shares.

(B) Certificates for withdrawn Deposited Shares will contain such legends, including the legends described under “Transfer Restrictions”, and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as VTB or the Depositary may from time to time determine to be necessary for compliance with applicable laws.

(C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate for, or other appropriate instrument of title to, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraph (C)(i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),

in each case to the specified office from time to time of the Depositary or, if any, any Agent as designated by the surrendering Holder in such accompanying order as aforesaid.

(D) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

(E) Subject as set out above, upon request by any Holder in accordance with Condition 2 for withdrawal of Deposited Property and upon compliance therewith including provision to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4 Part B by or on behalf of each person who will be the beneficial owner of the Deposited Property to be delivered in respect of Rule 144A GDRs, or a duly executed and completed certificate substantially in the form set out in Schedule 3 Part B by or on behalf of each person who will be the beneficial owner of the Deposited Property to be delivered in respect of the Regulation S GDRs, as applicable (in each, Part B of Schedules 3 and 4 may be modified in a

manner not inconsistent with the provisions of this Agreement as may be reasonably required by the Depositary in order for the Depositary to perform its duties under this Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs issued hereunder may be listed or to conform with any usage with respect thereto or any book-entry system by which GDRs issued hereunder may be transferred, or to indicate any special limitations or restrictions to which any particular GDRs are subject by reason of the date of issuance of the underlying Deposited Property or otherwise) the Depositary shall make (and forthwith notify the Custodian and VTB of) such arrangements for delivery or collection thereof as soon as practicable to, or to the order in writing of, the person or persons specified in the order for withdrawal, provided that the Depositary shall not (except on the instruction of VTB) make arrangements for such delivery or collection (i) during any period when the transfer of Shares has been blocked on the account due to participation in any General Shareholders Meeting of VTB when notified by VTB in writing that such suspension is necessary, or (ii) the Depositary is notified by VTB in writing that delivery of Deposited Property will not comply generally, or in one or more localities, with any applicable law or governmental or stock exchange regulations, or (iii) the Depositary is notified by VTB in writing that delivery of Deposited Property will result in ownership of such Shares exceeding any limit under applicable Russian law or government resolution or the Charter, or for any other reason as agreed with the Depositary, as notified to the Depositary by VTB from time to time, or (iv) in the case of GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR, during any period prior to the Depositary being notified in writing by VTB that a Placement Report in respect of the Shares represented by those GDRs has been registered with the CBR or (v) in the case where the Depositary has been informed by VTB that a Placement Report has been prepared in respect of any other new Shares represented by GDRs, then in relation to those GDRs, during any period from deposit of such new Shares prior to the Depositary being notified in writing that the Placement Report relating to those Shares has been registered with the CBR. For the avoidance of doubt, in the absence of any such notification from VTB, the Depositary is not under any obligation to ascertain or determine whether or not any such delivery should be refused (including monitoring ownership levels among beneficial owners) and the Depositary shall not be liable for any loss, damage or other consequences arising from any such delivery. Also, for the avoidance of doubt, provided that it is complying with a written notification from VTB pursuant to this Condition 2(E), the Depositary shall not be liable for any loss, damage or other consequences arising from its refusal or delivery. The Depositary shall only be obliged to deliver Shares or other Deposited Property to the extent that Shares or such other Deposited Property are then held by the Custodian or the Depositary or by their respective agents pursuant to the provisions of this Agreement.

Neither the Depositary nor the Custodian shall deliver Shares, by physical delivery, book entry or otherwise (other than to VTB or its agent as contemplated by Condition I), or otherwise permit Shares to be withdrawn from the Regulation S Facility or from the Rule 144A Facility, except upon the receipt and cancellation of Regulation S GDRs or Rule 144A GDRs, respectively or as set out in Clause 3.13 below. Notwithstanding the foregoing, each Holder and owner of Rule 144A GDRs acknowledges that at any time (a) VTB maintains an unrestricted depositary receipt facility with respect to the Shares in the United States (including, without limitation, the Regulation S Facility) and (b) any of the Rule 144A Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, and each of the Depositary and the Custodian agrees that, neither the Custodian nor the Depositary will make any actual delivery of Rule 144A Shares to any Holder or beneficial owner at an address within the United States.

- (F) The Depositary may refuse to deliver Deposited Property generally, or in one or more localities, if such refusal is deemed necessary or desirable by the Depositary, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body or commission, or under any provision of this Agreement or for any other reason, and will ensure that the Deposited Property comprises at least one Share until such time as all the GDRs are cancelled.

3. Transfer and Ownership

The GDRs are in registered form, with one GDR issued in respect of 2,000 Shares. Title to the GDRs passes by registration in the Register and, accordingly, transfer of title to a GDR is effective

only upon such registration records of the Depositary. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and VTB as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are “restricted securities” within the meaning of Rule 144 under the Securities Act, interests in such Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is to be represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Master Rule 144A GDR, shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from VTB any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of VTB and amounts received pursuant to Clause 3.18 of the Deposit Agreement) or otherwise in connection with the Deposited Property in a currency other than United States dollars, the Depositary, its Agent or Custodian shall as soon as practicable convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; provided that:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16(A)(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from VTB any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that VTB, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and

distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from VTB any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that VTB, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever VTB announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 23 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or

(iii) if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that VTB, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the Offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner

provided in (i), (ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

VTB has agreed in the Deposit Agreement that it will, unless prohibited by any applicable law or regulation, give its consent to, and if requested, use its reasonable endeavours (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 5, 6, 7 or 10.

If VTB notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 5, 6, 7 or 10 or the securities to which such rights relate, in order for the Depositary to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities represented by such rights, the Depositary will not offer such rights or distribute such securities or other property to Holders or sell such rights unless and until VTB procures at VTB's expense, the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that the necessary registration has been effected or that the offer and sale of such rights, securities or property to Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither VTB nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Depositary nor VTB shall be liable for any losses, damages or expenses resulting from any failure to do so.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or financial institution, by sale or in any other manner that it may determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary, with the reasonable assistance of VTB to the extent required, shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may consider desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may in its absolute discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

9. Distribution of any Payments

(A) Any distribution of cash under Conditions 5, 6, 7 or 10 will be made by the Depositary to those Holders who are Holders of record on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date set by VTB or as near as practicable to any record date set by VTB) for that purpose and if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream Banking, societe anonyme ("**Clearstream, Luxembourg**"), Euroclear Bank S.A./N.V ("**Euroclear**") or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance

with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relevant Deposited Property.

- (B) Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the entitled Holder on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record dates set by VTB or as near as practicable thereto), subject to any laws or regulations applicable thereto.

10. Capital Reorganisation

Upon any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital or upon any takeover reorganisation, merger or consolidation of VTB or to which it is a party (except where VTB is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 23 and, at its discretion, may treat such event as a distribution and comply with the relevant provisions of Conditions 5, 6 and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

11. Taxation and Applicable Laws

- (A) Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.
- (B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from VTB Shares or other rights, securities, property and cash to be deposited under the Conditions or in order for Shares, other securities or other property and cash to be distributed or otherwise dealt with under Conditions 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, VTB, to the extent permitted by applicable law, shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, VTB has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of VTB, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably required by VTB, at the cost and expense of VTB make reasonable endeavours to assist VTB to obtain) any such authorisation, consent or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary without, in the opinion of the Depositary, unreasonable burden or expense.

12. Voting Rights

- (A) As soon as practicable after receipt from VTB of notice of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by VTB in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have been timely received by the Depositary prior to the date of such vote or meeting) and at VTB's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and Prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of Russian Stock Exchange(s) on which the

Shares are listed), exist, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by VTB), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Upon the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions in the manner specified by the Depositary, the Depositary shall endeavour, insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.

- (B) Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian shall vote or attempt to exercise the right to vote the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. Notwithstanding the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions, if such voting instructions fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depositary is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depositary from the Holder shall not be voted. VTB agrees to provide timely notice to the Depositary which will enable the timely notification of Holders as to any change in its Charter resulting in limitations on the ability of the Depositary to vote a particular GDR according to the voting instructions received in regard to such GDR.
- (C) Notwithstanding anything else contained in the Deposit Agreement, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and Prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of Russian Stock Exchange(s) on which the Shares are listed). In particular, prior to the Depositary being notified in writing by VTB that the Placement Report in respect of the New Shares has been registered with the CBR, the Depositary shall have no obligation to take any such action. VTB agrees that it shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may, for the account of the Holder, discharge the same out of the proceeds of sale on any stock exchange on which the shares may from time to time be listed and subject to Russian law and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

14. Liability

- (A) In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the owners of GDRs except that any funds received by the Depositary for the payment of any amount due, in accordance with these Conditions, on the GDRs shall be held by it in trust for the relevant Holder until duly paid thereto.
- (B) None of the Depositary, the Custodian, VTB, nor any of their agents, officers, directors or employees nor any Agent shall incur any liability to any other of them or to any Holder or owner of a GDR if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority or by reason of the interpretation or application of any such present or future law or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depositary, the Custodian, any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the Charter of VTB, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of wilful default, negligence or bad faith) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay in performance of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- (C) None of the Depositary, the Custodian nor any Agent shall be liable (except by reason of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to VTB or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.
- (D) The Depositary and each of its Agents and their respective affiliates, may engage or be interested in any financial or other business transactions with VTB or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commission and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or beneficial owners of GDRs, or any other person for any profit arising therefrom.
- (E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.
- (F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by VTB of its obligations under or in connection with the Deposit Agreement or these Conditions.

- (G) The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to VTB, any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- (H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or beneficial owners of GDRs or any other person.
- (I) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.
- (J) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by VTB, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.
- (K) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of VTB by the Board of Directors or the Management Board of VTB or by a person duly authorised by the Board of Directors or the Management Board of VTB or such other certificate from persons specified in Condition 14(5) which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence of or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- (L) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees, or that of any nominee controlled by the Depositary or by an affiliate of the Depositary.
- (M) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.
- (N) The Depositary may, in the performance of its obligations hereunder instead of acting personally, employ and pay an agent, whether a lawyer or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- (O) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Register.
- (P) Where Deposited Property is held in a jurisdiction outside the United Kingdom, there may be settlement, legal and regulatory requirements in such jurisdiction which are different from those applying in the United Kingdom, and there may be different practices for the separate identification of assets held by a custodian for its clients.
- (Q) The Depositary shall under no circumstances have any liability arising from the Conditions or from any obligations which relate to the Conditions (including, but not limited to, obligations in tort), whether as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any

person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.

(R) Nothing in the Conditions shall exclude any liability for loss or damage caused by fraud on the part of the Depositary, or for death or personal injury arising from any failure on the part of the Depositary to take reasonable care or exercise reasonable skill.

(S) For the purposes of Condition 14(Q):

(i) “consequential loss or damage” means loss or damage of a kind or extent which was not reasonably foreseeable at the time this Agreement was entered into as a serious possibility in the event of the breach of obligation in question.

(ii) “special loss or damage” means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary either at the time this Agreement was entered into or later.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

(A) Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the holder) at the specified office of any Agent.

16. Depositary’s Fees, Costs and Expenses

(A) The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs or for the cancellation of GDRs upon the withdrawal of Deposited Property \$0.05 or less per GDR issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares, for the administration of the GDRs and in connection with inspections of the relevant share register maintained by the Russian registrar, if applicable: a combined fee of \$0.04 or less per GDR per annum;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): \$0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution; and

(vi) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depositary for such issuance: a fee of \$0.05 or less per GDR (or portion thereof), together with all expenses, transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian in connection with any of the above including, but not limited to charges imposed by a central depository and such customary expenses as are incurred by the Depositary in the conversion of currencies other than U.S. dollars into U.S. dollars and fees imposed by any relevant regulatory authority.

- (B) The Depositary is entitled to receive from VTB such fees, taxes, duties, charges, costs, expenses and other payments as agreed between them in the Deposit Agreement or as specified in a separate agreement between VTB and the Depositary concerning such fees, taxes, duties, charges, costs, expenses and other payments.

17. Agents

The Depositary shall be entitled to appoint one or more agents (the “Agents”) for the purpose, inter alia, of making distributions to the Holders.

18. Listing

VTB has undertaken in the Deposit Agreement that so long as any GDR is outstanding, and where VTB can no longer reasonably maintain a listing for the GDRs on the London Stock Exchange and a listing of the Shares on at least one Russian Stock Exchange or it becomes unreasonably burdensome or impracticable to do so, and such listings are suspended, use its best efforts to obtain and maintain the quotation for, or listing of, the GDRs on such other EEA Regulated Market as it may decide.

19. The Custodian

The Depositary has, pursuant to the Deposit Agreement, agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property other than cash for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depositary; provided that, if at any time the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and VTB. The Custodian may resign or be removed by the Depositary by giving 90 calendar days’ notice in writing upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor custodian (approved by (i) VTB, such approval not to be unreasonably withheld or delayed and (ii) the relevant authority in the Russian Federation, if required), which shall, upon acceptance of such appointment and the expiry of any applicable notice period, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may, after prior consultation with VTB, if practicable, terminate the appointment of the Custodian and in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved by (i) VTB, such approval not to be unreasonably withheld or delayed and (ii) the relevant authority in the Russian Federation, if required), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, VTB shall have consented to such deposit and such consent of VTB shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of VTB if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depositary, of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

- (A) Unless otherwise agreed to in writing between VTB and Depositary from time to time, VTB may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 calendar days’ notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving 90 calendar days’ notice in writing to VTB. In addition, the Depositary and VTB agree to consult and attempt to resolve in good faith any matters in relation to the services to be provided by the Depositary to VTB under the Deposit Agreement. Within 30 calendar days after the giving of such either notice, notice thereof shall be duly given by the Depositary to the Holders and to the UK Listing Authority and the London Stock Exchange. The

Depository may resign as Depository and appoint one of its affiliates as its successor Depository hereunder by giving written notice to VTB and notice to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depository shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect (a) other than in the case of an appointment by the Depository of one of its affiliates as its successor depository until the appointment by VTB of a successor depository, (b) the grant of such approvals as may be necessary to comply with applicable laws and with the Charter for the transfer of the Deposited Property to such successor depository, and (c) the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions by the successor depository. VTB has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depository with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depository to the Holders in accordance with Condition 23 and to the UK Listing Authority and the London Stock Exchange.

(B) Upon the termination of appointment or resignation of the Depository, the Depository shall, against payment of all fees, expenses and charges owing to it by VTB under the Deposit Agreement, deliver to its successor depository sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depository all Deposited Property held by it under the Deposit Agreement. For the avoidance of doubt, this Condition will be without prejudice to any liabilities of the Depository which have accrued prior to the date of the denomination of appointment or resignation or any liabilities stipulated in relevant laws or regulations which accrued prior to such date.

21. Termination of Deposit Agreement

(A) Subject as set out below, either VTB or the Depository but, in the case of the Depository, only if VTB has failed to appoint a replacement Depository within 90 calendar days of the date on which the Depository has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 calendar days' notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depository to Holders of all GDRs then outstanding in accordance with Condition 23.

If VTB terminates the Deposit Agreement, it will (unless the termination is due to the wilful default, negligence or fraud of the Depository) be obligated, prior to such termination, to reimburse to the Depository all amounts owed to the Depository as, and only to the extent, set out in the Deposit Agreement and in any agreement between the Depository and VTB.

(B) During the period beginning on the date of the giving of such notice by the Depository to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of paragraph (D) of Condition 2 and upon compliance with Condition 2, and further upon payment by the Holder of any sums payable by the Depository to the Custodian in connection therewith for such delivery and surrender but otherwise in accordance with the Deposit Agreement.

(C) If any GDRs remain outstanding after the date of termination, the Depository shall, if possible, as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale, the Depository shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

- (D) VTB has agreed not to appoint any other depositary for the issue of depositary receipts so long as The Bank of New York is acting as Depositary under the Deposit Agreement.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22 and Clause 12 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between VTB and the Depositary and if required, the permission of the CBR in any respect which they may deem necessary or desirable. Unless impracticable in the circumstances to do so, at least ten business days' notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of 30 days after such notice shall have been given. During such period of 30 days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 2, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or beneficial owners if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between VTB and the Depositary. Any such notice sent by mail shall be deemed to have been given on the seventh day after being so mailed.

All notices required to be given by VTB to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by VTB to the Depositary and upon receipt of any such notices, the Depositary shall forward such notices to the Holders. The Depositary shall not be liable for any notices required to be given by VTB which the Depositary has not received from VTB, nor shall the Depositary be liable to monitor the obligations of VTB to provide such notices to the Holders.

All formal complaints to the Depositary should be made in writing to the compliance officer of the Depositary at the address set out in Clause 17 of the Deposit Agreement.

24. Reports and Information on VTB

(A) VTB has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language by mail, or one copy by facsimile or electronic transmission as agreed between VTB and the Depositary (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange, or another other stock exchange, in accordance with Condition 18, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at VTB's expense, arrange for an English translation thereof to be prepared.

(B) The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

(C) For so long as any Rule 144A GDRs or shares represented thereby are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, VTB has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDRs or the beneficial owner of an interest in such GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, beneficial owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time VTB is neither subject to and in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, VTB shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at VTB’s expense. VTB has authorised the Depositary to deliver such information as furnished by VTB to the Depositary during any period in which VTB informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4) to any such Holder, owner of Rule 144A GDRs, beneficial owner of an interest in Rule 144A GDRs or shares represented thereby or prospective purchaser at the request of such person. VTB has agreed to reimburse the Depositary for its reasonable expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time reasonably request. Subject to receipt, the Depositary will deliver such information, during any period in which VTB informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

VTB has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of any notice to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, and any other material (which in the opinion of VTB contains information having a material bearing on the interests of the Holders) furnished to such holders by VTB in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by VTB or the Custodian, the Depositary shall, at VTB’s expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

26. Moneys Held by the Depositary

The Depositary will hold moneys received by it, in respect of or in connection with the Deposited Property in an account with itself as banker and not as trustee, will not hold such moneys in accordance with the FSA’s client money rules, shall be entitled to deal with such moneys in the same manner as other moneys paid to it as a banker to its customers and shall not be liable to account to VTB or any holder or any other person for any interest on any moneys paid to it by VTB for the purposes of the Deposit Agreement, except as otherwise agreed.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

(A) The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by

Russian law. VTB has submitted in respect of the Deposit Agreement and these Conditions to the jurisdiction of the English courts. VTB has also agreed in the Deed Poll to allow the Holders to elect that disputes are resolved by arbitration.

- (B) The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“**Proceedings**”) may be brought in such courts. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not.)

29. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999, except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

Upon issue, the GDRs will be evidenced by a single Regulation S Master GDR and a single Rule 144A Master GDR, each in registered form. The Regulation S Master GDR has been registered in the name of The Bank of New York Depository (Nominees) Limited as common depository for Clearstream, Luxembourg and Euroclear, and the Rule 144A Master GDR has been registered in the name of Cede & Co. as nominee and held by The Bank of New York in New York for DTC on or about the Closing Date. The Regulation S Master GDR and the Rule 144A Master GDR contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs. The following is a summary of those provisions. Unless otherwise defined herein, terms defined in the Conditions have the same meaning herein.

Exchange

The Regulation S Master GDR and the Rule 144A Master GDR will be exchanged for certificates in definitive registered form representing GDRs only in the circumstances set forth below. The Depository will undertake in the Regulation S Master GDR and the Rule 144A Master GDR to make available certificates evidencing GDRs in definitive registered form, in whole but not in part, in exchange for either the Regulation S Master GDR or the Rule 144A Master GDR, as the case may be, to GDR holders within 60 days if:

- DTC, Clearstream, Luxembourg or Euroclear, or any successor, notifies the Depository in writing that it is at any time unwilling or unable to continue as a clearing agency and a successor clearing agency is not appointed within 90 calendar days; or
- in the case of the Rule 144A Master GDR, DTC or any successor ceases to be a “clearing agency” registered under the Exchange Act; or
- either Clearstream, Luxembourg or Euroclear (in the case of the Regulation S Master GDR) or DTC (in the case of the Rule 144A Master GDR) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Depository is available within 45 days; or
- the Depository has determined that, on the occasion of the next payment in respect of the GDRs, VTB, the Depository or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form.

Any such exchange will be at the expense of the GDR holder. Upon:

- any exchange of a part of the Regulation S Master GDR or the Rule 144A Master GDR for GDRs in registered definitive form; or
- any exchange of interests between the Regulation S Master GDR and the Rule 144A Master GDR pursuant to the terms of the Deposit Agreement; or
- any distribution of GDRs pursuant to Condition 5, 7 or 10; or
- any reduction in the number of GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR following any withdrawal of Deposited Property pursuant to Condition 1,

in each case, the Depository will enter the relevant details on the register maintained by the Depository, whereupon the number of GDRs evidenced by the Regulation S Master GDR or the Rule 144A Master GDR will decrease or increase accordingly.

Voting Rights, Payments and Distributions

GDR holders will have voting rights in respect of the underlying shares as set forth in Condition 12 and the Deposit Agreement. The Depository will exercise voting rights only upon receipt of written instructions in accordance with the Conditions and the Deposit Agreement and if permitted by law.

The Depository will make payments of cash dividends and other amounts, including cash distributions, in respect of the GDRs represented by the Regulation S Master GDR or the Rule 144A

Master GDR through Clearstream, Luxembourg and Euroclear in respect of the Regulation S Master GDR, and through DTC in respect of the Rule 144A Master GDR, on behalf of persons entitled thereto upon receipt of funds for such purpose from VTB. Any dividend or distribution in the form of shares received by the Depositary on behalf of GDR holders that results in an increase in the number of GDRs will result in an adjustment to the records of the Depositary to reflect the increased number of GDRs evidenced by the Regulation S Master GDR and/or the Rule 144A Master GDR.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary will be satisfied by the production, on behalf of a person entitled to an interest therein, by the common depositary in respect of the Regulation S Master GDR, and by DTC in respect of the Rule 144A Master GDR, of such evidence as the Depositary may reasonably require of such person's entitlement. Such evidence is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, or DTC or, if relevant, an alternative clearing system. The delivery or production of such evidence will be sufficient evidence, in favour of the Depositary, any Agent and the Custodian, of the title of such person to receive, or to issue instructions for the receipt of, all monies or other property payable or distributable and to issue voting instructions in respect of the Deposited Property evidenced by such GDRs.

Notices

For so long as the Regulation S Master GDR is registered in the name of the Common Depositary on behalf of Euroclear and Clearstream, Luxembourg, and for so long as the Rule 144A Master GDR is registered in the name of DTC or its nominee, the Depositary may give notices to GDR holders by delivery to Euroclear and Clearstream, Luxembourg in respect of the Regulation S Master GDR, and to DTC or its nominee in respect of the Rule 144A Master GDR, for dispatch to persons entitled thereto instead of by the methods required by Condition 23.

Governing Law

The Regulation S Master GDR and the Rule 144A Master GDR will be governed by and construed in accordance with English law.

TAXATION

The following summary of principal United States federal income, United Kingdom and Russian tax consequences of ownership of the securities is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the securities. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the securities. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the securities, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Certain United States Federal Income Tax Considerations

TO COMPLY WITH INTERNAL REVENUE SERVICE CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY PROSPECTIVE INVESTORS, FOR THE PURPOSES OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE UNITED STATES INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING BY VTB OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a general description of certain material United States federal income tax consequences to US Holders (defined below) under current law of an investment in Shares or GDRs. This discussion is based on the tax laws of the United States as in effect on the date of this Prospectus and on US Treasury regulations in effect or, in some cases, proposed, as of the date of this Prospectus, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below. If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of GDRs or Shares, the United States federal income tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Since your US federal income and withholding tax treatment may vary depending upon your particular situation, you may be subject to special rules not discussed below. Special rules will apply, for example, if you are:

- a bank;
- a person holding GDRs or Shares through a partnership or other pass-through entity;
- an insurance company;
- a tax-exempt organisation;
- a financial institution;
- a person liable for the alternative minimum tax;
- a person who is a broker-dealer in securities;
- an S corporation;
- a trader that elects to mark-to-market;
- a US expatriate;
- an owner holding, directly, indirectly or by attribution, 10% or more of the total voting power of VTB's voting stock; or
- an owner holding GDRs or Shares as part of a hedge, straddle, synthetic security, conversion or integrated transaction.

In addition, this summary is generally limited to US Holders holding Shares or GDRs as “capital assets” within the meaning of Section 1221 of the US Internal Revenue Code and whose functional currency is the US dollar. The discussion below does not address the effect of any US state or local tax law or foreign tax law.

The discussion below of the United States federal income tax consequences to “US Holders” will apply to you if you are a beneficial owner of GDRs or Shares and you are, for United States federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation) organised under the laws of the United States, any State thereof or the District of Columbia;
- an estate whose income is subject to United States federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more US persons for all substantial decisions of the trust or (2) has a valid election in effect under applicable US Treasury regulations to be treated as a US person.

The discussion below assumes that the representations contained in the Deposit Agreement are true and that the obligations in the Deposit Agreement and any related agreement will be complied with in accordance with their terms. Although not free from doubt, for purposes of United States federal income tax law, a US Holder of a GDR should be treated as the owner of the underlying Shares represented by that GDR.

The US Treasury has expressed concerns that parties to whom GDRs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by US persons for United States federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate US persons, as described below. Accordingly, the analysis of the creditability of Russian taxes described below, and the availability of the reduced tax rate for dividends received by certain non-corporate US persons, could be affected by future actions that may be taken by the US Treasury or parties to whom the GDRs are pre-released.

PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF THE UNITED STATES FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE AND LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF GDRs OR SHARES.

Taxation of Dividends on Shares or GDRs

Subject to the PFIC rules discussed below, for United States federal income tax purposes, the US dollar value of the gross amount of a distribution (including any Russian withholding taxes) with respect to Shares or GDRs generally will be included in your gross income on the date of actual or constructive receipt by the Depositary, in the case of GDRs, and by you, in the case of Shares, and will be treated as a taxable dividend to the extent of VTB’s current and accumulated earnings and profits, computed in accordance with United States federal income tax principles. You should be aware that VTB does not intend to calculate its earnings and profits for United States federal income tax purposes and, unless it makes such calculations, you should assume that any distributions with respect to Shares or GDRs will constitute ordinary dividend income.

For taxable years beginning before January 1, 2011, if you are a non-corporate taxpayer (including an individual), dividends may be taxed at the reduced rate normally applicable to capital gains, provided (1) certain holding period requirements are satisfied, (2) VTB is eligible for the benefits of the Convention between the United States of America and Russia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital (the “**United States-Russia Tax Treaty**”) and (3) VTB is not a PFIC for either its taxable year in which the dividend is paid or the preceding taxable year. Non-corporate US Holders are strongly urged to consult their tax advisors as to the applicability of the lower capital gains rate to dividends received with respect to GDRs or Shares. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on Shares or GDRs, which is generally available for

dividends paid by US corporations. If a dividend distribution is paid in rubles, any gain or loss resulting from the subsequent conversion of such rubles into US dollars generally will be treated as US source ordinary income or loss.

Russian tax withheld from distributions at the rate applicable to you under the United States-Russia Tax Treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for credit against your United States federal income tax liability or, at your election, may be deducted in computing taxable income, provided, in each case, that the amounts withheld and paid to Russian tax authorities are treated as satisfying your tax liability. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States-Russia Tax Treaty, you may not be entitled to credits for the excess amount because such amounts might be treated as recoverable by you for United States federal income tax purposes, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. Foreign tax credit regulations have been recently proposed, and it is uncertain whether, if adopted in final form, they could effect the ability of US Holders to credit Russian tax withheld from dividends against their United States federal income tax liability. You may be required to recognise as ordinary income or loss foreign currency gain or loss on the receipt of a refund of Russian withholding tax to the extent that the US dollar value of the refund differs from the US dollar equivalent of that amount on the date of receipt of the underlying dividend.

A dividend distribution generally will be treated as foreign source income and will generally be classified as “passive income” or, in some cases, “financial services income” for US foreign tax credit purposes for taxable years beginning on or before December 31, 2006. For taxable years beginning after December 31, 2006, the number of classes of foreign source income will be reduced to two and dividends generally would constitute “passive category income” but could, in the case of certain US Holders, constitute “general category income.”

The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your tax advisors to determine whether and to what extent a credit, or a deduction in lieu of a credit, would be available in your particular circumstances.

Taxation on Sale or Exchange of Ordinary Shares or GDRs

Subject to the PFIC rules discussed below, the sale or other taxable disposition of Shares or GDRs generally will result in the recognition of capital gain or loss in an amount equal to the difference between the US dollar value of the amount realised on the sale or other disposition and your US dollar adjusted basis in such Shares or GDRs. Any such gain or loss generally will be long-term capital gain or loss if the Shares or GDRs have been held for more than one year. If you are an individual, such realised long-term capital gain is generally subject to a reduced rate of United States federal income tax. Limitations may apply to your ability to offset capital losses against ordinary income.

Any gain realised on the sale of Shares or GDRs generally will be treated as US source income and therefore the use of foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. You are strongly urged to consult your own tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of Shares or GDRs under the United States-Russia Tax Treaty.

Deposits and withdrawals of Shares by you in exchange for GDRs should not result in the recognition of gain or loss for United States federal income tax purposes. Your tax basis in the withdrawn Shares will be the same as your tax basis in the GDRs surrendered, and the holding period of the Shares will include the holding period of the GDRs.

Passive Foreign Investment Company

In general, a non-US corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income, or
- at least 50% of the value of its assets (determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income.

VTB will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of the stock.

Based in part on certain proposed Treasury regulations with respect to banks, which are not yet finalised, although not free from doubt, VTB does not expect to be a PFIC for its current taxable year ending December 31, 2007. However, the determination of whether VTB is a PFIC is a factual determination made annually after the end of each taxable year, and there can be no assurance that VTB will not be considered a PFIC in the current taxable year or any future taxable year because, among other reasons, (i) the composition of VTB's income and assets will vary over time, (ii) there can be no assurance that the proposed Treasury regulations will be finalised in their current form, and (iii) the manner of the application of the proposed Treasury regulations and other relevant rules is uncertain in certain respects. Furthermore, VTB's PFIC status may depend on the market price of its Shares and GDRs, which may fluctuate considerably. **You are urged to consult your tax advisors regarding VTB's possible status as a PFIC.**

If VTB were to be a PFIC for any taxable year during which you hold Shares or GDRs, you will be subject to special tax rules with respect to any "excess distribution" that you receive and any gain you realise from a sale or other disposition (including a pledge) of the Shares or GDRs, unless you make a "mark-to-market" election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the Shares or GDRs will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the Shares or GDRs,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which VTB became a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or "excess distribution" cannot be offset by any net operating losses for such years, and gains (but not losses) realised on the sale of the Shares or GDRs cannot be treated as capital. If VTB were to be a PFIC for any year during which you hold the Shares or GDRs, VTB generally would continue to be treated as a PFIC with respect to you for all succeeding years during which you own the Shares or GDRs. If VTB were to cease to be a PFIC, however, you could avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the Shares or GDRs.

In addition, if VTB is treated as a PFIC, to the extent any of its direct or indirect subsidiaries are also PFICs, you may be deemed to own shares in such subsidiaries, and you may be subject to the adverse PFIC tax consequences with respect to the shares of such subsidiaries that you would be deemed to own.

US Holders can avoid some of these adverse consequences of the PFIC regime by making a mark-to-market election with respect to the Shares or GDRs, as applicable, provided that the Shares or GDRs are "marketable stock" as defined in the applicable US Treasury regulations. VTB does not intend to provide the information necessary for a "qualified electing fund" election.

If you hold Shares or GDRs in any year in which VTB is a PFIC, you would be required to file Internal Revenue Service Form 8621 regarding distributions received on the Shares or GDRs and any gain realised on the disposition of the Shares or GDRs. **You are urged to consult your own tax advisors regarding the potential application and consequences of the PFIC rules to your ownership of Shares or GDRs and the availability and advisability of any elections.**

Information Reporting and Backup Withholding

Dividend payments with respect to GDRs or Shares and proceeds from the sale, exchange or redemption of GDRs or Shares may be subject to information reporting to the Internal Revenue Service and possible US backup withholding at a current rate of 28%. Backup withholding will not apply, however, if you furnish a correct taxpayer identification number and make any other required certification or if you are otherwise exempt from backup withholding (for example, if you are a corporation) and establish your exempt status.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your United States federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

UK Tax Considerations

The comments below are of a general nature and are based on current UK law and published H.M. Revenue & Customs practice as of the date of this Prospectus, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the United Kingdom and Russia (referred to in this discussion as the “**UK Treaty**”), each of which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of Shares and GDRs (and any dividends paid in respect of them) who:

- are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the UK for tax purposes;
- are not resident in Russia for tax purposes; and
- do not have a permanent establishment or fixed base in Russia with which the holding of the Shares or GDRs is connected.

Such absolute beneficial owners of the Shares or GDRs are referred to in this discussion as “**UK holders.**”

In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the Shares or GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, collective investment schemes, tax-exempt organisations or persons connected with VTB.

Further, the summary assumes that:

- a holder of the GDRs is, for UK tax purposes, beneficially entitled to the underlying Shares and to the dividends on those Shares;
- a holder of Shares is, for UK tax purposes beneficially entitled to the dividends on those Shares;
- the UK holder did not acquire and will not be deemed to have acquired his/her Shares or GDRs by virtue of an office or employment;
- the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the shares and/or voting power of VTB;
- the Shares will not be registered in a register kept in the United Kingdom by or on behalf of VTB; and
- the Shares will not be paired with shares issued by a body corporate incorporated in the United Kingdom.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of Shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

Taxation of Dividends

Income Tax and Corporation Tax

UK holders will, in general, be subject to UK income tax or UK corporation tax on the total of the dividends received on their Shares or GDRs plus any withholding tax deducted in Russia.

Withholding Tax and Tax Credits

Any Russian withholding tax that is not relieved or refunded under the UK Treaty may, depending on the circumstances be allowed as a credit against the UK income/corporation tax liability of a UK holder, but any excess of such Russian withholding tax over the UK tax payable on the aggregate of the dividend and the Russian withholding tax is generally not refundable.

VTB need not make any deduction from payments of dividends for or on account of UK tax.

Tax Liability for Individual Holders

For an individual UK holder who is liable to UK income tax on dividends at the dividend upper rate (currently 32.5%), UK income tax will be chargeable on the gross amount of the dividend with potential credit (as described above) for Russian withholding tax. For an individual UK holder who is liable to UK income tax on the dividend at the dividend ordinary rate (currently 10%), the credit for Russian withholding tax (if available) may equal or exceed his/her UK income tax liability in respect of the dividend, in which case he will have no further UK income tax to pay. In either case, the amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under the UK Treaty and Russian domestic law to minimize the amount of tax payable in Russia, including obtaining relief at source and any available refunds.

Tax Liability for Corporate Holders

A UK holder within the charge to UK corporation tax will be liable for UK corporation tax on the gross amount of the dividend with potential credit for Russian withholding tax as described above. In appropriate cases, a holder may be entitled to relief at source or a refund of Russian tax.

Taxation of Capital Gains

The disposal or deemed disposal of all or part of the Shares or GDRs held by a UK holder may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (where the UK holder is an individual) or UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief. In addition, individual UK holders who dispose of their Shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK. Any gains or losses in respect of currency fluctuations over the period of holding the Shares or GDRs would also be brought into account on the disposal.

As regards individual UK holders, the principal factors that will determine the extent to which such gain will be subject to UK capital gains tax are the extent to which they realise any other capital gains in that year, the extent to which they have incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the “**annual exemption**”) and the level of available taper relief.

The annual exemption for individuals is £9,200 for the 2007-08 tax year.

A UK holder that is a company may, depending on its circumstances, be entitled to an indexation allowance that applies to reduce any chargeable gain to the extent that (broadly speaking) it arises due to inflation. Indexation allowance may reduce a chargeable gain but not create any allowable loss.

Stamp Duty and Stamp Duty Reserve Tax

So long as the Shares continue to be registered only in a register kept outside the UK, the Shares are not paired with shares issued by a body corporate incorporated in the UK and any instrument of transfer is executed and retained outside the UK, no UK ad valorem stamp duty or UK stamp duty reserve tax will be payable in respect of:

- the issue of the GDRs;
- the delivery of GDRs into a clearance service, such as Euroclear or Clearstream;
- any dealings in the GDRs once they are issued into the clearance service, where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer; or

- any transfer or agreement to transfer Shares.

Inheritance Tax

UK inheritance tax may be chargeable on the death of or, in certain circumstances, a gift of shares by, the owner of Shares or GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For UK inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules and rates apply to gifts where the donor reserves or retains some benefit.

Certain Russian Federation Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the Shares and/or the GDRs and to the purchase, ownership and disposition of such Shares and/or GDRs by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on the date of this Prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of Russia. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisors regarding the tax consequences of investing in the Shares and the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to the Shares and the GDRs are characterised by uncertainties and by an absence of interpretative guidance. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a “**non-resident holder**” means:

- an individual holder of the Securities who does not satisfy the criteria for being a Russian tax resident. By inference this means an individual 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 any period comprised of 12 consecutive months. Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or
- a legal entity or an organisation, in each case not organised under Russian law, that holds and disposes of Securities otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a “**Russian resident holder**” means:

- an individual holder of the Securities who is present in Russia for an aggregate period of 183 days or more (excluding days of arrival into Russia but including days of departure from Russia) in any period comprised of 12 consecutive months. Presence in Russia is not considered interrupted if an individual departs for the short periods (less than six months) for medical treatment or education;
- a legal entity or an organisation, in each case organised under Russian law, that holds and disposes of Securities; or
- a legal entity or an organisation, in each case organised under a foreign law, that holds and disposes of Securities, where disposal is attributable to its permanent establishment in Russia.

For the purposes of this summary, the definitions of “resident holder” and “non-resident holder” in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice however the application of the above formal residency definition may differ based on the position of the tax authorities. The law is currently worded in a way that implies the potential for a split year residency for individuals. However the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full year and consequently even where the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to

other articles of the Tax Code of the Russian Federation (the “**Tax Code**”) dealing with taxation of individuals.

The residency rules may be affected by the applicable double tax treaty.

For the purposes of this summary, a “**Tax Agent**” means a payor of income that is a legal person organized under Russian law, or a legal person or an organisation, in either case organised under a foreign law and carrying on activities through a permanent establishment in Russia or, arguably, having any other registered presence in the Russian Federation, who are charged as described below with obligations associated with calculation, withholding from a taxpayer and transfer to the revenue of taxes.

Taxation of Dividends

Under Russian tax rules dividend distributions should be subject to Russian income tax withholding to be withheld by the Russian company that distributes dividends that should therefore act as a Tax Agent in respect of withholding tax on dividend income. The applicable tax rate depends on the status of the dividend income recipient.

Russian Resident Holders

Dividends paid to Russian resident holders of the Shares should generally be subject to Russian withholding tax at a rate of 9%. The effective rate of tax may be lower than 9% as the amount of tax should be determined as the product of the tax rate (9%) and the difference between (1) the amount of dividends to be distributed by VTB to its shareholders (other than to non-resident holders of the Shares) and (2) the amount of dividends received by VTB in the current tax (accounting) period and in the preceding tax (accounting) period from Russian entities.

There are uncertainties regarding the rate of withholding tax on dividends payable to Russian resident holders of the GDRs. The Tax Code does not explicitly stipulate that the withholding tax rates applicable to dividend distributions to the holders of the Shares that are the registered title holders (legal owners) are valid for the holders of the GDRs derived from the Shares. In the absence of specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, the Tax Code does not provide for a conclusion that the Russian resident holders of the GDRs should be entitled to the same tax rate on dividends as the Russian resident holders of the Shares. In 2005 and 2006 the Ministry of Finance of the Russian Federation (the “**Ministry of Finance**”) expressed an opinion in their private responses that the Russian resident GDR holders (rather than a depository) should be treated as the beneficial owners of dividends for the purposes of application of the 9% withholding tax rate. In order to confirm entitlement to 9% withholding tax rate the Depository may be required to provide VTB with the same or similar information as established by the Ministry of Finance with respect to non-resident holders. See “Taxation—Certain Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders” for detail.

The above position was expressed by the Ministry of Finance in private responses to specific taxpayers’ queries with respect to particular situations and, as such, does not represent a statement of tax law. Starting 2007, the Tax Code provides that it is obligatory for the tax authorities to follow the position of the Ministry of Finance. This new Tax Code provision arguably applies only to letters, responses, guidelines, etc. issued by the Ministry of Finance starting 2007. It therefore cannot be concluded with absolute certainty whether the local tax inspectorates would follow the position of the Ministry of Finance set out in their responses in 2005 and 2006. It is not obligatory for the taxpayers to follow the position of the Ministry of Finance.

There may be certain practical difficulties in connection with the collection and timely submission of the above information by the Depository to VTB. VTB may therefore not be in a position to apply 9% withholding tax rate to dividend distributions made to Russian resident holders of the GDRs.

If the Depository rather than the Russian resident holders of the GDRs were to be viewed by VTB as the dividend income recipient and/or if the information on the beneficial owners of such dividends were not available or insufficient in the view of VTB by dividend payment date, VTB should withhold income tax at a rate of 15% from dividend payments on the Shares represented by the GDRs.

There is a risk that income received by Russian resident holders of the GDRs from the Depositary would not be regarded by the Russian tax authorities as dividend income, in the event that a view is taken that it does not strictly meet the definition of a dividend established by the Tax Code. In such a case the income mentioned in the preceding sentence should be taxable at a rate of 13% for Russian resident individual holders of the GDRs and at a rate of up to 24% for Russian legal entities and organizations, or Russian permanent establishments of foreign entities. There is a risk that Russian resident holders of the GDRs would not be entitled to reclaim or credit the tax withheld by VTB initially on payments to the Depositary.

In view of the foregoing, Russian resident holders of the GDRs are urged to consult their own tax advisors regarding the tax treatment of the dividends on the Shares from which the GDRs were derived.

Non-Resident Holders

Dividends paid to non-resident holders of the Shares should generally be subject to Russian income tax withholding to be withheld by a Tax Agent. The applicable domestic rates of withholding tax on dividends currently are:

- 15% in the case of dividends paid to non-resident holders that are legal entities or organisations; and
- 30% in the case of dividends paid to non-resident individual holders.

These rates may be reduced under the terms of double tax treaties between the country of residence of the qualifying (for treaty benefits) non-resident holder of the Shares and the Russian Federation.

The Convention Between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income and Capital, or the **United States-Russia Tax Treaty**, provides for reduced income tax withholding rates on dividends paid to a non-resident holder that qualifies both (i) as a US tax resident, as defined in the United States-Russia Tax Treaty, and (ii) as the person eligible to the benefits of the United States-Russia Tax Treaty (a “**US Treaty Holder**”), who is the beneficial owner of the dividends. Under the United States-Russia Tax Treaty, a 5% rate should apply to the gross amount of dividends if the beneficial owner is a company which owns at least 10% of the voting stock of VTB, or if there is no voting stock, at least 10% of the statutory capital of VTB; and a 10% rate should apply in all other cases, to the extent they concern the recipient that is a US Treaty Holder.

The beneficial ownership concept is not developed in the Russian law, and as a result there is no certainty whether the Depositary (the legal title holder of the Shares) or a GDR holder (the beneficiary of dividend income) should be regarded as the dividend income recipient for the purpose of application of double taxation treaties. In 2005 and 2006 the Ministry of Finance expressed an opinion in their private responses that the non-resident holders of the GDRs (rather than a depositary) should be treated as the beneficial owners of dividends for the purposes of application of double taxation treaty provisions concerning taxation of dividend income. In their letter the Ministry of Finance established the following list of documents to be submitted by the depositary to the issuer for a reduced double taxation treaty rate to be available to a non-resident GDR holder:

- Information on the GDR holders (name, address, tax identification number);
- Information on the quantity of deposited shares attributable to each GDR holder (DEPO account statements);
- Information on the amount of dividends payable to each GDR holder.

The above position was expressed by the Ministry of Finance in private responses to specific taxpayers’ queries with respect to particular situations and, as such, does not represent a statement of tax law. Starting 2007 the Tax Code provides that it is obligatory for the tax authorities to follow the position of the Ministry of Finance. This new Tax Code provision, arguably applies only to letters, responses, guidelines, etc. issued by the Ministry of Finance starting 2007. It therefore cannot be concluded with absolute certainty whether the local tax inspectorates would follow the position of the Ministry of Finance set out in their responses in 2005 and 2006. It is not obligatory for the taxpayers to follow the position of the Ministry of Finance.

There may be certain practical difficulties in connection with the collection and timely submission of the above information by the Depository to VTB. VTB may therefore not be in a position to apply income tax withholding at a reduced rate available for dividend income under the relevant double taxation treaty.

If the Depository rather than the non-resident holders of the GDRs were to be viewed by VTB as the dividend income recipient and/or if the information on the beneficial owners of such dividends were not available or insufficient in the view of VTB by dividend payment date, VTB should withhold income tax at a rate of 15% from dividend payments on the Shares represented by the GDRs.

Moreover, VTB may decide to deduct Russian withholding tax from dividends paid to the Depository at a rate of 15%, regardless of whether the Depository (the legal owner of the Shares) or a non-resident GDR holder (the beneficial owner of the Shares) should be entitled to reduced rates of tax under the relevant double tax treaty, including the United States-Russia Tax Treaty.

In such case non-resident holders of the GDRs that are individuals nevertheless may have a filing obligation in respect of Russian source income, and may be liable for additional tax imposed at the Russian income tax rate applicable to dividends, depending on the approach taken by the tax authorities at the time when respective income is received. However, this tax may be reduced under applicable double tax treaty subject to treaty clearance requirements being met. No assurance can be given that the Russian tax authorities should ultimately agree to such a reduction and/or refund of any tax withheld by VTB. It is advisable for non-resident holders of the GDRs to consult their tax advisors in relation to their filing position in Russia at the time when respective income is received.

Taxation of Capital Gains

Russian Resident Holders

Legal Entities, Organisations and Permanent Establishments

Gains arising from the sale, exchange or other disposition of the Shares or GDRs by any Russian resident holder that is not an individual should be taxable at a regular Russian tax rate of up to 24%, subject to regional tax benefits. Generally, Russian tax law requires that losses from exchange-traded securities cannot be set off against other income of a taxpayer, subject to certain exceptions. Russian resident holders that are not individuals may use such losses to reduce current year gains from operations with exchange-traded securities or carry them forward to offset future gains from the sale, exchange or other disposition of exchange-traded securities. Special tax rules apply to Russian legal entities that are licensed dealers on the securities market.

Transactions with the Shares and the GDRs should be subject to Russian transfer pricing rules established by the Tax Code for securities transactions.

Individuals

Under Russian law, capital gains arising from the sale, exchange or other disposition of the Shares or the GDRs by Russian resident holders that are individuals should be subject to tax at a rate of 13% on an amount equal to the sales price less the acquisition value of the securities less other documented expenses related to the purchase, holding and sale of such securities. In certain circumstances if the disposal proceeds are paid by a licensed broker or an asset manager that is a Russian legal entity or an organisation, or any other person, including a foreign company with a permanent establishment or, arguably, any registered presence in Russia or an individual entrepreneur registered in Russia, who carry out operations under an agency agreement, a commission agreement or another similar agreement for the benefit of the Russian resident holder that is an individual, such persons that should act as the tax agents and withhold the applicable tax. The amount of tax withheld should be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realised by the resident individual and tax withheld upon the sale of securities by April 1 of the year following the reporting year. When a sale is made to other persons, generally no withholding of tax needs to be made and the resident holder would have an obligation to file a tax return, report income realised and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

Russian law related to taxation of income derived by Russian resident holders from the sale, exchange or other disposition of the Shares and the GDRs is not entirely clear, and consequently

Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the Shares and the GDRs.

Non-Resident Holders

Legal Entities and Organisations

Under current Russian tax law, gains arising from the sale, exchange or other disposition of the Shares or GDRs by non-resident holders that are not individuals should not be subject to tax in Russia to the extent immovable property located in Russia constitutes not more than 50% of the entire asset base of VTB.

VTB believes that immovable property located in Russia does not currently constitute more than 50% of its assets and that should continue to be the case in the future. Since the procedure of calculation of the percentage of immovable property located in Russia in the entire asset base of a taxpayer is not well established by the Tax Code and this procedure is inherently factual and is made on an ongoing basis, there can be no assurance that the immovable property located in Russia does not currently, or will not, constitute more than 50% of the assets of VTB.

If more than 50% of VTB's assets were to consist of immovable property located in Russia, then the non-resident holders of the Shares and/or the GDRs, that are not individuals, should be subject to a 20% income tax withholding on the gross proceeds from the sale, exchange or other disposition of the Shares or GDRs, or 24% income tax withholding on the gain realized from such sale, exchange or other disposal, to the extent the foreign income recipient is in a position to provide the Tax Agent with the documents confirming the basis cost of the Shares or GDRs disposed of. The tax should be withheld at source by the Tax Agent.

There is a risk that persons who are obliged to act as Tax Agents in respect of income tax withholding on capital gains may not have sufficient information regarding VTB's composition of the asset base to be in a position to conclude on the percentage of the immovable property located in Russia and may therefore conservatively seek to apply income tax withholding to the amount of consideration paid to a non-resident holder of the Shares and/or GDRs that is a legal entity or an organisation.

Gains arising from the sale, exchange or other disposition of securities on foreign stock exchanges by non-resident holders that are legal entities and organizations should not be subject to taxation in Russia if such securities are listed on these stock exchanges. Therefore, so long as the GDRs remain listed on the LSE and PORTAL, gains arising from the sale, exchange or other disposition on the LSE and PORTAL of the GDRs by non-resident holders that are legal entities or organizations should not be subject to taxation in Russia by Russian income tax withholding.

Russian income tax withholding may be reduced or eliminated under an applicable double tax treaty for entities qualifying for the relevant treaty benefits.

Under the United States-Russia Tax Treaty, capital gains from the sale of the Shares and/or GDRs by US Treaty Holders should be relieved from taxation in Russia, unless at least 50% of the assets ("fixed assets" in the Russian language version of the United States-Russia Tax Treaty) of VTB were to consist of immovable property located in Russia. Since the United States-Russia Tax Treaty does not allow for more beneficial tax treatment of capital gains on the Shares and/or the GDRs, it is unlikely that the need will arise for a US Treaty Holder to seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposition of the Shares and/or GDRs.

Individuals

According to Russian tax legislation, the taxation of income for non-resident individual holders will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of securities should be sourced, other than that income from the sale of securities "in Russia" is Russian-source. As there is no further definition of what should be considered to be a sale "in Russia", the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares, or other similar criteria.

Under Russian personal income tax rules, gains from the sale, exchange or other disposition of the Shares or GDRs by non-resident holders who are individuals will probably be considered Russian source income, and should therefore be subject to tax at the rate of 30% at the source of payment if the sale is made by a non-resident holder through or to a licensed broker or an asset manager that is a Russian legal entity or an organization, or any other person, including a foreign company with a permanent establishment or arguably any registered presence in Russia or an individual entrepreneur located in Russia, who carry out operations under an agency agreement, a commission agreement or another similar agreement. Such person should act as a tax agent and should withhold the applicable tax. The amount of tax withheld should be calculated after deducting the acquisition value and related expenses. The tax agent should report to the Russian tax authorities the income realised by the individual and tax withheld upon the sale of the securities by April 1 of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the non-resident holder should file a tax return, report his income realised and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

A non-resident holder may be exempt from Russian withholding tax on the sale, exchange or other disposition of Shares or GDRs in Russia under the terms of a double tax treaty between Russia and the country of residence of the non-resident holder. See “—Tax Treaty Procedures.”

Tax Treaty Procedures

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that reduce or eliminate Russian tax due with respect to income received from a source within Russia by a non-resident holder on the Shares and/or GDRs.

In order to obtain the benefit of such tax treaty provisions, a non-resident holder must comply with the certification, information, and reporting requirements that are in force in Russia. These requirements differ in respect of dividend income and gains from the sale, exchange and the disposition of the Shares and/or GDRs, to the extent such gains are subject to taxation under Russian tax law.

Currently a non-resident holder that is a legal entity would need to provide the Tax Agent with a certificate of tax residence issued by the competent tax authority of the relevant treaty country. The tax residency confirmation needs to be renewed on an annual basis, and provided to the payor of income in advance of the first income payment in each calendar year. In addition to the certificate of tax residence a non-resident holder of the Shares and/or the GDRs that is an individual should provide to the tax authorities appropriate documentary proof of income received and the tax payment made outside Russia on income with respect to which treaty benefits are claimed. Due to uncertainties regarding the form and procedures for providing such documentary proof, non-resident holders that are individuals in practice may not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, whilst obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

In addition, a non-resident holder of the Shares that is a legal entity or an organisation should confirm that it has the actual right (legal title) to receive dividend income in order to obtain double taxation treaty benefits in respect of dividend income on the Shares. Under a number of double tax treaties a non-resident holder of the Shares may be required to provide additional information, for instance on the amount of the investments made and/or the percentage of holding in the capital of VTB.

The relief at source and refund procedures discussed below may be more complicated with respect to GDRs due to the separation of legal ownership and beneficial ownership of the Shares underlying the GDRs. In the absence of specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, there can be no assurance that double tax treaty relief in respect of dividend income would be available to non-resident holders of the GDRs. Therefore, VTB cannot assure prospective GDR holders that the relief at source or refund of the tax withheld will be available to the non-resident GDR holders under the applicable tax treaty in respect of Russian taxes withheld from dividends on the Shares represented by GDRs.

The Deposit Agreement provides that the Depositary will make all reasonable efforts to provide VTB with certifications and other documents that are required in order to comply with any certification process that has been approved by the Russian tax authorities for this purpose.

If a non-resident holder of the Shares or GDRs does not obtain double tax treaty relief at the time dividend income or gains are paid out to such non-resident holder and Russian withholding tax is withheld by the Tax Agent, the non-resident holder of the Shares and/or GDRs may apply for a refund within three years from the end of the tax period in which the tax was withheld, if the recipient is a legal entity or organization, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. The refund of the tax withheld should be granted within one month of the filing of the application for the refund and the relevant documents with the Russian tax authorities. From practical perspective, there is significant uncertainty regarding the availability and the timing of such tax refunds. See “Risk Factors—Risks Relating to the Securities and the Trading Market—Non-resident investors may be subject to Russian tax withheld at source on trades of the Shares or GDRs through or to certain Russian payors.”

Non-resident holders of the Shares and/or GDRs should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received on a disposition of the Shares and GDRs as well as in respect of dividend income on the Shares paid to the non-resident holders of the Shares and/or GDRs.

TRANSFER RESTRICTIONS

As a result of the following restrictions, you are advised to contact legal counsel prior to making any resale, pledge or transfer of the Shares or GDRs. For a description of the restrictions applicable to the GDRs subsequent to the Global Offering see “Terms and Conditions of the Global Depositary Receipts.”

The Global Offering is being made in accordance with Rule 144A and Regulation S. The Shares and the GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and, accordingly, may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and to persons outside the United States in offshore transactions in accordance with Regulation S. Terms used in this section that are defined in Rule 144A or Regulation S are used herein as so defined.

Under Russian law, placement of the newly issued Shares being offered in the form of GDRs as well as in the form of Shares pursuant to this Prospectus is subject to VTB’s registration of the Placement Report with the CBR. Until the registration of the Placement Report, all GDRs will be issued on a provisional basis and holders of GDRs may not withdraw the Shares or other property on deposit with the Depositary in respect of GDRs sold in the Global Offering. Also, following the Closing Date, no additional Shares will be accepted for deposit and no additional GDRs in respect of Shares will be issued until the Placement Report is registered. Both the Shares and the GDRs are subject to cancellation, and the proceeds of the Global Offering of the Shares and GDRs will be returned, if the Placement Report is not registered. See “Risk Factors—GDR Holders will not be able to withdraw the Shares underlying the GDRs prior to the registration of the Placement Report for the newly issued Shares, and the failure to register the Placement Report could result in the newly issued Shares underlying the GDRs being cancelled and reliance by GDR holders on VTB and the Underwriters to return the Global Offering proceeds” and “Registration of Placement Report.”

Rule 144A

Each purchaser of Shares or GDRs within the United States pursuant to Rule 144A, by accepting delivery of this Prospectus and the Shares or GDRs, will be deemed to have represented, agreed and acknowledged that:

(1) the Shares and GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

(2) it is (i) a QIB, (ii) aware, and each beneficial owner of such Shares or GDRs has been advised, that the sale of such Shares or GDRs to it is being made in reliance on Rule 144A and (iii) acquiring such Shares or GDRs for its own account or for the account of a QIB;

(3) it agrees (or, if it is acting for the account of another person, such person has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer such Shares or GDRs except: (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction (as such term is defined in Regulation S under the Securities Act) in accordance with Rule 903 or 904 of Regulation S (c) in accordance with Rule 144 under the Securities Act (if available), or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of those Shares or GDRs of the resale restrictions referred to above;

(4) the Shares or GDRs may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank (including The Bank of New York), unless and until such time as the Shares or GDRs are no longer “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act;

(5) VTB, the Depositary, the Underwriters and their respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs. If it is acquiring Shares or GDRs for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

(6) it understands that the Rule 144A GDRs and the Master Rule 144A GDR sold in the United States will bear a legend substantially to the following effect:

“THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JSC VTB BANK REPRESENTED HEREBY (“THE SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, THE HOLDER HEREOF BY PURCHASING THE GLOBAL DEPOSITARY RECEIPTS AGREES FOR THE BENEFIT OF JSC VTB BANK THAT THE GLOBAL DEPOSITARY RECEIPTS AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“QIB”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GLOBAL DEPOSITARY RECEIPTS WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GLOBAL DEPOSITARY RECEIPTS OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF THE BANK OF NEW YORK AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA’S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY NOR SHALL THE DEPOSITARY BE LIABLE FOR THE UNAVAILABILITY OF DEPOSITED PROPERTY. UNTIL THE RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY CONFIRMING THE REGISTRATION OF A PLACEMENT REPORT WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION IN RESPECT OF ANY NEW SHARES DEPOSITED HEREUNDER OR AT ANY TIME FROM THE DEPOSIT OF ANY SUBSEQUENT ISSUE OF NEW SHARES UNTIL THE RECEIPT OF WRITTEN NOTICE FROM THE COMPANY CONFIRMING THE REGISTRATION OF A PLACEMENT REPORT WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION IN RESPECT OF SUCH NEW SHARES, HOLDERS’ RIGHTS OF WITHDRAWAL ARE LIMITED AS SET OUT IN CONDITION 2(A). IN THE EVENT THAT SUCH A PLACEMENT REPORT IS NOT REGISTERED WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION, IN RESPECT OF THE NEW SHARES, WITHIN 75 CALENDAR DAYS OF THE FIRST CLOSING DATE OF THE INITIAL OFFERING OR, IN RESPECT OF ANY SUBSEQUENT ISSUE OF NEW SHARES, WITHIN A REASONABLE PERIOD OF TIME OF THE CLOSING DATE OF THE ISSUE OF SUCH SHARES, AS THE CASE MAY BE, OR SUCH OTHER TIME AS MAY BE AGREED BETWEEN THE COMPANY AND THE DEPOSITARY (IN RESPECT OF ANY OTHER NEW SHARES) OR ANY NEW SHARES ARE TO BE CANCELLED, WHETHER OR NOT A PLACEMENT REPORT IN RESPECT OF SUCH SHARES HAS BEEN REGISTERED,

RELEVANT NEW SHARES DEPOSITED HEREUNDER AND THE CORRESPONDING GDRS SHALL BE CANCELLED AND THE SUBSCRIPTION MONIES IN RESPECT OF SUCH CANCELLED SHARES AND GDRS WILL BE RETURNED TO HOLDERS AS PROVIDED IN CONDITION 1(E). THE SUBSCRIPTION MONIES SO DISTRIBUTED MAY BE LESS THAN THE PRICE AT WHICH THE GDRS WERE INITIALLY OFFERED AND MAY BE SUBJECT TO TAXES AND DELAYS.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE COURTS OF ENGLAND.

Unless this certificate is presented by an authorised representative of The Depository Trust Company (“DTC”), to the agent authorised by JSC VTB Bank for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorised representative of DTC (and any payment hereunder is made to Cede & Co. or to such other entity as is requested by an authorised representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL in as much as the registered owner hereof, Cede& Co. has an interest herein”; and

(7) it understands that the Rule 144A GDRs will initially be represented by a Master Rule 144A GDR and, before any beneficial interests in Rule 144A GDRs represented by the Master Rule 144A GDR may be transferred to a person who takes delivery in the form of a beneficial interest in Regulation S GDRs represented by the Master Regulation S GDR, the transferor will be required to provide certain written certifications.

Prospective purchasers are hereby notified that sellers of the Shares or GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S

Each purchaser of Shares or GDRs outside the United States pursuant to Regulation S, by accepting delivery of this Prospectus and the Shares or GDRs, will be deemed to have represented, agreed and acknowledged that:

(1) it is aware that (a) the sale of the Shares and GDRs to it is being made pursuant to and in accordance with Rule 903 or 904 of Regulation S, (b) it is, or at the time such Shares or GDRs are purchased will be, the beneficial owner of those Shares or GDRs and (c) it is purchasing such Shares or GDRs in an offshore transaction meeting the requirements of Regulation S;

(2) it understands that the Shares and GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States;

(3) it acknowledges that VTB, the Depository, the Underwriters and their respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs; and

(4) it understands that the Regulation S GDRs and the Master Regulation S GDR will bear a legend substantially to the following effect:

“THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JSC VTB BANK REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF THE BANK OF NEW YORK AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA’S SYSTEM OF

SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY NOR SHALL THE DEPOSITARY BE LIABLE FOR THE UNAVAILABILITY OF DEPOSITED PROPERTY. UNTIL THE RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY CONFIRMING THE REGISTRATION OF A PLACEMENT REPORT WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION IN RESPECT OF ANY NEW SHARES DEPOSITED HEREUNDER OR AT ANY TIME FROM THE DEPOSIT OF ANY SUBSEQUENT ISSUE OF NEW SHARES UNTIL THE RECEIPT OF WRITTEN NOTICE FROM THE COMPANY CONFIRMING THE REGISTRATION OF A PLACEMENT REPORT WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION IN RESPECT OF SUCH NEW SHARES, HOLDERS' RIGHTS OF WITHDRAWAL ARE LIMITED AS SET OUT IN CONDITION 2(A). IN THE EVENT THAT SUCH A PLACEMENT REPORT IS NOT REGISTERED WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION, IN RESPECT OF THE NEW SHARES, WITHIN 75 CALENDAR DAYS OF THE FIRST CLOSING DATE OF THE INITIAL OFFERING OR, IN RESPECT OF ANY SUBSEQUENT ISSUE OF NEW SHARES, WITHIN A REASONABLE PERIOD OF TIME OF THE CLOSING DATE OF THE ISSUE OF SUCH SHARES, AS THE CASE MAY BE, OR SUCH OTHER TIME AS MAY BE AGREED BETWEEN THE COMPANY AND THE DEPOSITARY (IN RESPECT OF ANY OTHER NEW SHARES) OR ANY NEW SHARES ARE TO BE CANCELLED, WHETHER OR NOT A PLACEMENT REPORT IN RESPECT OF SUCH SHARES HAS BEEN REGISTERED, RELEVANT NEW SHARES DEPOSITED HEREUNDER AND THE CORRESPONDING GDRS SHALL BE CANCELLED AND THE SUBSCRIPTION MONIES IN RESPECT OF SUCH CANCELLED SHARES AND GDRS WILL BE RETURNED TO HOLDERS AS PROVIDED IN CONDITION 1(E). THE SUBSCRIPTION MONIES SO DISTRIBUTED MAY BE LESS THAN THE PRICE AT WHICH THE GDRS WERE INITIALLY OFFERED AND MAY BE SUBJECT TO TAXES AND DELAYS.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE COURTS OF ENGLAND.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE CENTRAL DEPOSITORY AGENCY, THE SHARE REGISTRAR OF VTB, IN THE NAME OF THE BANK OF NEW YORK AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE.”; and

(5) it understands that the Regulation S GDRs will initially be represented by a Master Regulation S GDR and, before any beneficial interest in the Regulation S GDRs represented by the Master Regulation S GDR may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A GDRs represented by the Master Rule 144A GDR, the transferor will be required to provide certain written certifications.

Other Provisions Regarding Transfers of the GDRs

Interests in the Rule 144A GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the depositary of written certification (in the form provided in the Deposit Agreement) from the transferor to the effect that, among other things, such transfer is being made in accordance with Regulation S. Interests in Regulation S GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by the Master Rule 144A GDR only upon receipt by the depositary of written certifications from the transferor (in the forms provided in the Deposit Agreement) to the effect that, among other things, such transfer is being made in accordance with Rule 144A. Any interest in GDRs represented by one of the Master GDRs that is transferred to a person whose interest in such GDRs is subsequently represented by the other Master GDR will, upon transfer, cease to be an interest in the

GDRs represented by such first Master GDR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other Master GDR for so long as it remains such an interest.

According to Russian securities law and FSFM regulations, the organising of and trading in shares of a Russian company in the form of GDRs (including deposits of shares into a GDR facility) requires the FSFM's permission. The FSFM has granted permission for the deposit of up to Shares into VTB's deposit facility in connection with the Global Offering and any deposit of Shares over this number (up to a maximum of 35% of VTB's charter capital) would require additional FSFM permission. In addition, the FSFM permission for the deposit facility established in connection with the Global Offering expressly permits the deposit of shares having specific registration numbers, and the Depositary may be entitled to refuse a deposit of shares having a different registration number than those set out in the FSFM permission for the deposit facility. See "Risk Factors—Our GDR facility may not have sufficient capacity to accept all future deposits of Shares. In addition, there can be no assurance that VTB would be able to increase the share of its charter capital that is allowed to be deposited in the GDR facility to the maximum of 35% of its issued and outstanding shares" and "Risk Factors—Following the Global Offering, you may not be able to deposit Shares in the GDR facility to receive GDRs, and changes in Russian regulations with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market price of the Shares and GDRs offered in the Global Offering."

SUBSCRIPTION AND SALE

VTB is offering up to 1,734,333,866,664 ordinary shares by an Open Subscription. VTB's shareholders of record as of February 16, 2007 have statutory pre-emption rights under Russian law to subscribe for shares *pro rata* to their existing shareholding as at that date. See "The Offering—Pre-emptive Rights."

To the extent not subscribed for by VTB's existing shareholders in the Open Subscription, up to 1,734,333,866,664 ordinary shares will be offered in a Global Offering comprised of: (i) a Retail Offering to individuals in Russia and (ii) an Institutional Offering (a) in the form of Shares outside the United States to certain persons in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A and (b) in the form of GDRs outside the United States and Russia to certain persons in offshore transactions in accordance with Regulation S and in the United States to QIBs in reliance on Rule 144A.

VTB and the Underwriters have entered into an underwriting agreement dated May , 2007 (the "**Underwriting Agreement**") with respect to certain Securities being offered in the Institutional Offering. Subject to the satisfaction of certain conditions set forth in the Underwriting Agreement, each Underwriter has agreed, severally but not jointly, to procure purchasers for, and failing which to purchase, the number of Shares set forth opposite its name in the following table:

Underwriters	Number of ordinary shares
Citigroup Global Markets Limited ⁽¹⁾	
Deutsche Bank AG ⁽²⁾	
Goldman Sachs International ⁽³⁾	
Renaissance Securities (Cyprus) Limited ⁽⁴⁾	
Total	

- (1) Citigroup Global Markets Limited is an international investment bank. Its offices are located at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom.
- (2) Deutsche Bank AG, London Branch is an international investment bank. Its offices are located at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.
- (3) Goldman Sachs International is an international investment bank. Its offices are located at Peterborough Court, 133 Fleet Street, London EC4A 2BB, United Kingdom.
- (4) Renaissance Securities (Cyprus) Limited is an international investment bank. Its offices are located at 2-4 Archbishop Makarios III Avenue, Capital Center, 9th Floor, Nicosia 1505, Cyprus.

The Offer Price Range is 11.30 Kopecks to 13.90 Kopecks per Share, implying a price range of \$8.77 to \$10.79 per GDR, based on the ruble/US dollar exchange rate in effect on April 25, 2006 of RUR 25.78 to \$1.00 as quoted by the CBR. The Offer Price will be determined on the basis of a bookbuilding process. The Underwriters will receive a combined underwriting, management and selling commission of equal to 1.1% of the aggregate gross proceeds of the Global Offering. In addition, VTB may, in its discretion, pay the Underwriters a discretionary fee of up to 0.6% of the aggregate gross proceeds of the Global Offering, excluding any Shares sold in the Retail Offering.

VTB estimates its expenses in relation to the Global Offering, other than commissions, to be approximately \$.

ITC has granted the Underwriters, acting through the Stabilisation Manager, an option (the "**Repurchase Option**"), exercisable at any time during the Stabilisation Period, to require ITC to purchase up to Shares in the form of GDRs held by the Stabilisation Manager as a result of stabilisation transactions at the price at which such Shares in the form of GDRs were purchased by the Stabilisation Manager in the relevant stabilisation transaction.

In the Underwriting Agreement, VTB has made certain representations and warranties and agreed to indemnify the several Underwriters against certain liabilities, including liability under the Securities Act.

The Underwriters are offering the Securities when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Shares, and other conditions contained in the Underwriting Agreement, such as Admission and the receipt by the Underwriters of officers' certificates and legal opinions.

The Underwriting Agreement provides that, upon the occurrence of certain events, such as the suspension or limitation of trading on the LSE or a material adverse change in the Group's financial condition or business, the Joint Bookrunners, on behalf of the Underwriters, have the right to suspend or terminate the Global Offering before the delivery of any Securities.

In connection with the Global Offering, certain short-term certificates linked to the value of the Shares may be issued and distributed to certain institutional investors outside of Russia and the United States pursuant to Regulation S.

Lock-Up Arrangements

VTB has agreed, as part of the arrangements with the Underwriters, for a period of 180 days after the Closing Date, subject to certain limited exceptions without the prior written consent of the Joint Bookrunners, on behalf of the Underwriters, that they will not, and subsidiaries, affiliates and persons acting on their behalf will not issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, sell any option on or right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any ordinary shares or securities convertible or exchangeable into or exercisable for any ordinary shares or warrants or other rights to purchase ordinary shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the ordinary shares, including equity swaps, forward sales and options or GDRs representing the right to receive any such ordinary shares or securities above ("**Locked-Up Securities**"), whether such transaction is to be settled by delivery of ordinary shares or such other securities, in cash or otherwise, except (i) pursuant to the Underwriting Agreement, (ii) the Open Subscription and any share swap (the "**ICB Share Swap**") to be carried out in the context of the merger of ICB into the Issuer, as a result of which ordinary shares in the Issuer will be issued and granted to the minority shareholders of ICB by the Issuer pursuant to an agreed upon exchange ratio to be approved by the shareholders of the Issuer and the shareholders of ICB and (iii) an amount of Shares equalling not more than the number of Shares that could be purchased for \$10 million at the Offer Price that may be sold by ICB in connection with the Retail Offering to provide additional flexibility for allocation in the Retail Offering to parties unrelated to VTB.

Pre-emptive Rights of Existing Shareholders

VTB's shareholders of record as at February 16, 2007, pursuant to such shareholders' statutory pre-emption rights under Russian law to subscribe for Shares *pro rata* to their existing shareholding as at that date. VTB published a notice to such shareholders advising them of their statutory pre-emption rights on April 9, 2007. Such rights shall be exercisable over a period of 20 calendar days commencing on April 10, 2007. Any ordinary shares not taken up by VTB's shareholders by April 29, 2007 (inclusive) in the exercise of their statutory pre-emption rights will be offered to other investors in the Global Offering in the form of Shares and GDRs. VTB has received applications from existing shareholders for the exercise by them of statutory pre-emption rights in respect of ordinary shares. See also "Description of Share Capital, Rights Attaching to Shares and Applicable Russian Law—Pre-emption Rights". Any ordinary shares subscribed for by VTB's existing shareholders shall be paid for at the Offer Price for the Shares in the Global Offering as determined by the Issuer and the Joint Bookrunners. See "The Offering—Offer Price Range." Shareholders exercising their statutory pre-emption rights must pay for the ordinary shares in same-day funds not later than five business days from the date of the disclosure of the Offer Price. Any ordinary shares taken up but not paid in full by VTB's shareholders in the exercise of their statutory pre-emption rights will not be issued.

The Retail Offering

The Shares are being offered to retail investors in Russia at the Offer Price.

Selling Restrictions

General

Neither VTB nor the Underwriters, nor any person acting on VTB's or the Underwriters' behalf, have taken or will take any action in any jurisdiction, other than Russia, that would permit a public offering of the Securities, or the possession, circulation or distribution of this Prospectus or any other material relating to VTB or the Securities, in any jurisdiction where action for such purpose is required.

Accordingly, the Securities may not be offered or sold, directly or indirectly, nor may this Prospectus or any other offering material or advertisement in connection with such Securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by VTB or any Underwriter. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained in this Prospectus is correct as of a date after its date.

United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the Global Offering, an offer or sale of Securities within the United States by a dealer, whether or not participating in the Global Offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Securities are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that certain of the Underwriters may directly or through their respective US broker-dealer affiliates arrange for the offer and resale of the Securities within the United States only to QIBs in reliance on Rule 144A.

United Kingdom

Each of the Underwriters has represented, warranted and agreed that it has:

- (a) 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 Securities in circumstances in which section 21(1) of the FSMA does not apply to VTB; and
- (b) complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a “**Relevant Member State**”), an offer to the public of any Securities may not be made in that Relevant Member State unless a prospectus in relation to the Securities has been approved by the competent authority in that Relevant Member State or, where appropriate, in another Relevant Member State and notified to the competent authority in that Relevant Member State and published in accordance with the Prospectus Directive as implemented in the UK, except that an offer to the public of any Securities in that Relevant Member State may be made at any time under the following exemptions under the Prospectus Directive:

- (a) to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than EUR 43,000,000; and (iii) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;

(c) by the Underwriters to fewer than 100 natural or legal persons, other than qualified investors as defined in the Prospectus Directive, subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Securities shall result in a requirement for the publication by VTB or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State, and each person who initially acquires any Securities or to whom any offer is made under the Global Offering will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(i)(e) of the Prospectus Directive.

The Underwriters may rely on the truth and accuracy of the foregoing representations, acknowledgments and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression an “**offer to the public**” in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase any Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

In the case of any Securities being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Securities acquired by it in the Global Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Securities to the public other than their offer or resale in a Relevant Member State to Qualified Investors as so defined or in circumstances in which the prior consent of the Underwriters has been obtained to each such proposed offer or resale. VTB, the Underwriters and their affiliates, and others will rely on the truth and accuracy of the foregoing representation, acknowledgment and agreement. Notwithstanding the above, a person who is not a Qualified Investor and who has notified the Underwriters of such fact in writing may, with the consent of the Underwriters, be permitted to subscribe for or purchase Securities in the Global Offering.

Russian Federation

No Underwriter may offer, transfer or sell the GDRs as part of their initial distribution in Russia, or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law.

The GDRs have not been and will not be registered in Russia and are not intended for “placement” or “public circulation” in Russia. This Prospectus does not constitute an advertisement of the GDRs in Russia.

Singapore

The Prospectus of which this document forms a part has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Securities may not be circulated or distributed, nor may Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Securities are subscribed or purchased under Section 275 by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

United Arab Emirates

Notice to Prospective Investors in United Arab Emirates

This Prospectus is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates ("UAE"). The Securities have not been and will not be registered under Federal Law No. 4 of 2000 Concerning the Emirates Securities and Commodities Authority and the Emirates Security and Commodity Exchange, or with the UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities market or with any other UAE exchange.

The Global Offering and the Securities and interests therein have not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities in the UAE, and do not constitute a public offer of securities in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

In relation to its use in the UAE, this Prospectus is strictly private and confidential and is being distributed to a limited number of investors and may not be reproduced or used for any other purpose. The interests in the Securities may not be offered or sold directly or indirectly to the public in the UAE.

Australia

This Prospectus has not been and will not be lodged with the Australian Securities and Investments Commission or the Australian Stock Exchange and is not a disclosure document for the purposes of Australian law. This Prospectus (whether in preliminary or definitive form) may not be issued or distributed in Australia and no offer or invitation may be made in relation to the issue, sale or purchase of any Securities in Australia (including an offer or invitation received by a person in Australia) and no Securities may be sold in Australia, unless the offer or invitation does not need to be disclosed to investors under Part 6D.2 of the Corporations Act 2001 (Cth).

Other

The Underwriters and their respective affiliates have engaged in transactions with, and provided various investment banking, financial advisory and other services for, VTB and its affiliates, for which they received customary fees. The Underwriters and their respective affiliates may provide such services to VTB and its affiliates in the future.

In connection with the Global Offering, each of the Underwriters and any affiliate acting as an investor for its own account may take up Securities and in that capacity may retain, purchase or sell for

its own account such Securities and any related investments and may offer or sell such Securities or other investments otherwise than in connection with the Global Offering. Accordingly, references in this Prospectus to the Securities being offered or placed should be read as including any offering or placement of Securities to the Underwriters and any affiliate acting in such capacity. No Underwriter intends to disclose the extent of any such investment or transactions otherwise than to VTB and in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Global Offering, certain of the Underwriters may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where Securities are used as collateral, that could result in such Underwriters acquiring shareholdings in VTB.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depository links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depository, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a “banking organisation” within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depository, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depository through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See “Taxation—Certain United States Federal Income Tax Considerations.”

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited, as common depository for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York as custodian for DTC. As necessary, the Depository will adjust the amounts of GDRs on the

relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depository will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depository for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depository will be responsible for ensuring that payments received by it from VTB for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depository will also be responsible for ensuring that payments received by it from VTB for holders holding through DTC are received by DTC.

VTB will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depository in accordance with the terms of the Deposit Agreement. See “Terms and Conditions of the Global Depository Receipts.”

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depository receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depository receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see “Transfer Restrictions” and “Registration of Placement Report.”

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depository receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depository receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between a DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depository

to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depository to:

- decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR; and
- increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR.

Trading between a Clearstream, Luxembourg/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depository to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depository to:

- decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR; and
- increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets forth the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of VTB, the Underwriters, the Depository, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

Settlement of the Shares

Payment for the GDRs is expected to be made in US dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited, as common depository for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York as custodian for DTC. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system.

Each investor in the Shares in the Global Offering is required to pay for any Shares in US dollars or rubles, as the case may be. In order to take delivery of the Shares, an investor should either have a direct account with VTB's share registrar, CJSC "Central Unified Registrar", or a deposit account with CJSC Depository Clearing Company (the "DCC"), or any other depository that has an account with DCC or a direct account with VTB's share registrar. Investors may at their own expense elect to hold

the Shares through a direct account with VTB's share registrar. However, directly-held Shares are ineligible for trading on RTS and MICEX. Only if the Shares are deposited with a Not-for-Profit Partnership, The National Depository Center (the "NDC"), (or through another depository having an account at NDC), can they be traded on MICEX and only if the Shares are deposited with the DCC or NDC can they be traded on the RTS.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, 22 floor West, New York, New York 10286. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286 and at The Bank of New York, One Canada Square, London E14 5AL.

LEGAL MATTERS

Latham & Watkins, London, England and Liniya Prava, Moscow, Russia will pass upon certain legal matters in connection with the Global Offering for VTB with respect to US and English and Russian laws, respectively. Linklaters, London, England and Linklaters CIS, Moscow, Russian Federation, will pass upon certain legal matters in connection with the Global Offering for the Underwriters with respect to US and English and Russian laws, respectively.

INDEPENDENT AUDITORS

The Annual Financial Statements as of and for the years ended December 31, 2006, 2005 and 2004 have been audited by Ernst & Young, independent auditors, of Sadovnicheskaya Naberezhnaya, 77, Building 1, Moscow 115035, Russian Federation. Ernst & Young is a member of the Institute of Professional Accountants and Auditors of Russia ("IPAR"). IPAR is a full member of the International Federation of Accountants.

GENERAL INFORMATION

1. Listing

It is expected that the GDRs will be admitted, subject only to the issue of the Master GDRs, to the Official List on or about May , 2007. Application has been made for the GDRs to be traded on the LSE's market for listed securities. Prior to admission to the Official List, however, dealings will be permitted by the LSE in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

2. Authorisations

The issue of the Shares being offered was authorised by the extraordinary General Shareholders Meeting of VTB and a meeting of the Supervisory Council each held on March 19, 2007 and the issuance of the Shares was registered with the CBR on April 2, 2007 under registration number 10401000B001D. VTB has obtained all consents, approvals and authorisations in Russia in connection with the issue of the GDRs (except for the registration of the Placement Report with the CBR which, in accordance with Russian law, will be applied for upon the completion of the placement).

3. Documents Available for Inspection

Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the offices of Latham & Watkins, 99 Bishopsgate, London EC2M 3XF, United Kingdom from the date of publication of this Prospectus to the date of Admission:

- (a) this Prospectus;
- (b) VTB's charter (together with an English translation thereof);
- (c) the Deposit Agreement; and
- (d) the Annual Financial Statements.

4. Security Codes

The CUSIP for the Regulation S GDRs is 46630Q202, the ISIN for the Regulation S GDRs is US46630Q2021, the Common Code for the Regulation S GDRs is 029806675 and the SEDOL Code for the Regulation S GDRs is B1W7FX3. The CUSIP for the Rule 144A GDRs is 46630Q103, the ISIN for the Rule 144A GDRs is US46630Q1031, the Common Code for the Rule 144A GDRs is 029806730 and the SEDOL Code for the Rule 144A GDRs is B1W7FP5. The ISIN for the Shares is RU000A0JP5V6.

5. Offer Price

The GDRs are not denominated in any currency and have no nominal or par value. The Offer Price was determined based on the results of the bookbuilding exercise conducted by the Joint Bookrunners together with VTB. The results of the Global Offering will be made public by VTB in a press release and in a notice to the Regulatory Information Service promptly upon the closing of the Global Offering.

6. Depositary and Agent

Holders of GDRs may contact the Depositary at 101 Barclay Street, 22nd Floor, New York, NY 10286 (fax 001 212 571 3050).

If definitive certificates are issued in exchange for the Master GDRs, VTB will appoint an agent in the United Kingdom.

7. Significant Change

There has been no significant change in the financial or trading position of the Group since December 31, 2006, the end of the last financial period for which audited financial information has been published, except as set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

8. Subsidiaries

The following table sets forth the registered offices of our significant subsidiaries:

<u>Name</u>	<u>Ownership</u>	<u>Country of Registration</u>	<u>Registered Office</u>
VTB Bank (Austria) AG	100.00%	Austria	Parkring 6, P.O. Box 560, 1011 Vienna Austria
Russian Commercial Bank (Cyprus) Limited . .	100.00%	Cyprus	2 Amathoundos Street, 3310 Limassol Cyprus
Russian Commercial Bank Ltd	100.00%	Switzerland	Hofackerstrasse 32, 8032 Zurich Switzerland
Vneshtorgbank (Ukraine)	100.00%	Ukraine	35 Zhilyanskaya Street, Kyiv, 01033 Ukraine
Mriya	98.47%	Ukraine	22-24 Gogolevska Street, Kyiv, 01601 Ukraine
VTB Bank (Armenia)	70.00%	Armenia	46 Nalbalndayan St., Yerevan, 375010 Armenia
VTB Bank (Georgia)	53.17%	Georgia	37, Uznadze Street, Tbilisi, Georgia
Bank VTB24	96.68%	Russian Federation	Ul. Myanksaya35, 101000, Moscow Russian Federation
VTB Bank (Deutschland)	78.82%	Germany	Walter-Kolb-Strasse 13, 60594 Frankfurt am Main Deutschland
Industry & Construction Bank	75.00%	Russian Federation	Kovensky Per. 17/18, 191014 St. Petersburg Russian Federation
VTB Bank (France)	77.55%	France	79/81 Boulevard, 75382 Paris Cedex 08, Dept. 75 France
VTB Bank (Europe) Plc	89.10%	Great Britain	81 King William Street, London, EC4N 7BG United Kingdom

SUMMARY OF CERTAIN DIFFERENCES BETWEEN IFRS AND US GAAP

The financial information included in this Prospectus has been prepared in accordance with IFRS. Although the Group selects its accounting policies to minimise the differences between IFRS and US GAAP, certain differences remain that might be material to the financial information presented in the Prospectus.

The following sections summarise certain differences between IFRS and US GAAP that management believes might apply to the Group's consolidated financial information. The Group has not prepared a reconciliation of its consolidated financial information and related footnote disclosure between IFRS and US GAAP and has not quantified such differences. Accordingly, no assurance is provided that the following summary of differences between IFRS and US GAAP is complete. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and US GAAP and how these differences might affect the financial information in the Prospectus.

IFRS is a relatively young, principles-based set of standards, whereas US GAAP is a more mature, rules-based set of standards with more specificity and implementation guidance.

IFRS

US GAAP

Accounting framework

Historical cost, except that property, plant and equipment may be stated at estimated fair value and certain financial assets are stated at fair value.

Historical cost, except that certain financial assets and investments are stated at fair value.

The functional currency for VTB has been determined as the US dollar. Consequently, all transactions of VTB are measured in US dollars. Each subsidiary determines its own functional currency. The consolidated financial statements of the VTB Group are presented in US dollars.

Uses the concept of a functional currency and re-measurement of the underlying transactions into this functional currency. Consequently, if the functional currency is the US dollar, the end result is similar to that resulting from the use of the US dollar as the functional currency under IFRS.

Property, plant and equipment

Assets may be revalued to fair value, which is market value or depreciated replacement cost. Any surplus arising on the revaluation is taken directly to a revaluation reserve within equity, except if the surplus reversed a previous revaluation deficit on the same asset charged to the statement of operations, in which case the credit is recognised in the statement of operations. Any deficit of revaluation is charged to the statement of operations, except if it reverses a previous revaluation surplus on the same asset, in which case it is taken directly to the revaluation reserve.

Revaluation above historical cost is not permitted except in connection with purchase or sale of a business or a significant asset.

If an asset is revalued, then all property, plant and equipment of the same class must be revalued and these revaluations must be kept up to date. Depreciation on a revalued asset is based upon its revalued amount, as are gains and losses on disposal.

The revaluation surplus may be transferred directly to retained earnings as the surplus is realised through depreciation and ultimate disposal.

IFRS

Depreciation and amortisation

The depreciable amount of an item of property, plant and equipment must be expensed on a systematic basis over its useful life, reflecting the pattern in which each individual asset's benefits are consumed by the entity. Any changes in the depreciation method used are treated as a change in accounting estimates and reflected in the depreciation charge for current and prospective periods.

Comprehensive income

Does not require disclosure of comprehensive income, although IFRS requires disclosure of total income and expense for the period, which includes total income and expense recognised directly in equity in addition to net profit or loss for the period. IFRS also requires the financial statements to include a statement showing either all changes in equity or changes in equity other than those arising from transactions with equity holders in that capacity.

Definition of a subsidiary

A subsidiary is an entity that is controlled by another entity (known as a parent). Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless it can be clearly demonstrated that such ownership does not constitute control. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Subsidiaries are consolidated from the date on which effective control is transferred and are no longer consolidated from the date control ceases. In the absence of special shareholder and management agreements, the result is similar to US GAAP.

US GAAP

Similar to IFRS, US GAAP classifies a change in the depreciation method as a change in accounting estimate. The cumulative effect of the change is then reflected in the current year's statement of operations.

Requires disclosure of comprehensive income, which is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distribution to owners. Translation, unrealised gains and losses of qualified hedges and certain other transactions are elements of comprehensive income.

For a reporting period prior to December 15, 2003, "subsidiary" refers to a corporation that is controlled, directly or indirectly, by another corporation. The usual condition for control is ownership of the majority (over 50%) of the outstanding voting stock. However, the power to control may also exist with a lesser ownership percentage, for example by virtue of a contract, lease, agreement with other stockholders or a court decree.

For a reporting period after December 15, 2003, the definition of a "subsidiary" focuses on a controlling financial interest through ownership of a majority voting interest in an entity's equity. Also, variable interest entities in which a parent does not have voting control but absorbs the majority of losses or returns must be consolidated.

IFRS

Goodwill

For acquisitions for which the agreement is dated before March 31, 2004, goodwill is capitalised and amortised over its useful life. There is a rebuttable presumption that the useful life of goodwill does not exceed 20 years. For acquisitions for which the agreement is dated on or after March 31, 2004 goodwill is not amortised but should be tested annually for impairment. In addition, for acquisitions for which the agreement is dated before March 31, 2004, amortisation of goodwill is discontinued, and goodwill is tested annually for impairment, starting from January 1, 2005.

For acquisitions for which the agreement is dated before March 31, 2004, negative goodwill relating to expected future losses or expenses identified in the acquirer's plan for the acquisition must be recognised in the statement of operations when those losses/expenses occur. Otherwise negative goodwill not exceeding the fair value of acquired identifiable, non-monetary assets must be recognised in the statement of operations on a systematic basis over the useful lives of such assets. Where negative goodwill exceeds the fair value of non-monetary assets it must be immediately recognised in the statement of operations.

For acquisitions for which the agreement is dated on or after March 31, 2004, if there is any negative goodwill, the acquirer shall reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after this reassessment is recognised immediately in profit or loss.

For acquisitions for which the agreement is dated before March 31, 2004, on January 1, 2005 the carrying amount of any negative goodwill should be derecognised with a corresponding adjustment to the opening balance of retained earnings.

Taxation

Current and deferred taxes are measured based on tax laws and rates that have been enacted or substantively enacted by the balance sheet date. In some jurisdictions, announcements of tax rates have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced rates.

US GAAP

For reporting periods beginning on or after December 15, 2001, goodwill should not be amortised, but should be tested annually for impairment. For prior periods, goodwill had to be capitalised and amortised over periods not exceeding 40 years.

Negative goodwill must be allocated on a pro rata basis to assets other than: current assets; financial assets, other than equity method investments; assets to be sold; prepaid pension assets; and deferred taxes. Any negative goodwill remaining is recognised as an extraordinary gain.

Current and deferred taxes are measured using enacted tax laws and rates.

IFRS

Deferred taxes

Deferred tax assets are recognised when it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. The carrying value of deferred tax assets are reviewed at each balance sheet date and reduced if appropriate.

A temporary difference arises when a foreign currency non-monetary asset is translated into the measurement currency at historical rates because changes in exchange rates change the tax base of the asset. A deferred tax asset or liability is calculated and recognised for this difference.

Segment reporting

Report primary and secondary (geographic and business) segments based on risk and returns.

Related party transactions

There is no specific requirement to disclose the name of the related party. Disclosure should include the nature of the relationship, as well as the amount of the transactions, the amount of outstanding balances and their terms and conditions, details of any guarantees given or received, provisions for doubtful debts related to the amounts of outstanding balances, and the expense recognised during the period in respect of bad or doubtful debts due from related parties.

The exemption for state-controlled entities from the requirement to disclose transactions with other state-controlled entities has been removed from the revised IAS 24. Accordingly, starting from 2005, the Group has been disclosing transactions with other state-controlled entities in its financial statements.

US GAAP

Similar to IFRS but recognise all deferred tax assets and provide a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realised.

Prohibits the recognition of a deferred tax asset or liability on differences related to assets or liabilities that are re-measured from the local currency into the reporting currency using historical exchange rates and that result from changes in exchange rates.

Report based on primary decision maker's use of information to manage and monitor the operations of the business. Operating segments are those business activities for which discrete information is available and whose operating results the primary decision maker regularly reviews in determining resource allocation and assessing performance.

Transactions involving related parties are not presumed to be on an arms' length basis because the requisite conditions of competitive free market dealing may not exist. US GAAP requires the disclosure of any changes in the method of establishing terms for related party transactions and the resulting effect on the financial statements. In addition, disclosure of the nature of the relationship, a description of the transaction, the amounts for each period, and the amounts due to or from related parties is required. As with IFRS, there is no specific requirement to disclose names of related parties.

IFRS

Business combinations

Before March 31, 2004, business combinations can be accounted for in the form of either an acquisition (purchase method) or a uniting of interest (pooling of interest). However, the use of the uniting of interests method is restricted. Starting from March 31, 2004, all business combinations should be accounted for by applying the purchase method. Business combinations involving entities or businesses under common control are excluded from the above requirement. No specific method of accounting is currently prescribed by IFRS for such transactions.

The acquisition date is the date on which the acquirer obtains control over the acquired entity.

Retirement benefit obligations

IFRS uses the projected unit credit method to determine the present value of long-term employee benefits (namely, defined benefit pension plans).

Retirement benefit obligations are discounted at the rate of high-quality corporate or government bonds with maturities similar to the retirement benefit obligations.

Plan assets are valued using market prices and are hence stated at fair value.

Regular (not defined) actuarial valuations are required of obligations and assets.

Actuarial (or experience) gains/losses greater than a 10% corridor amount are amortised over the average remaining service life of the employees concerned. Any systematic method that results in faster recognition of actuarial gains and losses is permitted. Commencing January 1, 2006, if the entity adopts a policy of recognising actuarial gains and losses in the period in which they occur it may recognise them outside profit and loss in a statement of changes in equity.

If the net effect of the actuarial calculations and asset valuations is an overall asset, then the asset to be recognised is further reduced to the present value of available contribution reductions or refunds plus unrecognised actuarial gains/losses and unrecognised past service costs.

US GAAP

All business combinations initiated after June 30, 2001 are acquisitions and accounted for using the purchase method. Before June 30, 2001, business combinations were accounted for using either the purchase method or the pooling of interest method.

The exception to the above are transactions between entities under common control, for example the transfer of business/entities between sub-groups of the same ultimate parent, for which the pooling of interest methodology is used.

The date of acquisition is the date on which assets are received or securities are issued.

US GAAP mainly uses the using the benefit/year-of-service method, which produces results similar to those of IFRS for most benefit plans.

The discount rate for retirement benefit obligations is based on the rate at which the obligation could be settled.

Generally, similar asset valuation techniques are used, but market-related value calculations are permitted that recognise changes in value over a five-year period.

Annual actuarial valuations are required of obligations and assets.

Actuarial (or experience) gains/losses greater than a 10% corridor amount are amortised over the average remaining service life of the employees concerned.

There is no explicit limitation on the recognition of net (pension) assets.

IFRS

Financial assets

The classification of financial assets and liabilities is as follows:

- Financial assets and liabilities at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets; and
- other financial liabilities.

Loans and receivables and held-to-maturity investments should be carried at amortised cost using the effective interest rate method. All other financial assets are carried at fair value.

Before January 1, 2005, changes in the fair value of available-for-sale assets could be accounted for through the income statement or recognised directly in equity. After January 1, 2005, changes in the fair value of available-for-sale assets should be recognised directly in equity.

Guarantees

Prior to 2006, financial guarantees were considered insurance contracts. If the outflow of economic benefits was probable and could be estimated reliably, provisions were recognised at best estimate of the expenditure required to settle the obligation at the balance sheet date.

Commencing January 1, 2006, financial guarantees are recognised initially at fair value and re-measured at the higher of the amount determined in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18, "Revenue."

US GAAP

Financial assets consist only of securities and are generally grouped into the following categories for measurement:

- trading securities;
- held-to-maturity debt securities; and
- available-for-sale securities.

All debt instruments that are not securities, and all equity securities that are not marketable, are usually carried at amortised cost. All other financial assets are carried at fair value.

Changes in the fair value of available-for-sale assets, including changes due to exchange rate differences, are reported as a net amount in other comprehensive income (i.e., equity).

Decisions on the impairment of investments are taken only for non-temporary investments.

Upon issuance of a guarantee, the guarantor must recognise a liability for the fair value of the obligation it assumes under the guarantee. The fair value of guarantees may be estimated by reference to guarantees for similar transactions, whether on a stand-alone basis as part of bundled transactions, or to the present value of future expected economic outflows.

After its initial recognition, the liability for a guarantee should not continue to be measured at its fair value, but amortised into earnings through a systemic method over the term of the guarantee or released at the expiration of the obligation. Specific requirements exist for product warranties, including a tabular reconciliation of the warrantee liability for each period. Certain relationships are not treated as guarantees, including employee vacation, pension obligations, deferred compensation contracts and stock, residual value guarantees for capital leases, contingent rent, vendor rebates and guarantees between various member companies of a larger consolidated group.

INDEX TO FINANCIAL STATEMENTS

<u>Consolidated Financial Statements as of and for the years ended December 31, 2006, 2005 and 2004</u>	<u>Page</u>
Independent Auditors' Report	F-2
Consolidated Balance Sheets as of December 31, 2006, 2005 and 2004	F-3
Consolidated Statements of Income for the Years ended December 31, 2006, 2005 and 2004	F-4
Consolidated Statements of Cash Flows for the Years ended December 31, 2006, 2005 and 2004 .	F-5
Consolidated Statements of Changes in Shareholders' Equity for the Years ended December 31, 2006, 2005 and 2004	F-6
Notes to the Consolidated Financial Statements	F-7

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of the VTB Bank:

We have audited the accompanying consolidated financial statements of the VTB Bank (“the Bank”) and its subsidiaries (together “the Group”), which comprise the consolidated balance sheets as at 31 December 2006, 2005 and 2004 and the consolidated statements of income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, 2005, and 2004, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

2 April 2007

VTB BANK
CONSOLIDATED BALANCE SHEETS

As of 31 December
(expressed in millions of US dollars)

	Note	2006	2005	2004
Assets				
Cash and short-term funds	6	3,581	2,692	1,520
Mandatory cash balances with central banks		648	404	232
Financial assets at fair value through profit or loss	7	5,120	5,051	2,566
Financial assets pledged under repurchase agreements and loaned financial assets	8	2,938	1,352	340
Due from other banks	9	6,813	4,141	2,023
Loans and advances to customers	10	29,262	19,925	10,169
Assets of disposal group held for sale	33	—	337	—
Financial assets available-for-sale	11	888	881	190
Investments in associates	12, 40	200	118	77
Investment securities held-to-maturity	13	11	7	7
Premises and equipment	15	1,422	832	321
Investment property	16	178	198	—
Intangible assets	17	455	451	102
Deferred tax asset	30	93	82	74
Other assets	14	794	252	189
Total assets		<u>52,403</u>	<u>36,723</u>	<u>17,810</u>
Liabilities				
Due to other banks	18	7,587	6,629	3,254
Customer deposits	19	19,988	12,767	6,024
Liabilities of disposal group held for sale	33	—	199	—
Other borrowed funds	20	4,468	2,937	1,729
Debt securities issued	21	11,565	7,241	3,948
Deferred tax liability	30	125	162	1
Other liabilities	23	509	358	145
Total liabilities before subordinated debt		<u>44,242</u>	<u>30,293</u>	<u>15,101</u>
Subordinated debt	22	1,169	1,161	—
Total liabilities		<u>45,411</u>	<u>31,454</u>	<u>15,101</u>
Equity				
Share capital	24	2,500	2,500	2,153
Share premium	24	1,513	1,513	34
Unrealised gain on financial assets available-for-sale	8,11	154	89	58
Currency translation difference		352	86	184
Fixed assets revaluation reserve	15	341	72	—
Retained earnings		1,744	660	199
Equity attributable to shareholders of the parent		<u>6,604</u>	<u>4,920</u>	<u>2,628</u>
Minority interest		388	349	81
Total equity		<u>6,992</u>	<u>5,269</u>	<u>2,709</u>
Total liabilities and equity		<u>52,403</u>	<u>36,723</u>	<u>17,810</u>

Approved for issue by the Management Board and signed on 2 April 2007.

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

N.V. Tsekhomsky
Chief Financial Officer

The notes N° 1-42 form an integral part of these consolidated financial statements.

VTB BANK
CONSOLIDATED STATEMENTS OF INCOME
For the years ended 31 December
(expressed in millions of US dollars, except earnings per share data)

	Note	2006	2005	2004
Interest income	25	3,637	1,830	1,058
Interest expense	25	(1,892)	(920)	(475)
Net interest income		1,745	910	583
Provision for loan impairment	29	(442)	(103)	(196)
Net interest income after provision for loan impairment		1,303	807	387
Gains less losses arising from financial assets at fair value through profit or loss		187	261	(5)
Gains less losses from available-for-sale financial assets	11	348	—	—
Gains less losses arising from dealing in foreign currencies		73	8	31
Foreign exchange translation gains less losses		265	(8)	114
Fee and commission income	26	401	190	118
Fee and commission expense	26	(50)	(22)	(12)
Extinguishment of liability	19, 29	—	14	100
Share in income of associates		15	24	2
Income arising from non-banking activities		111	155	141
Other operating income	27	157	94	53
Net non-interest income		1,507	716	542
Operating income		2,810	1,523	929
Staff costs and administrative expenses	28	(1,370)	(739)	(514)
Expenses arising from non-banking activities		(90)	(111)	(114)
Excess of fair value of acquired net assets over cost	39	—	30	—
Profit from disposal of subsidiaries	39	54	—	—
Profit before taxation		1,404	703	301
Income tax expense	30	(232)	(195)	(93)
Profit after taxation from continued operations		1,172	508	208
Profit from discontinued operations	33	7	3	—
Net profit		1,179	511	208
Net profit attributable to:				
Shareholders of the parent		1,137	499	205
Minority interest		42	12	3
Basic and diluted earnings per share (expressed in USD per share)	31	0.000218	0.000118	0.000049
Basic and diluted earnings per share—continuing operations (expressed in USD per share)		0.000217	0.000117	0.000049
Basic and diluted earnings per share—discontinued operations (expressed in USD per share)		0.000001	0.000001	—

The notes N° 1-42 form an integral part of these consolidated financial statements.

VTB BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended 31 December
(expressed in millions of US dollars)

	Note	2006	2005	2004
Cash flows from operating activities				
Interest received		3,461	1,834	987
Interest paid		(1,889)	(888)	(411)
Income received on operations with financial assets at fair value through profit or loss		100	230	56
Income received on dealing in foreign currency		76	8	31
Fees and commissions received		401	190	118
Fees and commissions paid		(50)	(22)	(12)
Other operating income received		166	193	47
Administrative and other operating expenses paid		(1,313)	(759)	(429)
Income tax paid		(316)	(91)	(98)
Cash flows from operating activities before changes in operating assets and liabilities		636	695	289
Net decrease (increase) in operating assets				
Net (increase) decrease in mandatory cash balances with central banks		(205)	(85)	179
Net decrease (increase) in restricted cash		50	(14)	(35)
Net decrease (increase) in financial assets at fair value through profit or loss and financial		493	(1,396)	(1,134)
Net decrease (increase) in financial assets pledged under repurchase agreement		591	(98)	(38)
Net (increase) decrease in due from banks		(2,556)	(9)	85
Net increase in loans and advances to customers		(8,420)	(5,327)	(4,856)
Net increase in other assets		(485)	(5)	(26)
Net (decrease) increase in operating liabilities				
Net increase in due to banks		859	101	1,201
Net increase in customer deposits		6,117	3,676	1,667
Net (decrease) increase in promissory notes and certificates of deposits issued		(203)	80	302
Net increase (decrease) in other liabilities		72	10	(24)
Net cash used in operating activities		(3,051)	(2,372)	(2,390)
Cash flows from investing activities				
Dividends received		44	—	—
Proceeds from sales or redemption of financial assets available-for-sale	11	1,136	251	4
Purchase of financial assets available-for-sale	11	(2,900)	(73)	(3)
Purchase of subsidiaries, net of cash acquired	39	(15)	(39)	84
Purchase of disposal group held for sale		—	(133)	—
Sale of disposal group held for sale	33	122	—	—
Disposal of subsidiaries, net of cash disposed	39	(9)	—	33
Purchase of associates		(5)	—	—
Purchase of investment securities held-to-maturity		(6)	—	(5)
Proceeds from redemption of investment securities held-to-maturity		2	—	—
Purchase of premises and equipment		(282)	(166)	(97)
Proceeds from sales of premises and equipment		46	68	—
Purchase of intangible assets		(8)	(5)	—
Proceeds from disposal of investment property		92	—	—
Net cash (used in) from investing activities		(1,783)	(97)	16
Cash flows from financing activities				
Dividends paid		(63)	(61)	(57)
Increase in Central Bank of the Russian Federation funding		153	—	701
Decrease in Central Bank of the Russian Federation funding		(482)	—	—
Proceeds from other credit lines		528	295	—
Repayment of other credit lines		(113)	(146)	(2)
Proceeds from issue of domestic bonds		953	521	185
Repayment of domestic bonds		(72)	—	(32)
Proceeds from issuance of eurobonds		3,541	2,200	1,656
Repayment of eurobonds		(370)	(525)	—
Proceeds from issuance of debentures		241	157	—
Repayment of debentures		(157)	—	—
Proceeds from syndicated loans		2,698	993	883
Repayment of syndicated loans		(1,259)	(730)	(560)
Proceeds from subordinated debt	22	—	745	—
Contribution from the controlling shareholder	39	—	63	—
Cash arising from contribution of subsidiaries	39	—	181	—
Net cash provided by financing activities		5,598	3,693	2,774
Effect of exchange rate changes on cash and cash equivalents		174	(66)	54
Net increase in cash and cash equivalents		938	1,158	454
Cash and cash equivalents at beginning of the year	6	2,541	1,383	929
Cash and cash equivalents at the end of the year	6	3,479	2,541	1,383

The notes N° 1-42 form an integral part of these consolidated financial statements.

VTB BANK
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended 31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

	Attributable to shareholders of the parent								
	Share capital	Share premium	Unrealised gain on financial assets available-for-sale	Fixed assets revaluation reserve	Currency translation difference	Retained earnings	Total	Minority interest	Total equity
Balance at 31 December 2003	2,153	34	—	—	135	51	2,373	105	2,478
Unrealised gain on financial assets available-for-sale, net of tax (Note 8,11)	—	—	58	—	—	—	58	—	58
Effect of translation	—	—	—	—	49	—	49	9	58
Total income recognised directly in equity	—	—	58	—	49	—	107	9	116
Net profit	—	—	—	—	—	205	205	3	208
Total income for the period	—	—	58	—	49	205	312	12	324
Dividends declared (Note 32)	—	—	—	—	—	(57)	(57)	—	(57)
Disposal of subsidiary	—	—	—	—	—	—	—	(36)	(36)
Balance at 31 December 2004	2,153	34	58	—	184	199	2,628	81	2,709
Unrealised gain on financial assets available-for-sale, net of tax (Note 8,11)	—	—	31	—	—	—	31	—	31
Fixed assets revaluation, net of tax (Note 15)	—	—	—	72	—	—	72	—	72
Effect of translation	—	—	—	—	(98)	—	(98)	(5)	(103)
Total income and expense recognised directly in equity	—	—	31	72	(98)	—	5	(5)	—
Net profit	—	—	—	—	—	499	499	12	511
Total income and expense for the period	—	—	31	72	(98)	499	504	7	511
Contribution of subsidiaries by controlling shareholder (Notes 24, 39)	347	1,479	—	—	—	23	1,849	85	1,934
Dividends declared (Note 32)	—	—	—	—	—	(61)	(61)	—	(61)
Acquisition of subsidiaries	—	—	—	—	—	—	—	156	156
Increase in share capital of subsidiaries	—	—	—	—	—	—	—	20	20
Balance at 31 December 2005	2,500	1,513	89	72	86	660	4,920	349	5,269
Unrealised gain on financial assets available-for-sale, net of tax (Note 8,11)	—	—	403	—	—	—	403	2	405
Transferred to profit or loss on sale, net of tax (Note 11)	—	—	(338)	—	—	—	(338)	—	(338)
Fixed assets revaluation, net of tax (Note 15)	—	—	—	271	—	—	271	11	282
Transfer of fixed assets revaluation reserve upon disposal or depreciation	—	—	—	(2)	—	2	—	—	—
Effect of translation	—	—	—	—	266	—	266	33	299
Total income recognised directly in equity	—	—	65	269	266	2	602	46	648
Net profit	—	—	—	—	—	1,137	1,137	42	1,179
Total income for the period	—	—	65	269	266	1,139	1,739	88	1,827
Dividends declared (Note 32)	—	—	—	—	—	(63)	(63)	(1)	(64)
Acquisition of subsidiaries	—	—	—	—	—	—	—	1	1
Increase in share capital of subsidiaries	—	—	—	—	—	(4)	(4)	9	5
Acquisition of minority interests	—	—	—	—	—	3	3	(7)	(4)
Changes in minority interests	—	—	—	—	—	9	9	(9)	—
Disposal of subsidiaries (Note 39)	—	—	—	—	—	—	—	(42)	(42)
Balance at 31 December 2006	2,500	1,513	154	341	352	1,744	6,604	388	6,992

The notes N° 1-42 form an integral part of these consolidated financial statements.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

1. Principal Activities

VTB Bank and its subsidiaries (the “Group”) comprise Russian and foreign commercial banks, and other companies and entities controlled by the Group.

VTB Bank, also known as Vneshtorgbank (the “Bank”, “Vneshtorgbank”, or “VTB”), was formed as Russia’s foreign trade bank under the laws of the Russian Federation on 17 October 1990. In 1998, following several reorganisations, VTB was reorganised into an open joint stock company. In October 2006 the Group started re-branding to change its name from Vneshtorgbank to VTB. Simultaneously, the names of some of VTB’s subsidiaries were changed as presented in Note 40. In March 2007, the Bank for Foreign Trade was renamed into “VTB Bank” (Open Joint-Stock Company).

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

On December 29, 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation “Agency for Deposits Insurance”. The main retail subsidiary “Bank VTB 24”, CJSC is also a member of the obligatory deposit insurance system provided by the State Corporation “Agency for Deposits Insurance” since February 22, 2005. OJSC “Industry & Construction Bank”, a subsidiary acquired at the end of 2005, is also a member of the obligatory deposit insurance system since 11 January 2005. The State deposit insurance scheme implied that the State Corporation “Agency for Deposits Insurance” will guarantee repayment of individual deposits up to 100 thousand Russian Roubles (“RUR”) (approximately US Dollars 4 thousand) per individual in case of the withdrawal of a license of a bank or a CBR imposed moratorium on payments. From 9 August 2006 the amount of guaranteed payment increased up to RUR 190 thousand (approximately US Dollars 7 thousand).

On 5 October 2005, VTB re-registered its legal address to 29 Bolshaya Morskaya Street, Saint-Petersburg 190000, Russian Federation. VTB’s Head Office is located in Moscow.

A full list of subsidiaries and associates included in these consolidated financial statements is provided in Note 40.

The Group operates predominantly in the commercial banking sector. This includes deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients’ export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group’s operations are conducted in both Russian and international markets. The Group’s operations are not subject to seasonal fluctuations. The Group conducts its banking business in Russia through 4 subsidiary banks with its network of 151 branches, including 58 branches of VTB, 39 branches of CJSC “Bank VTB 24” and 54 branches of OJSC “Industry & Construction Bank”, located in major Russian regions. The Group operates outside Russia through 11 bank subsidiaries, located in the Commonwealth of Independent States (“CIS”) (Armenia, Georgia, Ukraine (2 banks)), Europe (Austria, Cyprus, Switzerland, Germany, France and Great Britain), Africa (Angola) and through 4 representative offices located in India, Italy, China and Belarus.

VTB’s majority shareholder is the Russian Federation state, acting through the Federal Property Agency, which holds 99.9% of VTB’s issued and outstanding shares.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

1. Principal Activities (Continued)

The number of employees of the Group at 31 December 2006 was 28,466 (31 December 2005: 23,145; 31 December 2004: 13,132).

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

2. Operating Environment of the Group

The Group operates primarily within the Russian Federation. Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

3. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These consolidated financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of premises and equipment, available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian rouble (RUR). However, the Bank’s assets and liabilities are mostly concentrated in United States dollars (“US dollars” or “USD”) and RUR. The US dollar is used to a significant extent in, and has a significant impact on the operations of the Bank, and the Bank’s cash flows are primarily denominated in US dollars. Also, the US dollar is the currency in which Management of the Bank manages the business risks and exposures, and measures the performance of the Bank’s business. Based upon these and other factors, the functional currency of the Bank is considered to be the US dollar.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendment to IAS 39 “Financial Instruments: Recognition and Measurement”: Financial Guarantees, effective for annual periods beginning on or after 1 January 2006.

The amendment addresses the following several issues:

IAS 39—Amendment for financial guarantee contracts accounting—amended the scope of IAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under revised IAS 39 financial guarantee contracts are recognised initially at fair value and remeasured at the higher of the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 “Revenue”.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

3. Basis of Preparation (Continued)

IAS 39—Amendment for the fair value option—which restricted the use of the option to designate any financial asset or any financial liability as at fair value through profit or loss.

According to the revised IAS 39, an entity may designate financial assets and liabilities as at fair value through profit or loss only upon initial recognition when doing so results in more relevant information, because either:

- a. it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- b. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity’s key management personnel (as defined in IAS 24 Related Party Disclosures (revised 2003)), for example the entity’s Board of Directors and Chief executive officer.

Also, according to the revised IAS 39, if a contract contains one or more embedded derivatives an entity may designate the entire hybrid (combined) contract as a financial asset or liability at fair value through profit or loss unless:

- a) The embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
- b) It is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

For presentation and disclosure purposes, the Group has changed the name of the balance sheet line from “Securities pledged under repurchase agreements” to “Financial assets pledged under repurchase agreements and loaned financial assets”. This balance sheet line includes financial assets at fair value through profit or loss and available-for-sale securities that are pledged as collateral under sale and repurchase agreements or are loaned by the Group to third parties.

The effect of the application of the new and revised standards on the balance sheet as at 31 December 2005 is as follows:

	<u>As previously reported</u>	<u>Effect of adoption of IAS 39 revised</u>	<u>As adjusted</u>
Financial assets available-for-sale	665	216	881
Financial assets at fair value through profit or loss	5,267	(216)	5,051

These reclasses had no impact on net income or shareholders’ equity as of 31 December 2005.

There is no effect of application of the new and revised standards on the balance sheet, net income or shareholders’ equity for the year ended 31 December 2004.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

3. Basis of Preparation (Continued)

Reclassifications

The following reclassifications within the statement of income for the year ended 31 December 2005 to conform to the 2006 presentation:

	<u>As previously reported</u>	<u>Reclassification</u>	<u>As adjusted</u>
Interest income	1,759	71	1,830
Gains less losses arising from financial assets at fair value through profit or loss	332	(71)	261

The Group made certain reclassifications within the statement of income for the year ended 31 December 2004 to conform to the 2006 presentation:

	<u>As previously reported</u>	<u>Reclassification</u>	<u>As adjusted</u>
Interest income	1,049	9	1,058
Gains less losses arising from financial assets at fair value through profit or loss	4	(9)	(5)

The Group also made certain reclassifications within the statement of cash flows for the year ended 31 December 2005 to conform to the 2006 presentation:

	<u>As previously reported</u>	<u>Reclassification</u>	<u>As adjusted</u>
Interest received	1,763	71	1,834
Income received on operations with financial assets at fair value through profit or loss	301	(71)	230

The Group made certain reclassifications within the statement of cash flows for the year ended 31 December 2004 to conform to the 2006 presentation:

	<u>As previously reported</u>	<u>Reclassification</u>	<u>As adjusted</u>
Interest received	978	9	987
Income received on operations with financial assets at fair value through profit or loss	65	(9)	56

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

Amendment to IAS 1 “Presentation of financial Statements”—“Capital Disclosures” (effective for annual periods beginning on or after 1 January 2007);

IFRS 7 “Financial Instruments: Disclosures” (effective for annual periods beginning on or after 1 January 2007)

Amendment to IAS 1 “Presentation of financial Statements”—“Capital Disclosures”;

VTB BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

3. Basis of Preparation (Continued)

IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies” (effective for annual periods beginning on or after 1 March 2006);

IFRS 8 “Operating segments” (effective for periods beginning on or after 1 January 2009);

IFRIC 8 “Scope of IFRS 2” (effective for annual periods beginning on or after 1 May 2006);

IFRIC 9 “Reassessment of Embedded Derivatives” (effective for annual periods beginning on or after 1 June 2006);

IFRIC 10 “Interim Financial Reporting and Impairment” (effective for annual periods beginning on or after 1 November 2006);

IFRIC 11 “IFRS 2—Group and Treasury Share Transactions” (effective for annual periods beginning on or after 1 March 2007);

IFRIC 12 “Service Concession Arrangements” (effective for annual periods beginning on or after 1 January 2008).

The Group would implement IFRS 7 “Financial Instruments: Disclosures”, Amendment to IAS 1 “Presentation of financial Statements”—“Capital Disclosures”; IFRIC 8 “Scope of IFRS 2”, IFRIC 9 “Reassessment of Embedded Derivatives”, IFRIC 10 “Interim Financial Reporting and Impairment” at 1 January 2007. The Group would implement IFRIC 11 “IFRS 2—Group and Treasury Share Transactions” and IFRIC 12 “Service Concession Arrangements” at 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group’s consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7 to enable users of the consolidated financial statements to evaluate the significance of the Group’s financial instruments, the nature and extent of risks arising from those financial instruments, and the Group’s objectives, policies and processes for managing capital.

4. Summary of Principal Accounting Policies

Subsidiaries

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

Acquisition of subsidiaries

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

The excess of purchase consideration over the fair value of the Group’s share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

Group's share of identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented as a separate component within the Group's equity.

Acquisition of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the purchase accounting method.

Increases in ownership interests in subsidiaries

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

Investments in associates

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

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

Financial assets

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

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as and are effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of income.

Financial assets held for trading, 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. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established. All elements of the changes in the fair value are recorded in the statement of income as gains less losses from financial assets at fair value through profit or loss in the period in which they arise.

Other financial assets at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities. New restrictions on the use of the option to designate any financial asset or liability as at fair value through profit or loss have been introduced. Refer to the Note 3 "Changes in accounting policies".

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the statement of income when the investments are redeemed or impaired, as well as through the amortisation process.

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being

VTB BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired. However, interest calculated using the effective interest method is recognised in the statement of income.

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

Derecognition of financial assets

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

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

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

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

The Group uses weighted average method of accounting for the derecognition of financial assets available-for-sale.

Financial liabilities

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

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

Financial liabilities of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition not taking into consideration any measurement requirements in the scope of IAS 39.

Financial liabilities at fair value through profit or loss are classified as financial liabilities at fair value through profit and loss if they are acquired for the purpose of selling or closing them in the near term. They normally contain trade financial liabilities or “short” positions in securities. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit and loss. Gains or losses on financial liabilities at fair value through profit and loss are recognised in the statement of income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Offsetting

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

Cash and cash equivalents

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

Mandatory cash balances with Central banks

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

Due from other banks

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

Repurchase and reverse repurchase agreements and lending of securities

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

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell (“reverse repo agreements”) are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value through profit or loss in other borrowed funds.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

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

Promissory notes purchased

Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Leases

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

Operating—Group as lessee. Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

operating leases are recognised as expenses on a straight-line basis over the lease-term and included into operating expenses.

Allowances for impairment of financial assets

Impairment of financial assets carried at amortised cost

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

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

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

Impairment of Available-for-sale financial assets

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

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

Investment property

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

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

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

Premises and equipment

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

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

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

Any revaluation surplus is credited to the asset revaluation reserve for premises and equipment included in the equity section of the balance sheet, except to the extent that it reverses an impairment of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for premises and equipment.

The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises have been revalued to market value at 31 December 2006 and 2005. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

professional qualification and who have recent experience in valuation of assets of similar location and category.

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

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

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

Depreciation

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

	<u>Useful life</u>	<u>Depreciation rates</u>
Premises	40 years	2.5% per annum
Equipment	4 - 20 years	5 - 25% per annum

Estimated useful lives and residual values are reassessed annually.

Goodwill

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an

VTB BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Other intangible assets

Other intangible assets include computer software, licences and other identifiable intangible assets acquired in business combinations.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Core deposit intangible

Core deposit intangible relates to the acquisition in OJSC “Industry & Construction Bank” of customer current deposits and identified as an intangible asset. The identification was based on examination of the banks’ customer base. It was concluded that the bank had a well-established and long-dated relationship with its major customers and that demand deposits actual maturity was significantly longer than contract maturity. The useful life of the core deposit intangible was estimated as five years and it is amortised over its useful life using the straight-line method.

Assets (disposal group) classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as ‘Assets of disposal group held for sale’ if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Both financial and non-financial assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

A disposal group represents the assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the balance sheet date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale premises and equipment, investment properties, intangible assets, or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises, equipment, and intangible assets are not depreciated or amortised. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with a disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the balance sheet.

Due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The liability is carried at amortised cost using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt in the consolidated statement of income.

Customer deposits

Customer deposits are liabilities to individuals, state or corporate customers and are carried at amortised cost using the effective interest method. Customer deposits include both demand and term deposits. Interest expense is recognised in the consolidated statement of income over the period of deposits using effective interest method.

Debt securities issued

Debt securities issued include promissory notes, certificates of deposit, eurobonds and debentures issued by the Group. Debt securities are stated at amortised cost using the effective interest method. If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability the consideration paid is included in gains arising from extinguishment of liability in the consolidated statement of income.

Other borrowed funds

Other borrowed funds include some specific borrowings, which differ from the above items of liabilities and include deposits from central banks, syndicated loans, revolving and other credit lines. Other borrowed funds are carried at amortised cost using the effective interest method. Interest expense is recognised in the consolidated statement of income over the period of other borrowed funds using effective interest method.

Taxation

Taxation has been provided for in the consolidated financial statements in accordance with taxation legislation currently in force in the respective territories that the Group operates. The income tax charge in the consolidated statement of income comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

at the balance sheet date. The income tax charge/credit comprises current tax and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group, when an entity has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Russia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Provisions for liabilities and charges

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

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees. Financial guarantee contracts are recognised initially at fair value and remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue". Commitments to provide loans at a below-market interest rate are initially recognised at fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

sheet date. Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

Share premium

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

Dividends

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

Income and expense recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related incremental direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Fee and commission income is mostly paid by debiting customers deposits upon provision of services. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Salary costs

The Group's contributions to the State and Group pension schemes, social insurance, and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within operating expenses.

Foreign currency translation

Monetary assets and liabilities originally denominated in USD are stated at their original USD amounts. Monetary assets and liabilities in other currencies have been translated into USD using the exchange rate at the balance sheet date. Non-monetary assets and liabilities, which are denominated in currencies other than USD, have been translated into USD at the exchange rates in effect at the date of the transaction. Income and expenses, which were earned and incurred in currencies other than USD, have been translated into USD using a basis that approximates the rate of exchange at the date of the transaction.

Gains and losses arising from the translation of monetary assets and liabilities into USD are reflected in the consolidated statement of income as foreign exchange translation gains less losses.

The consolidated financial statements are presented in USD, which is the Bank's functional and the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

4. Summary of Principal Accounting Policies (Continued)

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

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

At 31 December 2006, the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 to RUR 26.3311 (at 31 December 2005: USD 1 to RUR 28.7825; at 31 December 2004: USD 1 to RUR 27.7487) and the principal rate of exchange used for translating balances in Euro was USD 1 to EURO 0.7589 (at 31 December 2005: USD 1 to EURO 0.8420; at 31 December 2004: USD 1 to EURO 0.7339).

Fiduciary assets

Assets held by the Group in its own name, but for the account of third parties, are not reported in the consolidated balance sheet. Commissions received from such operations are shown within fee and commission income within the consolidated statement of income.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, net profit or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately based on the location of operations.

5. Significant Accounting Estimates and Judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

5. Significant Accounting Estimates and Judgements (Continued)

experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was USD 294 million (31 December 2005: USD 270 million; 31 December 2004: USD 88 million). More details are provided in Note 17.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2006, 2005 and 2004 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Fair value estimation of unquoted shares

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

6. Cash and Short-Term Funds

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Cash on hand	930	568	271
Cash balances with central banks (other than mandatory reserve deposits)	1,267	995	485
Correspondent accounts with other banks			
—Russian Federation	551	576	358
—Other countries	833	553	406
Total cash and short-term funds	<u>3,581</u>	<u>2,692</u>	<u>1,520</u>
Less: restricted cash	(102)	(151)	(137)
Total cash and cash equivalents	<u>3,479</u>	<u>2,541</u>	<u>1,383</u>

Restricted cash balances represent the balances on escrow accounts in amount of USD 6 million (31 December 2005: USD 52 million; 31 December 2004: USD 56 million) comprising USD 2 million in freely convertible currencies and USD 4 million in non-freely convertible currencies (31 December 2005: USD 48 million and USD 4 million, accordingly;

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

6. Cash and Short-Term Funds (Continued)

31 December 2004: USD 51 million and USD 5 million, accordingly), and other balances in non-freely convertible currencies in amount of USD 96 million (31 December 2005: USD 99 million; 31 December 2004: USD 81 million). Restricted cash balances were collateralised by USD 92 million (31 December 2005: USD 143 million; 31 December 2004: USD 132 million). For the purposes of the consolidated statement of cash flows, restricted cash is not included in cash and cash equivalents.

7. Financial Assets at Fair Value Through Profit or Loss

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Financial assets held for trading	4,786	3,558	2,017
Financial assets designated as at fair value through profit or loss	<u>334</u>	<u>1,493</u>	<u>549</u>
Total	<u>5,120</u>	<u>5,051</u>	<u>2,566</u>

Management of the Group decided to designate as “financial assets at fair value through profit or loss” on 1 January 2005 all debt and equity securities, except for investments in equity instruments that do not have a quoted market price in an active market, loans and receivables and held-to-maturity instruments. Such designation is performed at initial recognition of the respective assets. The same approach was applied to securities purchased during 2005, except for the securities held by subsidiaries acquired by the Bank in 2005. The financial assets designated as at fair value through profit or loss are managed on a fair value basis, in accordance with the risk management or investment strategies adopted by each group member and the information provided to key management personnel. EADS shares purchased in 2006 were included in financial assets available-for-sale based on the initial intention of the Group.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

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

Financial assets held for trading

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
<i>Debt securities denominated in USD</i>			
Russian corporate Eurobonds	583	290	258
Bonds issued by foreign companies and banks	369	234	79
Russian MinFin bonds (OVGVZ)	74	34	43
Eurobonds of the Russian Federation	37	59	12
Bonds issued by foreign governments	12	65	—
Promissory notes and debentures	8	—	452
<i>Debt securities denominated in RUR</i>			
Promissory notes and debentures	2,171	1,460	781
Russian Federal loan bonds (OFZ)	902	606	114
Bonds of the Central Bank of the Russian Federation	—	7	85
<i>Debt securities denominated in other currencies</i>			
Foreign corporate bonds	157	103	14
Bonds issued by foreign governments	75	—	3
Russian corporate Eurobonds	15	13	4
<i>Equity securities</i>	308	664	153
<i>Balances arising from derivative financial instruments</i>			
(Note 34)	75	23	19
Total	<u>4,786</u>	<u>3,558</u>	<u>2,017</u>

Russian corporate Eurobonds are mainly US dollar denominated interest-bearing securities issued by major Russian corporations and banks, which are freely tradable internationally. The Eurobonds have maturities ranging from January 2007 to May 2034 (31 December 2005: from September 2006 to January 2012; 31 December 2004: from May 2005 to April 2014) and coupon ranging from 7% to 12% (31 December 2005: from 7% to 14%; 31 December 2004: from 8% to 13%).

Bonds issued by foreign companies and banks include notes issued by foreign banks linked to bonds issued by a major Russian gas company, to Russian MinFin bonds and to VTB Eurobonds. The notes, which are linked to VTB Eurobonds are not removed from the consolidated balance sheet as there is no legal right to offset these instruments. These securities have maturities ranging from March 2007 to January 2049 (31 December 2005: from March 2007 to October 2015) and have coupon rates ranging from 7% to 14% (31 December 2005: from 6% to 17%; 31 December 2004: from 10% to 17%).

Promissory notes and debentures represent securities denominated in RUR and are issued primarily by Russian banks, large manufacturing, telecom and oil and gas companies, and local authorities. The bills of exchange and debentures have maturities ranging from January 2007 to December 2046 (31 December 2005: from January 2006 to August 2014; 31 December 2004: from February 2005 to August 2014) and coupon ranging from 4% to 16% (31 December 2005 and 2004: from 4% to 17%).

Federal loan bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These OFZ bonds are issued at a discount to their nominal value, have maturity dates ranging from June 2007 to February 2036 (31 December 2005: February 2006 to August 2018; 31 December 2004: March 2005 to August 2018), coupon rates

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

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

ranging from 6% to 10% (31 December 2005: from 6% to 10%; 31 December 2004: from 6% to 10%).

Foreign corporate bonds represent securities issued in EURO and GBP (31 December 2005: in EURO) and have maturities from October 2007 to June 2035 (31 December 2005: from July 2006 to December 2030) and interest rates ranging from 1% to 12% (31 December 2005: from 2% to 4%).

Equity securities are mainly issued by major Russian and European companies and banks.

Financial assets designated as at fair value through profit or loss

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Bonds issued by foreign companies and banks	123	99	98
Eurobonds of the Russian Federation	107	360	242
Bonds of Russian companies and banks	74	548	129
Municipal bonds	16	15	38
Bonds issued by foreign governments	8	252	19
Russian MinFin bonds (OVGVZ)	—	85	9
Promissory notes of Russian companies and banks	—	16	—
Promissory notes of foreign companies and banks	—	100	12
Other	6	18	2
Total	<u>334</u>	<u>1,493</u>	<u>549</u>

Bonds of foreign companies and banks included in financial assets designated as at fair value through profit or loss represent bonds of local issuers involved predominantly in banking and other industries and have maturities from March 2007 to March 2021 (31 December 2005: from January 2006 to March 2025; 31 December 2004: from December 2008 to October 2014) and have coupon rates from 1% to 17% (31 December 2005: from 1% to 18%; 31 December 2004: from 6 months EURIBOR+0.53% to 10%).

Eurobonds of the Russian Federation included in financial assets designated as at fair value through profit 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 as of 31 December 2006 consists of 5 tranches of securities with maturities ranging from June 2007 to March 2030 (31 December 2005: 5 tranches with maturity dates from June 2007 to March 2030; 31 December 2004: 4 tranches with maturity dates from June 2007 to March 2030). The annual coupon rates on these bonds vary from 5% to 13% p.a. (31 December 2005 and 2004: from 5% to 13% p.a.).

Bonds of Russian companies and banks included in financial assets designated as at fair value through profit or loss are mainly Eurobonds of large Russian companies and banks, which are freely tradable internationally. These bonds have maturity dates ranging from February 2007 to November 2014 (31 December 2005: March 2006 to December 2015; 31 December 2004: from June 2006 to November 2014) and have both floating and fixed rates.

At 31 December 2005, bonds issued by foreign governments in financial assets designated as at fair value through profit or loss represent mostly USD and Euro denominated securities with maturity dates ranging from January 2006 till December 2038 and coupon interest rates ranging from 2% to 9%.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

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

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
<i>Financial assets at fair value through profit or loss</i>			
Promissory notes	139	—	—
Bonds issued by foreign companies and banks	52	195	—
Russian Federal loan bonds (OFZ)	43	38	—
Russian corporate Eurobonds	43	67	—
Equity securities	27	118	1
Bonds issued by foreign governments	26	—	17
Russian Municipal bonds	7	170	116
Russian corporate bonds	3	—	60
Eurobonds of Russian Federation and MinFin Bonds	—	303	146
Total Financial assets at fair value through profit or loss	<u>340</u>	<u>891</u>	<u>340</u>
<i>Financial assets available-for-sale</i>			
EADS shares	1,402	—	—
Bonds issued by foreign governments	645	281	—
Bonds issued by foreign companies and banks	551	180	—
Total Financial assets available-for-sale	<u>2,598</u>	<u>461</u>	<u>—</u>
Total	<u>2,938</u>	<u>1,352</u>	<u>340</u>

In the third quarter of 2006 VTB purchased 41 million shares of European Aeronautic Defense and Space Company (EADS) (approximately 5% of the share capital). The Group had unrealised gains on EADS shares of 111 USD million, net of tax, accounted within equity under caption “Unrealised gain on available-for-sale financial assets” at 31 December 2006.

Bonds issued by foreign governments represent bonds issued by European and CIS governments (31 December 2005 and 2004: European governments) with maturity from March 2007 to June 2036 (31 December 2005: March 2007; 31 December 2004: March 2012) and coupon rate from 5% to 7% (31 December 2005: 5%; 31 December 2004: from 4% to 6%).

Bonds issued by foreign companies and banks represent securities denominated in EURO, USD, GBP and have maturities ranging from June 2007 to December 2030 (31 December 2005: from January 2006 to November 2010) and coupon interest rates ranging from 4% to 6% (31 December 2005: from 2% to 5%).

Promissory notes represent RUR denominated notes with maturity in February 2007 and coupon of 15%.

At 31 December 2005 equity securities represent shares of a large Russian bank.

Russian municipal bonds represent debt securities denominated in RUR and issued by regional authorities of the Russian Federation. At 31 December 2005 they have maturities ranging from June 2008 to August 2014 (31 December 2004: from March 2005 to October 2010) and coupon rates ranging from 9% to 14% (31 December 2004: from 10% to 14%).

Russian Eurobonds and MinFin Bonds are described in Note 7.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

9. Due from Other Banks

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Current term placements with other banks	6,013	3,558	1,860
Reverse sale and repurchase agreements with other banks . .	808	590	174
Overdue placements with other banks	—	—	100
	<u>6,821</u>	<u>4,148</u>	<u>2,134</u>
Less: Allowance for loan impairment	(8)	(7)	(111)
Total due from other banks	<u>6,813</u>	<u>4,141</u>	<u>2,023</u>

At 31 December 2004 included in due from other banks were rouble-denominated loans to a Russian bank totaling USD 100 million. At 31 December 2004, the allowance for impairment on these loans comprised USD 100 million. These loans were written-off against the allowance in 2005. Movements in the allowance for loan impairment are presented in Note 29.

At 31 December 2006 the Bank received a collateral under reverse sale and repurchase agreements with other banks with a fair value of USD 930 million (31 December 2005: USD 779 million; 31 December 2004: USD 198 million).

10. Loans and Advances to Customers

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Current loans and advances	28,548	19,078	10,281
Reverse sale and repurchase agreements with customers . .	1,152	1,168	76
Rescheduled loans and advances	131	60	84
Overdue loans and advances	404	227	281
	<u>30,235</u>	<u>20,533</u>	<u>10,722</u>
Less: Allowance for loan impairment (Note 29)	(973)	(608)	(553)
Total loans and advances to customers	<u>29,262</u>	<u>19,925</u>	<u>10,169</u>

At 31 December 2006, included in current loans are lease receivables of USD 469 million (31 December 2005: USD 141 million, 31 December 2004: USD 18 million), equal to the net investment in the lease.

The finance lease receivables were as follows:

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Gross investment in leases	661	165	23
Less: Unearned finance lease income	(192)	(24)	(5)
Net investment in leases before allowance	<u>469</u>	<u>141</u>	<u>18</u>
Less: allowance for uncollectible finance lease receivables . .	(2)	(1)	—
Net investment in leases	<u><u>467</u></u>	<u><u>140</u></u>	<u><u>18</u></u>

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

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

10. Loans and Advances to Customers (Continued)

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

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Within 1 year	165	56	1
From 1 to 5 years	385	109	22
More than 5 years	<u>111</u>	<u>—</u>	<u>—</u>
Minimum lease payments receivable	<u>661</u>	<u>165</u>	<u>23</u>

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

	<u>31 December 2006</u>		<u>31 December 2005</u>		<u>31 December 2004</u>	
	Amount	%	Amount	%	Amount	%
Finance	5,049	17	4,184	20	1,709	16
Trade and commerce	4,790	16	3,000	15	1,576	15
Manufacturing	4,067	13	2,402	12	2,229	21
Individuals	2,533	8	851	4	130	1
Building construction	2,364	8	1,605	8	365	3
Government bodies	1,668	6	959	5	511	5
Metals	1,556	5	1,673	8	1,077	10
Oil and Gas	1,507	5	888	4	553	5
Transport	1,288	4	511	3	350	3
Food and agriculture	1,104	4	603	3	438	4
Energy	937	3	706	3	670	6
Chemical	789	3	652	3	235	2
Coal mining	705	2	793	4	170	2
Telecommunications and media	406	1	360	2	351	3
Aircraft	243	1	271	1	4	—
Other	<u>1,229</u>	<u>4</u>	<u>1,075</u>	<u>5</u>	<u>354</u>	<u>4</u>
Total gross loans and advances to customers	<u>30,235</u>	<u>100</u>	<u>20,533</u>	<u>100</u>	<u>10,722</u>	<u>100</u>

At 31 December 2006, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprise USD 5,342 million, or 18% of the gross loan portfolio (31 December 2005: USD 4,049 million, or 20%, 31 December 2004: USD 3,712 million, or 35%).

At 31 December 2006, outstanding loans issued under reverse repos do not contain any significant concentrations (31 December 2005: balances with 4 customers comprised USD 595 million, or 3% of gross loan portfolio, 31 December 2004: no significant deals).

At 31 December 2005 and at 31 December 2004 included in loans and advances was a loan to a large corporate customer totaling USD 1,000 million with final maturity in 2009 and interest rate of 9.6% per annum. The Group obtained cash collateral of USD 550 million in respect of this loan, therefore its net exposure was USD 450 million, which was also collateralised by shares of a large Russian metal company. The fair value of these shares exceeded the carrying amount of the loan. The Group transferred this USD 450 million participation in the loan to a third party, which is not a related party to the Group. Additionally the Group wrote a put option on the transferred asset executable in 3 years. As a result of this transaction, the Group retained credit risk but transferred certain other risks on the USD 450 million participation and retained control over this asset. Accordingly, as of 31 December 2005 the Group continued to recognise the above

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

10. Loans and Advances to Customers (Continued)

participation in the amount of USD 450 million and recognised the associated liability in the amount of USD 464 million within customer deposits and an additional receivable of put option premium of USD 14 million in other assets. In 2006 the amount of cash collateral received by the Group in respect of this loan decreased to USD 250 million increasing net exposure on the loan to USD 750 million. In December 2006, the loan was partially redeemed by the borrower, therefore the total outstanding amount of the loan decreased to USD 300 million as of 31 December 2006. Accordingly, the put option in the amount of USD 450 million written by the Group was early released.

At 31 December 2006 the Bank received a collateral under reverse sale and repurchase agreements with customers with a fair value of USD 1,216 million (31 December 2005: USD 1,403 million; 31 December 2004: USD 86 million).

At 31 December 2006 accrued interest income on impaired loans was USD 105 million (31 December 2005: USD 62 million; 31 December 2004: USD 41 million).

11. Financial Assets Available-for-Sale

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
OJSC "Alrosa" shares	333	—	—
Bonds issued by foreign companies and banks	162	192	—
Other equity investments with share smaller than 20%	149	81	14
Russian corporate Eurobonds	85	115	—
Eurobonds of the Russian Federation	55	104	—
Russian MinFin bonds (OVGVZ)	30	36	—
Promissory notes	26	39	—
JSC "International Moscow Bank" shares	20	146	—
Bonds issued by foreign governments	15	26	—
Municipal bonds	13	7	—
OJSC "KamAZ" shares	—	132	92
Russian corporate bonds	—	3	—
OJSC "AvtoVAZ" shares	—	—	84
Total	<u>888</u>	<u>881</u>	<u>190</u>

JSC "Alrosa" shares (10.63% of share capital) were acquired in the second quarter 2006. These shares are unquoted. The fair value of these investments at 31 December 2006 was determined by using discounted cash flow analysis adjusted for the impact of change in net assets of this company from the date of acquisition through year end. As a result of this, the Group had unrealised gains on JSC "Alrosa" shares of USD 20 million, net of tax, including unrealised foreign exchange gain, accounted within equity.

The estimated fair value of JSC "Alrosa" shares at 31 December 2006 was calculated by using average of the market approach, discounted cash flow method and cost and revenue method. For cost and revenue method a discount of 30% for minority stake and a 20% discount for liquidity was used.

Bonds issued by foreign companies and banks include securities with maturities ranging from March 2007 to November 2046 (31 December 2005: from December 2006 to August 2045) and coupon rates from 2% to 9% (31 December 2005: from 3% to 10%).

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

11. Financial Assets Available-for-Sale (Continued)

Other equity investments at 31 December 2006 include investment in shares of a European bank. The fair value of this investment was estimated using discounted cash flow model, resulting in recognition of an unrealised gain of USD 54 million, accounted within equity.

Russian corporate Eurobonds and Eurobonds of the Russian Federation are described in Note 7.

As a result of the acquisition of BCEN-Eurobank in 2005, the Group acquired 19.8% of the total shares of JSC “International Moscow Bank” (“IMB”) domiciled in Russia. At 30 September 2006, the fair value of these shares increased to USD 332 million (31 December 2005: USD 146 million). The increase in fair value of securities was accounted for within the equity with no tax effect due to the tax status of BCEN-Eurobank. In the fourth quarter 2006 the fair value of these shares further increased to USD 395 million. The Group sold the shares of IMB to the third party for USD 395 million and transferred the realised gain of USD 249 million from equity to the statement of income within gains less losses from available-for-sale financial assets. At 31 December 2006, investment into USD 20 million shares of IMB represents the investment into the additional issue of shares occurred in December 2006 that are subject to sale under the binding agreement.

The estimated fair value of investment into International Moscow Bank (IMB) at 31 December 2005 was calculated by using the market approach, namely the comparable companies method and the comparable transactions method. Calculations within the comparable transactions method were adjusted for a minority interest discount of 40%, whilst a lack of marketability discount (of 15%) was applied to the market approach valuation results for IMB. The Bank’s management believes that a change in the above assumptions to a reasonably possible alternative would not result in a significantly different fair value.

At 31 December 2005, included in the financial assets available-for-sale were corporate shares of an automobile production company OJSC “KamAZ” with a fair value of USD 132 million which were sold in 2006 for USD 135 million. Realised gain of USD 89 million, net of tax, was transferred from equity to the statement of income within gains less losses from available-for-sale financial assets.

At 31 December 2004, included in the financial assets available-for-sale were corporate shares of automobile production company OJSC “AvtoVAZ”, with a fair value of USD 84 million which was disposed of in 2005 at its fair value.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

12. Investments in Associates

	Country of registration	Industry	31 December 2006		31 December 2005		31 December 2004	
			Amount	Equity controlled	Amount	Equity controlled	Amount	Equity controlled
“Eurofinance Mosnarbank”, OJSC	Russia	Bank	116	34.07%	92	32.65%	—	—
“East-West United Bank”, S.A.	Luxembourg	Bank	40	48.55%	—	50.74%	29	34.00%
“Halladale PLC”	Great Britain	Property	26	23.00%	23	23.00%	—	—
“Insurance Company VTB-Rosno”, Ltd	Russia	Insurance	9	49.99%	—	100.00%	—	69.80%
“Vietnam-Russia Joint Venture Bank”	Vietnam	Bank	5	49.00%	—	—	—	—
“Management Company ICB”, limited	Russia	Finance	4	24.98%	3	30.91%	—	—
“Interbank Trading House”, Ltd	Russia	Commerce	—	50.00%	—	100.00%	—	100.00%
“VTB Bank (Deutschland)” AG	Germany	Bank	—	78.82%	—	83.54%	48	31.90%
Total Investments in Associates			200		118		77	

At 23 June 2004, the Bank sold 5% of East-West United Bank shares. As a result of this transaction, the Bank’s participation in East-West Bank decreased from 53% to 48% effective 23 June 2004. At 14 December 2004, the Bank sold additional 14% of East-West United Bank shares. At 31 December 2004, the Bank’s share in East-West United Bank was 34%. Therefore, as from 23 June 2004 such investment was accounted for using the equity method. The carrying value of the investment at 31 December 2004 amounted to USD 29 million.

As part of contribution made by the controlling shareholder to the share capital of VTB at the end of December 2005 the Group obtained additional 17% of East-West United Bank shares increasing its stake to 51% and additional 52% of VTB Bank (Deutschland) shares increasing its stake to 84% (see Note 39). These banks became subsidiaries of VTB and were consolidated in financial statements as at 31 December 2005. At the end of December 2006, VTB sold 2% stake in East-West United Bank (EWUB) to a third party, decreasing the Group’s share in EWUB to 48.55%. Accordingly, at the date of disposal the Group deconsolidated EWUB and accounted for this investment under the equity method.

In 2006, the Group lost control over Insurance Company VTB-Rosno and started accounting for this investment by using the equity method (see Note 39).

In 2006, the Group lost control over Interbank Trading House and started accounting for that investment by using the equity method (see Note 39).

In November 2006, VTB established a Vietnam-Russia Joint Venture Bank (associate) with 49% shareholding of VTB and contributed USD 5 million into its capital.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

12. Investments in Associates (Continued)

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

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Assets	2,648	1,836	1,479
Liabilities	2,187	1,485	1,257
Net assets	461	351	222
Revenue	310	222	55
Net income	(12)	40	6

The unrecognised share of losses of associates for 2006 and cumulatively at 31 December 2006 was USD 3 million and USD 28 million, respectively.

13. Investment Securities Held-to-Maturity

Investment securities held-to-maturity comprise securities issued by foreign governments with maturities ranging from February 2007 to August 2010.

14. Other Assets

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Trade debtors and prepayments	209	84	84
Rights of claim to construct and receive the title of ownership of premises under investment contracts	169	—	—
Unsettled transactions	119	14	10
Taxes recoverable	105	64	21
Inventories	68	13	16
Deferred expenses	44	28	9
Receivable of put option premium	29	14	—
Precious metals	22	4	11
Settlements on securities operations	3	—	—
Settlements on foreign exchange operations	2	14	15
Other assets	24	17	23
Total	<u>794</u>	<u>252</u>	<u>189</u>

At 31 December 2006 rights of claim to construct and receive the title of ownership of premises under investment contracts contained a prepayment of USD 169 million under a construction contract. Under this contract the developer is obliged to construct an office at the Moscow International Business Center “Moscow City” and transfer the title of ownership on this office to VTB after the construction is completed in 2008.

Movements in the allowance for other assets impairment are presented in Note 29.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

15. Premises and Equipment

The movements in property and equipment were as follows:

	<u>Premises</u>	<u>Office and computer equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Net book amount at 31 December 2005	592	164	76	832
COST OR REVALUED AMOUNT				
Opening balance at 1 January 2006	595	267	76	938
Acquisitions of subsidiaries	9	7	6	22
Disposal of subsidiaries	(15)	(2)	(1)	(18)
Additions	64	82	136	282
Transfer	118	32	(150)	—
Disposals	(26)	(17)	(3)	(46)
Revaluation	360	—	—	360
Translation difference	25	19	2	46
Closing balance at 31 December 2006	1,130	388	66	1,584
ACCUMULATED DEPRECIATION				
Opening balance at 1 January 2006	3	103	—	106
Disposal of subsidiaries	(1)	(1)	—	(2)
Depreciation charge	16	58	—	74
Disposals	(3)	(6)	—	(9)
Revaluation	(19)	—	—	(19)
Translation difference	4	8	—	12
Closing balance at 31 December 2006	—	162	—	162
Net book amount at 31 December 2006	1,130	226	66	1,422
Net book amount at 31 December 2004	181	115	25	321
COST OR REVALUED AMOUNT				
Opening balance at 1 January 2005	199	201	25	425
Acquisitions of subsidiaries	258	37	24	319
Disposal of subsidiaries	(1)	—	—	(1)
Additions	50	42	51	143
Transfer	13	10	(23)	—
Disposals	(15)	(22)	(1)	(38)
Revaluation	91	—	—	91
Translation difference	—	(1)	—	(1)
Closing balance at 31 December 2005	595	267	76	938
ACCUMULATED DEPRECIATION				
Opening balance at 1 January 2005	18	86	—	104
Disposal of subsidiaries	(1)	—	—	(1)
Depreciation charge	10	28	—	38
Disposals	(3)	(11)	—	(14)
Revaluation	(21)	—	—	(21)
Closing balance at 31 December 2005	3	103	—	106
Net book amount at 31 December 2005	592	164	76	832
Net book amount at 31 December 2003	158	82	10	250

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

15. Premises and Equipment (Continued)

	<u>Premises</u>	<u>Office and computer equipment</u>	<u>Construction in progress</u>	<u>Total</u>
COST OR REVALUED AMOUNT				
Opening balance at 1 January 2004	171	126	10	307
Acquisitions of subsidiaries	15	18	2	35
Disposal of subsidiaries	(8)	(1)	—	(9)
Additions	21	54	17	92
Transfer	1	3	(4)	—
Disposals	(4)	(5)	—	(9)
Translation difference	3	6	—	9
Closing balance at 31 December 2004	199	201	25	425
ACCUMULATED DEPRECIATION				
Opening balance at 1 January 2004	13	44	—	57
Disposal of subsidiaries	—	(1)	—	(1)
Depreciation charge	6	43	—	49
Disposals	(1)	(2)	—	(3)
Translation difference	—	2	—	2
Closing balance at 31 December 2004	18	86	—	104
Net book amount at 31 December 2004	181	115	25	321

The Transfer caption includes movements from Construction in Progress to Premises and Office and computer equipment upon completion of construction and/or putting of the fixed asset in use.

Premises of the Group are subject to revaluation on a regular basis. The Group engaged an independent appraiser to determine the fair value of its premises. Fair value was determined by reference to market-based evidence. The dates of the latest revaluations were 31 December 2006 and 2005. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Cost	679	504	199
Accumulated depreciation and impairment	40	24	18
Net carrying amount	639	480	181

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

The revaluation of the Group's premises as of 31 December 2006 was carried out by an independent firm of valuers, Neo Centre. The basis used for the appraisal was primarily open market value. The revaluation surplus amounted to USD 379 million: USD 6 million of additional value were credited to other income as a reversal of negative revaluation of fixed assets, which carried out from 2005 valuation, and USD 373 million, including minority interest of USD 11 million, were posted to fixed assets revaluation reserve within the shareholders' equity net of deferred income tax in the amount of USD 91 million.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

15. Premises and Equipment (Continued)

The revaluation of the Group's premises as of 31 December 2005 was carried out by an independent firm of valuers, Neo Centre. The basis used for the appraisal was primarily open market value. The revaluation surplus amounted to USD 112 million: USD 27 million of additional value were credited to other income as a reversal of negative revaluation of fixed assets, which carried out from the prior period revaluation, and USD 6 million was recorded as negative revaluation and recognised in operating expenses, and USD 91 million was posted to fixed assets revaluation reserve within shareholders' equity net of deferred income tax in the amount of USD 19 million.

16. Investment Property

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Investment property as at 1 January	198	—	—
Acquisitions of subsidiaries	—	198	—
Translation effect	20	—	—
Revaluation (Note 27)	52	—	—
Disposals	(92)	—	—
Investment property as at 31 December	<u>178</u>	<u>198</u>	<u>—</u>

As a result of acquisition of ICB in December 2005 the Bank also received investment property with fair value amounting to USD 198 million at 31 December 2005.

In 2006, ICB revalued all of its investment property and increased its fair value by USD 52 million including USD 11 million which was subsequently realised as a result of a sale of investment property for USD 92 million. The valuation was carried out by an independent firm of valuers, Neo Centre, mainly on the basis of open market prices.

At 31 December 2006, included in investment property are buildings and business-centers held for operating leasing of USD 60 million located in St. Petersburg region, Ekaterinburg and Ukraine (31 December 2005: USD 96 million) and land for development and resale of USD 118 million located in St. Petersburg and Moscow regions (31 December 2005: USD 102 million).

17. Intangible Assets

The movements in intangible assets were as follows:

	<u>Goodwill</u>	<u>Core deposit intangible</u>	<u>Computer software</u>	<u>Total</u>
Net book amount at 31 December 2005	<u>270</u>	<u>154</u>	<u>27</u>	<u>451</u>
COST				
Opening balance at 1 January 2006	270	154	42	466
Additions	—	—	8	8
Acquisition through business combinations	13	6	—	19
Disposals	—	—	(10)	(10)
Translation difference	25	14	1	40
Closing balance at 31 December 2006	<u>308</u>	<u>174</u>	<u>41</u>	<u>523</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

17. Intangible Assets (Continued)

	<u>Goodwill</u>	<u>Core deposit intangible</u>	<u>Computer software</u>	<u>Total</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT				
Opening balance at 1 January 2006	—	—	15	15
Amortisation charge	—	34	5	39
Disposals	—	—	(1)	(1)
Impairment	14	—	—	14
Translation difference	—	—	1	1
Closing balance at 31 December 2006	<u>14</u>	<u>34</u>	<u>20</u>	<u>68</u>
Net book amount at 31 December 2006	<u>294</u>	<u>140</u>	<u>21</u>	<u>455</u>
Net book amount at 31 December 2004	<u>88</u>	<u>—</u>	<u>14</u>	<u>102</u>
COST				
Opening balance at 1 January 2005	94	—	29	123
Elimination of accumulated amortisation of goodwill on adoption of revised standards	(6)	—	—	(6)
Additions	—	—	5	5
Acquisition through business combinations	182	154	17	353
Disposals	—	—	(9)	(9)
Closing balance at 31 December 2005	<u>270</u>	<u>154</u>	<u>42</u>	<u>466</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT				
Opening balance at 1 January 2005	6	—	15	21
Elimination of accumulated amortisation of goodwill on adoption of revised standards	(6)	—	—	(6)
Amortisation charge	—	—	2	2
Disposals	—	—	(2)	(2)
Closing balance at 31 December 2005	<u>—</u>	<u>—</u>	<u>15</u>	<u>15</u>
Net book amount at 31 December 2005	<u>270</u>	<u>154</u>	<u>27</u>	<u>451</u>
Net book amount at 31 December 2003	<u>20</u>	<u>—</u>	<u>12</u>	<u>32</u>
COST				
Opening balance at 1 January 2004	22	—	25	47
Acquisition through business combinations	75	—	3	78
Additions	—	—	1	1
Other	(3)	—	—	(3)
Closing balance at 31 December 2004	<u>94</u>	<u>—</u>	<u>29</u>	<u>123</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT				
Opening balance at 1 January 2004	2	—	13	15
Amortisation charge	4	—	2	6
Closing balance at 31 December 2004	<u>6</u>	<u>—</u>	<u>15</u>	<u>21</u>
Net book amount at 31 December 2004	<u>88</u>	<u>—</u>	<u>14</u>	<u>102</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

17. Intangible Assets (Continued)

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

	31 December 2006			31 December 2005			31 December 2004		
	Carrying amount of goodwill	Carrying amount of core deposit intangible	Total	Carrying amount of goodwill	Carrying amount of core deposit intangible	Total	Carrying amount of goodwill	Carrying amount of core deposit intangible	Total
“Bank VTB 24”, CJSC	78	—	78	71	—	71	71	—	71
“Industry & Construction Bank”, OJSC	199	134	333	182	154	336	—	—	—
“VTB Bank (Armenia)” CJSC . .	4	—	4	4	—	4	4	—	4
“Almaz-Press”, CJSC . .	—	—	—	13	—	13	13	—	13
“Mriya”, JSCB	13	6	19	—	—	—	—	—	—
	<u>294</u>	<u>140</u>	<u>434</u>	<u>270</u>	<u>154</u>	<u>424</u>	<u>88</u>	<u>—</u>	<u>88</u>

Management of the Bank believes that “Bank VTB 24”, CJSC as a whole represents the appropriate level within the Group, at which goodwill is monitored for management purposes and therefore, should be considered as a cash-generating unit for impairment testing purposes. The recoverable amount of this cash-generating unit has been determined based on a value in use calculation using pretax cash flow projections (adjusted for depreciation) based on financial budgets approved by management covering a four-year period. The discount rate applied to cash flow projections is 10% (31 December 2005: 10%).

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

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

The recoverable amount of OJSC “Industry & Construction Bank” was based on the market quotes of its shares at 31 December 2006 which amounted to USD 1,665 million (31 December 2005: USD 1,040 million).

In 2006, goodwill of USD 14 million allocated to CJSC “Almaz-Press” was written-off through impairment charge, based on the estimation of the recoverability of that cash-generating unit determined on a value in use calculation using cash flow projections based on financial budgets covering a five-year period.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

18. Due to Other Banks

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Term loans and deposits	3,080	3,787	2,608
Correspondent accounts and overnight deposits of other banks	1,931	1,554	465
Sale and repurchase agreements with other banks	<u>2,576</u>	<u>1,288</u>	<u>181</u>
Total due to other banks	<u>7,587</u>	<u>6,629</u>	<u>3,254</u>

Financial assets pledged against sale and repurchase agreements are financial assets at fair value through profit or loss and financial assets available-for-sale with a total fair value of USD 2,929 million (31 December 2005: USD 1,349 million, 31 December 2004: USD 340 million) (see Note 8).

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

19. Customer Deposits

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
State and public organisations			
Current/settlement deposits	774	574	609
Term deposits	1,398	582	339
Other legal entities			
Current/settlement deposits	5,598	3,863	1,575
Term deposits	4,883	2,566	1,390
Individuals			
Current/settlement deposits	1,777	1,010	312
Term deposits	5,549	4,170	1,799
Sale and repurchase agreements	<u>9</u>	<u>2</u>	<u>—</u>
Total customer deposits	<u>19,988</u>	<u>12,767</u>	<u>6,024</u>

Included in customer deposits are:

- Restricted deposits amounting to USD 10 million (31 December 2005: USD 77 million; 31 December 2004: USD 80 million), where matching deposits were placed by the Group in escrow accounts (see Note 6).
- Deposits of USD 66 million (31 December 2005: USD 55 million; 31 December 2004: USD 60 million) were held as collateral against irrevocable commitments under import letters of credit and guarantees (see Note 34).

At 31 December 2006 sale and repurchase agreements of USD 9 million (31 December 2005: USD 2 million) represent the amounts payable to legal entities in connection with sale and repurchase agreements. Securities pledged against sale and repurchase agreements are financial assets through profit and loss with fair value of USD 9 million (2005: USD 3 million) (see Note 8).

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

19. Customer Deposits (Continued)

Economic sector risk concentrations within the customer deposits are as follows:

	31 December 2006		31 December 2005		31 December 2004	
	Amount	%	Amount	%	Amount	%
Individuals	7,326	37	5,180	41	2,111	35
Finance	2,943	15	2,623	21	915	15
Government bodies	1,538	8	398	3	370	6
Trade and commerce	1,429	7	616	5	340	6
Metals	1,198	6	863	7	885	15
Manufacturing	903	5	416	3	201	3
Building construction	859	4	460	4	63	1
Oil and Gas	827	4	428	3	194	3
Transport	420	2	187	1	44	1
Food and agriculture	374	2	115	1	10	—
Energy	350	2	674	5	433	7
Coal mining	274	1	7	—	34	1
Chemical	261	1	55	—	2	—
Aircraft	241	1	73	1	75	1
Telecommunications and media	185	1	145	1	74	1
Others	860	4	527	4	273	5
Total customer deposits	<u>19,988</u>	<u>100</u>	<u>12,767</u>	<u>100</u>	<u>6,024</u>	<u>100</u>

In December 2005, the Group purchased a deposit placed with the Group at a lower price than its carrying value. As a result, the Group recognised a gain from extinguishment of liability within the income statement amounting to USD 14 million, which represents a difference between the carrying value of the deposit and its purchase price.

20. Other Borrowed Funds

	31 December 2006	31 December 2005	31 December 2004
CBR deposits	653	982	694
Syndicated loans	2,864	1,426	885
Revolving credit lines	15	8	146
Other credit lines	936	521	4
Total other borrowed funds	<u>4,468</u>	<u>2,937</u>	<u>1,729</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

20. Other Borrowed Funds (Continued)

Syndicated loans at 31 December 2006 comprise the following:

	<u>Interest rate</u>	<u>Maturity</u>	<u>Carrying amount</u>	<u>Total amount of loan facility available</u>
Syndicated loan	LIBOR+0.35%	August 2009	334	330
Syndicated loan	LIBOR+0.375%	May 2009	602	600
Syndicated loan	LIBOR+0.2%	February 2007	301	300
Syndicated loan	5.77%	December 2007	201	200
Syndicated loan	6.35%	July 2007	141	140
Syndicated loan	LIBOR+0.575%	March 2008	177	174
Syndicated loan	6.05%	November 2008	275	275
Syndicated loan	5.75%	July 2009	150	150
Syndicated loan	6.07%	December 2007	100	100
Syndicated loan	5.75%	October 2008	199	200
Syndicated loan	6.55%	June 2008	151	150
Other syndicated loans	2.54% - 6.66%	February 2007 - August 2016	233	241
Total syndicated loans			<u>2,864</u>	<u>2,860</u>

Syndicated loans at 31 December 2005 comprise the following:

	<u>Interest rate</u>	<u>Maturity</u>	<u>Carrying amount</u>	<u>Total amount of loan facility available</u>
Syndicated loan	LIBOR+0.15%	February 2006	501	500
Syndicated loan	LIBOR+1.2%	April 2008	452	450
Syndicated loan	LIBOR+1.6%	November 2007	151	300
Syndicated loan	LIBOR+1%	From April 2005 to July 2007	140	140
Syndicated loan	LIBOR+2.95%	From February 2005 to February 2006	92	90
Other syndicated loans	From 2.54% to LIBOR+3.2%	From February 2006 to March 2016	90	115
Total syndicated loans			<u>1,426</u>	<u>1,595</u>

Syndicated loans at 31 December 2004 comprise the following:

	<u>Interest rate</u>	<u>Maturity</u>	<u>Carrying amount</u>	<u>Total amount of loan facility available</u>
Syndicated loan	LIBOR plus 1.6%	November 2007	301	300
Syndicated loan	LIBOR plus 1.0%	March 2005	300	300
Syndicated loan	LIBOR plus 1.4%	June 2005	275	275
Other syndicated loans	From 2.54% to 2.82%	From August 2005 to February 2007	9	9
Total syndicated loans			<u>885</u>	<u>884</u>

Other credit lines represent borrowings made by the Group from other banks, mainly OECD based, under non-revolving open credit lines with interest ranging from 3% to 12.2% under USD-denominated credit lines (31 December 2005: from 3.4% to 6.4%; 31 December 2004: 4.3%) from 0.8% to 7.5% under Euro-denominated credit lines (31 December 2005: from 0.8% to 5.8%)

VTB BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

20. Other Borrowed Funds (Continued)

and from 2.2% to 11% under credit lines denominated in other currencies (31 December 2005: from 2.2% to 3.1%). The total amount of loan facility available under non-revolving credit lines is USD 936 million (31 December 2005: USD 521 million; 31 December 2004: USD 4 million).

In connection with the acquisition of Guta Bank (now named CJSC “VTB 24”) by the Group in July 2004, the CBR placed a USD 700 million special purpose deposit with VTB at one-year LIBOR, maturing in July 2005, with a carrying value of USD 694 million. The deposit is available to maintain Guta Bank’s liquidity and for the use in Guta Bank’s operations. In July 2005, the term of the deposit has been prolonged to 20 July 2006 at a fixed rate of 4.07%. In July 2006, the amount of deposit was reduced to USD 500 million, and its term was prolonged to July 2007 at a fixed rate of 5.66%. The Group has initially recognised the CBR deposit at its fair value, calculated based on market rates for similar deposits.

21. Debt Securities Issued

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Bonds	9,341	5,060	2,227
Promissory notes	1,877	1,736	1,521
Deposit certificates	106	288	200
Debentures	241	157	—
Total debt securities issued	<u>11,565</u>	<u>7,241</u>	<u>3,948</u>

Promissory notes issued include both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to June 2015 (31 December 2005 and 2004: from demand to December 2012). Effective interest rates range from 0% to 12% (31 December 2005: from 0% to 10%; 31 December 2004: from 0% to 16%).

At 31 December 2006, debentures issued include EUR 200 million (31 December 2005: EUR 130 million) of SSDs (“Schuldscheindarlehen”) issued in January 2006 under the local German rules and the rules of Austrian market with maturity in January 2007 bearing an interest rate of EURIBOR+0.3% p.a. (31 December 2005: maturity in January 2006, bearing an interest rate of EURIBOR+1.15% p.a.).

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

21. Debt Securities Issued (Continued)

As of 31 December 2006 bonds comprise the following:

	<u>Interest rate</u>	<u>Maturity</u>	<u>Face value</u>	<u>Carrying value</u>	<u>Market price, % of face value</u>
<i>USD denominated Eurobonds issued by VTB under Euro Medium Term Note borrowings program of USD 10,000 million</i>					
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	539	541	102.5%
Series 3 issued in July 2004	LIBOR+2.9% payable quarterly	July 2007	300	304	101.8%
Series 4 issued in October 2004	7.5% payable semi-annually	October 2011	439	442	107.3%
Series 6 issued in June 2005	6.25% payable semi-annually	June 2035	1,000	997	102.8%
Series 8 issued in December 2005	LIBOR+0.75% payable quarterly	September 2007	1,000	1,000	100.4%
Series 10 issued in November 2006	LIBOR+0.6% payable quarterly	August 2008	1,750	1,762	100.3%
<i>USD denominated Residential Mortgage Backed Floating Rate Notes issued by VTB</i>					
Class A Residential Mortgage Backed Floating Rate Notes issued in July 2006	LIBOR+1% payable monthly	May 2034	65	65	100.0%
Class B Residential Mortgage Backed Floating Rate Notes issued in July 2006	LIBOR+2% payable monthly	May 2034	11	11	100.0%
<i>USD denominated Eurobonds issued by "Industry & Construction Bank", OJSC</i>					
Series 1 issued in July 2005	6.875% payable semi-annually	July 2008	288	294	100.0%
<i>USD denominated Eurobonds issued by CJSC "Vneshtorgbank Retail Services" (renamed to "Bank VTB 24" CJSC)</i>					
Series 1 issued in December 2006	LIBOR+0.82% payable quarterly	July 2008	499	498	100.0%
<i>USD denominated Eurobonds issued by "Moscow Narodny Bank Limited" (renamed to "VTB Bank (Europe)", Plc.)</i>					
Series 1 issued in June 2003	4.3% payable semi-annually	June 2008	150	150	97.5%
Series 3 issued in October 2004	5.1% payable annually	October 2007	195	198	100.9%
Series 5 issued in October 2006	LIBOR+0.8% payable quarterly	October 2009	496	503	100.0%

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

21. Debt Securities Issued (Continued)

	<u>Interest rate</u>	<u>Maturity</u>	<u>Face value</u>	<u>Carrying value</u>	<u>Market price, % of face value</u>
<i>USD denominated Eurobonds issued by Donau-Bank AG (renamed into "VTB Bank (Austria)" AG)</i>					
Private placement issued in December 2006	6.27% - 6.31%, LIBOR+1.27% payable semi-annually	December 2009	105	105	100.0%
Subtotal USD denominated Eurobonds			<u>6,837</u>	<u>6,870</u>	
<i>EURO denominated Eurobonds issued by VTB</i>					
Series 9 issued in February 2006 . .	4.25% payable annually	February 2016	652	675	98.6%
<i>EURO denominated Eurobonds issued by "Moscow Narodny Bank Limited" (renamed to "VTB Bank (Europe)", Plc.)</i>					
Series 4 issued in January 2005 . . .	EURIBOR+1.2% payable semi-annually	January 2008	65	66	100.5%
Subtotal EURO denominated Eurobonds			<u>717</u>	<u>741</u>	
<i>RUR denominated bonds issued by VTB</i>					
4th tranche of Russian Rouble denominated debentures issued in March 2004	6.5% payable semi-annually	March 2009	190	193	100.0%
5th tranche of Russian Rouble denominated debentures issued in October 2005	6.2% payable quarterly	October 2013	570	576	100.2%
6th tranche of Russian Rouble denominated debentures issued in July 2006	6.5% payable quarterly	October 2013	570	577	100.4%
Eurobond issued in April 2006 . . .	7.0% payable semi-annually	April 2009	380	384	101.0%
Subtotal RUR denominated bonds . .			<u>1,710</u>	<u>1,730</u>	
Total Bonds			<u>9,264</u>	<u>9,341</u>	

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

21. Debt Securities Issued (Continued)

As of 31 December 2005 bonds comprise the following:

	<u>Interest rate</u>	<u>Maturity</u>	<u>Face value</u>	<u>Carrying value</u>	<u>Market price, % of face value</u>
<i>USD denominated Eurobonds issued by VTB under EURO Medium Term Note borrowings program of USD 10,000 million</i>					
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	539	539	102.9%
Series 3 issued in July 2004	LIBOR+2.9% payable quarterly	July 2007	300	304	103.2%
Series 4 issued in October 2004	7.5% payable semi-annually	October 2011	420	420	107.3%
Series 5 issued in December 2004	LIBOR+1.35% payable quarterly	June 2006	350	350	100.2%
Series 6 issued in June 2005	6.25% payable semi-annually	June 2035	1,000	1,000	102.4%
Series 8 issued in December 2005	LIBOR+0.75% payable quarterly	September 2007	1,000	1,000	100.2%
<i>USD denominated Eurobonds issued by "Industry & Construction Bank", OJSC</i>					
Series 1 issued in July 2005	6.875% payable semi-annually	July 2008	286	287	101.3%
<i>USD denominated Eurobonds issued by "Moscow Narodny Bank Limited" (renamed to "VTB Bank (Europe)", Plc.)</i>					
Series 1 issued in June 2003	4.3% payable semi-annually	June 2008	144	144	96.9%
Series 2 issued in December 2003	5.9% payable semi-annually	December 2006	20	20	100.0%
Series 3 issued in October 2004	5.1% payable annually	October 2007	200	203	101.9%
Subtotal USD denominated Eurobonds			<u>4,259</u>	<u>4,267</u>	
<i>EURO denominated Eurobonds issued by "Moscow Narodny Bank Limited" (renamed to "VTB Bank (Europe)", Plc.)</i>					
Series 4 issued in January 2005	3.4% payable semi-annually	January 2008	59	60	100.0%
Subtotal EURO denominated Eurobonds			<u>59</u>	<u>60</u>	

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

21. Debt Securities Issued (Continued)

	<u>Interest rate</u>	<u>Maturity</u>	<u>Face value</u>	<u>Carrying value</u>	<u>Market price, % of face value</u>
<i>RUR denominated bonds issued by VTB</i>					
3 rd tranche of Russian Rouble denominated debentures issued in February 2003	From 14% to 15.5% payable annually	February 2006	72	72	101.1%
4 th tranche of Russian Rouble denominated debentures issued in March 2004	From 5.43% to 5.6% payable semi-annually	March 2009	140	140	99.6%
5 th tranche of Russian Rouble denominated debentures issued in October 2005	6.2% payable quarterly	October 2013	521	521	99.5%
Subtotal RUR denominated bonds .			<u>733</u>	<u>733</u>	
Total Bonds			<u>5,051</u>	<u>5,060</u>	

As of 31 December 2004 bonds comprise the following:

	<u>Interest rate</u>	<u>Maturity</u>	<u>Face value</u>	<u>Carrying value</u>	<u>Market price, % of face value</u>
<i>USD denominated Eurobonds issued by VTB under Medium Term Note borrowings program of USD 3,000 million:</i>					
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	550	545	104.8%
Series 2 issued in April 2004	LIBOR+2% payable quarterly	April 2005	325	326	100.2%
Series 3 issued in July 2004	LIBOR+2.9% payable quarterly	July 2007	300	302	103.5%
Series 4 issued in October 2004	7.5% payable semi-annually	October 2011	450	446	107.0%
Series 5 issued in December 2004	LIBOR+1.35% payable quarterly	June 2006	350	350	100.1%
Subtotal USD denominated Eurobonds			<u>1,975</u>	<u>1,969</u>	
<i>RUR denominated bonds issued by VTB:</i>					
3 rd tranche of Russian Rouble denominated debentures	From 14% to 15.5%	February 2006	72	76	108.0%
4 th tranche of Russian Rouble denominated debentures	5.43%	March 2009	180	182	99.0%
Subtotal RUR denominated bonds			<u>252</u>	<u>258</u>	
Total Bonds			<u>2,227</u>	<u>2,227</u>	

VTB BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

21. Debt Securities Issued (Continued)

In February 2006 VTB issued EUR 500 million Series 9 Eurobonds under its EMTN Program with a fixed rate of 4.25% p.a. The issue has 10-year maturity (February 2016) and may be redeemed in February 2011 at the option of noteholders (5-year put option).

In February 2006, VTB redeemed Series 3 RUR denominated bonds with a face value of USD 72 million.

In April 2006, VTB issued RUR-denominated Eurobonds with a face value of 10 billion (or USD 373 million) with fixed rate 7% p.a. The issue has a 3-year maturity.

In June 2006, VTB redeemed Series 5 Eurobonds with face value of USD 350 million.

In July 2006, VTB issued RUR 15 billion (USD 560 million) Series 6 bonds due July 2016 with a fixed rate of 6.5% p.a. The issue has 10-year maturity (July 2016) and may be redeemed in July 2007 at the option of the noteholders (1-year put option).

In July 2006, VTB issued USD 88.3 million Mortgage-backed notes through a special purpose entity. The notes are issued at a floating LIBOR—based rate and are finally due in May 2034. The securities are collateralised with a portfolio of 1,696 mortgage loans to individuals secured by residential properties in Moscow and St. Petersburg. All the risks and rewards remained with VTB, and therefore, the mortgage loans were not derecognised. The risks were not transferred due to a subordinated loan granted by VTB to the special purpose entity and repurchase of class C of Mortgage-backed notes, which absorbs all credit risks. The carrying value of the mortgage loans is USD 88 million.

In October 2006, Moscow Narodny Bank (renamed to “VTB Bank (Europe)”, Plc.) issued a USD 500 million Series 5 Eurobond with a floating rate of LIBOR+0.80% maturing in October 2009.

In November 2006, VTB issued a USD 1,750 million Series 10 Eurobond with a floating rate of LIBOR+0.60% maturing in August 2008.

In December 2006, VTB 24 issued a USD 500 million Eurobond with a floating rate of LIBOR+0.82% maturing in December 2009.

In December 2006, VTB Bank (Austria) privately placed three tranches of notes of USD 36 million maturing in December 2009 with a fixed rate of 6.27%, USD 14 million maturing December 2009 with a floating rate of LIBOR+1.27% and USD 55 million maturing in December 2011 with a fixed rate of 6.31%.

Deposit certificates are denominated in RUR and have maturities ranging from demand to June 2007 (31 December 2005: from demand to December 2006; 31 December 2004: from demand to December 2005). Interest rates on deposit certificates range between 3% and 6% (31 December 2005: between 0% and 10%; 31 December 2004: between 0% and 16%).

22. Subordinated Debt

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

VTB BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

22. Subordinated Debt (Continued)

On 29 September 2005, OJSC “Industry & Construction Bank” issued USD 400 million subordinated Eurobonds due September 2015 with early redemption call option on 1 October 2010 at face value. The Eurobonds bear interest at 6.2% per annum payable semi-annually, with an interest rate step-up in 2010. The transaction was structured as an issue of notes by Or-ICB S.A. (Luxemburg) for the purpose of financing a subordinated loan to the Bank. As of 31 December 2006, the carrying amount of this subordinated debt was USD 389 million (31 December 2005: USD 387 million). The Bank’s management intends to settle the debt in 2010 before the interest rate step-up.

On 26 December 2006, OJSC “Industry & Construction Bank” upon maturity redeemed RUR 220 million subordinated loan with interest at 10.0% per annum payable semi-annually. This loan was obtained on 27 December 2000. At 31 December 2005, the carrying amount of this subordinated debt was USD 8 million.

As a result of disposal of “Trading House VTB”, Ltd., the Group recognised a subordinated loan raised by “Bank VTB 24”, CJSC in October 2000 which is due in October 2015 to “Trading House VTB”, Ltd and carries an interest rate at 6.0% per annum. As of 31 December 2006 the carrying amount of this subordinated loan was USD 14 million (31 December 2005 and 2004: nil).

23. Other Liabilities

	31 December 2006	31 December 2005	31 December 2004
Trade creditors and prepayments received	149	58	36
Liabilities to pay taxes	80	25	20
Payable to employees	68	44	—
Liabilities on pension plans	51	46	23
Negative replacement value of derivatives (Note 34)	51	36	14
Unsettled transactions	23	17	14
Deferred income	19	18	5
Obligation to delivery securities	9	43	—
Provisions on insurance payments	7	7	1
Dividends payable	7	6	—
Provisions for credit related commitments (Note 29)	3	—	18
Settlements on foreign exchange operations	2	36	—
Other liabilities	40	22	14
Total	509	358	145

24. Share Capital and Reserves

Authorised, issued, and fully paid share capital of the Group comprises:

	31 December 2006		31 December 2005		31 December 2004	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Ordinary shares	5,211,112,400,000	2,500	52,111,124	2,500	42,137,236	2,153
Total share capital	5,211,112,400,000	2,500	52,111,124	2,500	42,137,236	2,153

Contributions to the Bank’s share capital were originally made in RUR, foreign currency, and gold bullion. All ordinary shares rank equally and carry one vote. A nominal value of all ordinary shares

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

24. Share Capital and Reserves (Continued)

was RUR 1 thousand per share up to December 2006, when CBR registered the split of shares (1 share was split to 100,000 shares) and change of nominal value of share from RUR 1 thousand to RUR 0.01. The Bank also has 2,611,200,000 authorised ordinary shares with a par value of RUR 0.01 each, which are currently not issued.

In October 2002, the CBRF transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation. In March 2004 the Ministry of Property Relations was abolished and succeeded by the Federal Property Management Agency.

On 26 December 2005, the Central Bank of Russia registered the increase of VTB's share capital of RUR 9,974 million (USD 347 million at exchange rate as of 26 December 2005) through issuance of 9,973,888 shares at par value of 1,000 RUR. The price per share was RUR 3,760 (USD 130.6 at exchange rate as of 26 December 2005). Refer to Note 39.

At 31 December 2006 and 2005 the share premium amounted to USD 1,513 million (31 December 2004: USD 34 million). Increase in share premium is described in Note 39.

At 31 December 2006, 2005 and 2004 the reserves include both distributable and non-distributable reserves.

25. Interest Income and Expense

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest income			
Loans and advances to customers	2,872	1,425	778
Securities	459	268	214
Due from other banks	306	137	66
Total interest income	<u>3,637</u>	<u>1,830</u>	<u>1,058</u>
Interest expense			
Customer deposits	(740)	(334)	(159)
Debt securities issued	(517)	(266)	(209)
Due to banks and other borrowed funds	(561)	(277)	(107)
Subordinated debt	(74)	(43)	—
Total interest expense	<u>(1,892)</u>	<u>(920)</u>	<u>(475)</u>
Net interest income	<u>1,745</u>	<u>910</u>	<u>583</u>

In 2006, 2005 and 2004 majority of interest income on securities is represented by interest income on financial assets at fair value through profit or loss.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

26. Fee and Commission Income and Expense

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Commission on settlement transactions	202	74	34
Commission on cash transactions	75	29	23
Commission on guarantees issued	61	48	25
Commission on operations with securities	35	12	8
Other	<u>28</u>	<u>27</u>	<u>28</u>
Total fee and commission income	401	190	118
Commission on settlement transactions	(24)	(5)	(3)
Commission on cash transactions	(9)	(6)	(5)
Commission on guarantees issued	(3)	(2)	(1)
Commission on loans granted	(1)	(2)	(1)
Other	<u>(13)</u>	<u>(7)</u>	<u>(2)</u>
Total fee and commission expense	(50)	(22)	(12)
Net fee and commission income	<u>351</u>	<u>168</u>	<u>106</u>

27. Other Operating Income

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Unrealised increase in fair value revaluation of investment property (Note 16)	52	—	—
Dividends received	44	2	1
Income arising from operating leasing	9	—	—
Fines and penalties received	6	8	1
Reversal of impairment of fixed assets (Note 15)	6	27	—
Income arising from disposal of property	3	21	—
Reversal of other provisions (Note 29)	—	8	5
Other	<u>37</u>	<u>28</u>	<u>46</u>
Total other operating income	<u>157</u>	<u>94</u>	<u>53</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

28. Staff Costs and Administrative Expenses

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Staff costs	606	334	213
Defined contribution pension expense	66	30	23
Depreciation and other expenses related to premises and equipment	171	94	80
Leasing and rent expenses	80	48	34
Advertising expenses	74	40	20
Taxes other than on income	70	50	36
Insurance	47	14	3
Professional services	39	22	21
Security expenses	32	20	14
Amortisation of core deposit intangible (Note 17)	34	—	—
Post and telecommunication expenses	27	17	17
Charity	18	19	14
Impairment and amortisation of intangibles, except for amortisation of core deposit intangible (Note 17)	19	—	4
Transport expenses	11	9	11
Impairment of fixed assets	—	6	—
Other	76	36	24
Total staff costs and administrative expenses	<u>1,370</u>	<u>739</u>	<u>514</u>

29. Allowances for Impairment and Provisions

The movements in allowances for impairment of due from other banks and loans and advances to customers were as follows:

	<u>Due from other banks</u>	<u>Loans and advances to customers</u>	<u>Total</u>
31 December 2003	122	470	592
Provision for loan impairment during the period	11	185	196
Write-offs	—	(102)	(102)
Disposal of subsidiary (Note 39, 40)	(22)	—	(22)
31 December 2004	111	553	664
(Reversal of provision) provision for loan impairment during the period	(7)	110	103
Write-offs	(97)	(55)	(152)
31 December 2005	7	608	615
Provision for loan impairment during the period	—	442	442
Write-offs	—	(13)	(13)
Recoveries of amounts written-off in previous period	—	—	—
Currency translation difference	1	10	11
Disposal of subsidiaries (Note 39, 40)	—	(74)	(74)
31 December 2006	<u>8</u>	<u>973</u>	<u>981</u>

At 31 December 2003, included in overdue loans was a deposit of USD 100 million placed with a foreign bank for the purpose of financing Russian fishing enterprises. The Group treated this amount as loans to customers as the fishing enterprises were the ultimate borrowers under the loans and created a 100% allowance for loan impairment against these loans. The loans were

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

29. Allowances for Impairment and Provisions (Continued)

originally financed by deposits from a state-owned Russian bank, which were included in due to other banks. In December 2004, the Group favourably negotiated the extinguishment of debt related to these deposits, thus resulting in the recognition of a gain from extinguishment of a liability of USD 100 million in the Group's income statement for 2004. The respective loans were written off during the 2004 as uncollectible.

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

	<u>Other assets</u>	<u>Credit related commitments</u>	<u>Total</u>
31 December 2003	—	10	10
Reversal of provision for impairment during the period	—	(5)	(5)
Purchase of subsidiaries	—	13	13
31 December 2004	—	18	18
(Reversal of provision) provision for impairment during the period . .	10	(18)	(8)
Write-offs	(10)	—	(10)
31 December 2005	—	—	—
(Reversal of provision) provision for impairment during the period . .	(3)	3	—
Recoveries of amounts written-off in previous period	3	—	3
31 December 2006	<u>—</u>	<u>3</u>	<u>3</u>

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

30. Income Tax Expense

Income tax expense comprises the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current tax charge	366	90	124
Deferred taxation movement due to the origination and reversal of temporary differences	(134)	105	(31)
Income tax expense for the year	<u>232</u>	<u>195</u>	<u>93</u>

The income tax rate applicable to the majority of the Group's income is 24%. The income tax rate applicable to subsidiaries' income ranges from zero to 41% in 2006 (2005: 4.25% to 25%; 2004: 4.25% to 34%). The change in the lower tax rate from 4.25% to zero relates to the tax-free status of VTB Bank (France). The change in the upper level of tax rate from 34% to 41% relates to high tax rate of new subsidiary VTB Bank (Deutschland), purchased in December 2005, which is registered in Germany. The change in the upper level of tax rate from 34% to 25% in 2005 relates

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

30. Income Tax Expense (Continued)

to the change in the income tax rate in Austria during 2006. Reconciliation between the expected and the actual taxation charge is provided below.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
IFRS profit before taxation	1,404	703	301
Theoretical tax charge at the applicable statutory rate of each company within the Group	309	166	83
Tax effect of items which are not deductible or assessable for taxation purposes:			
—Non deductible expenses	28	37	42
—Changes in value of investment in shares	—	—	(12)
—Income which is exempt from taxation	(44)	(2)	(4)
—Effect of change in tax rates	(25)	(7)	14
—Other non-temporary differences	10	4	11
—Tax losses utilised	(10)	(23)	(11)
—Translation effect	(10)	13	(30)
—Change in unrecognised deferred taxes	14	12	—
—Previously unrecorded tax losses now recognised	(28)	(9)	—
—Other	(12)	4	—
Income tax expense for the year	<u>232</u>	<u>195</u>	<u>93</u>

VTB BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

30. Income Tax Expense (Continued)

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 10% to 41% (2005: from 4.25% to 41%; 2004: from 4.25% to 34%). The change in the lower range of the tax rate from 4.25% to 10% relates to the change in the tax rate in Cyprus in 2006. The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so deferred tax assets and deferred tax liabilities are separately assessed for each entity.

	Origination and reversal of temporary differences			Origination and reversal of temporary differences			Effect of business combination (Note 39)	Origination and reversal of temporary differences			Effect of business combination (Note 39)	
	2003	In the statement of income	Directly in equity	2004	In the statement of income	Directly in equity		2005	In the statement of income	Directly in equity		
Tax effect of deductible temporary differences:												
Allowances for impairment and provisions for other losses	48	(19)	—	29	8	—	2	39	73	—	(12)	100
Tax losses carried forward	78	(29)	—	49	12	—	34	95	6	3	—	104
Accrued expenses	1	19	—	20	(5)	—	3	18	17	—	—	35
Other	6	14	—	20	(16)	—	18	22	15	—	—	37
Gross deferred tax assets	133	(15)	—	118	(1)	—	57	174	111	3	(12)	276
Unrecognised deferred tax assets	—	—	—	—	(12)	—	—	(12)	(14)	—	12	(14)
Gross deferred tax asset	133	(15)	—	118	(13)	—	57	162	97	3	—	262
Tax effect of taxable temporary differences:												
Fair value measurement of securities	(48)	52	(29)	(25)	(59)	8	(2)	(78)	62	(16)	—	(32)
Property and equipment	(14)	(1)	—	(15)	(37)	(19)	(23)	(94)	(9)	(91)	6	(188)
Intangible assets	—	—	—	—	—	—	(37)	(37)	7	(3)	—	(33)
Other	—	(5)	—	(5)	4	—	(32)	(33)	(23)	—	15	(41)
Gross deferred tax liability	(62)	46	(29)	(45)	(92)	(11)	(94)	(242)	37	(110)	21	(294)
Deferred tax asset, net	83	(9)	—	74	(24)	—	32	82	8	3	—	93
Deferred tax liability, net	(12)	40	(29)	(1)	(81)	(11)	(69)	(162)	126	(110)	21	(125)

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

30. Income Tax Expense (Continued)

At 31 December 2006, VTB Bank (Austria) and VTB Bank (Deutschland) had unused tax losses of USD 641 million (2005: USD 419 million; 2004: USD 238 million) for which no deferred tax asset was recognised due to uncertainty that these banks will have sufficient future taxable profits against which unused tax losses can be utilised. Losses of VTB Bank (Austria) do not expire and losses of VTB Bank (Deutschland) would expire when it would be reorganised as a branch of VTB Bank (Europe).

In 2006 the Bank has significant non-taxable income, which contributed to the decrease in effective tax rate.

At 31 December 2006, the aggregate amount of temporary differences associated with investments in subsidiaries and associates for which deferred tax liability have not been recognised was USD 205 million (31 December 2005: USD 460 million; 31 December 2004: USD 22 million).

31. Basic and Diluted Earnings per Share

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

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net profit attributable to shareholders of the parent (in millions of US dollars)	1,137	499	205
Weighted average number of ordinary shares (adjusted retrospectively for split of 1 share to 100,000 shares in 2006) in issue	5,211,112,400,000	4,230,119,032,329	4,213,723,600,000
Basic and diluted earnings per share (expressed in USD per share)	<u>0.000218</u>	<u>0.000118</u>	<u>0.000049</u>
Basic and diluted earnings per share—continuing operations (expressed in USD per share)	0.000217	0.000117	0.000049
Basic and diluted earnings per share—discontinued operations (expressed in USD per share)	0.000001	0.000001	—

32. Dividends

VTB does not have a formal policy for payment of dividends. The amount of dividends to be declared and paid is decided at VTB's annual shareholders' meeting on the basis of VTB's net profit for the previous fiscal year determined in accordance with Russian Accounting Regulation on a stand-alone basis. In 2004, VTB declared and paid RUR 1.6 billion (USD 57 million at the exchange rate of RUR 27.75 per USD 1.00) in dividends for 2003 (USD 1.35 per share). In 2005, VTB declared and paid a dividend of RUR 1.7 billion (USD 61 million at the exchange rate of RUR 27.87 per USD 1.00) for 2004 (USD 1.45 per share). In June 2006, VTB declared and paid a dividend of RUR 1.7 billion (USD 63 million at the exchange rate of RUR 27.0611 per USD 1.00) for 2005 (USD 1.21 per share).

VTB BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

32. Dividends (Continued)

In 2006, ICB declared and paid a dividend of RUR 126 million (USD 4.7 million at the exchange rate of RUR 27.0789 per USD 1.00) for 2005, resulting in reduction of minority interest in ICB (25%) by USD 1 million.

33. Disposal Group Held for Sale

At the end of June 2005, a subsidiary of CJSC “Vneshtorgbank Retail Services” (renamed to “Bank VTB 24”, CJSC) purchased a 100% interest in CJSC “Sales”, a holding company for a number of Russian companies involved in aircraft engine manufacturing. The management intention was to sell this investment within 12 months, therefore the Bank applied IFRS 5 for its accounting. The Bank has calculated fair values of the CJSC “Sales” consolidated assets and liabilities at the acquisition date amounting to USD 334 million and USD 201 million, respectively. CJSC “Sales” holding was classified as a disposal group held for sale under provisions of IFRS 5 and included into the geographical segment “Russia”. In June 2006 the Group initiated the sale of the Disposal Group. The deal was closed in August 2006 and the Group recognised gain on sale of USD 5 million, net of tax. (Refer to Note 40).

Net profit of discontinued operations relating to the disposal group held for sale from 1 January 2006 till the date of disposal was USD 2 million (from the date of acquisition to 31 December 2005: USD 3 million).

34. Contingencies, Commitments, and Derivative Financial Instruments

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

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

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

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

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

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

Outstanding credit related commitments are as follows:

	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Guarantees issued	3,164	2,040	1,908
Undrawn credit lines	3,944	2,828	995
Import letters of credit	999	559	389
Commitments to extend credit	1,814	1,023	477
Other credit related commitments	—	10	510
Less: allowance for losses on credit related commitments . .	(3)	—	(18)
Total credit related commitments	<u>9,918</u>	<u>6,460</u>	<u>4,261</u>

The Bank has received export letters of credit for further advising to its customers. The total amount of received letters of credit as of 31 December 2006 was USD 2,120 million (31 December 2005: USD 1,829 million; 31 December 2004: USD 2,005 million). Commitments under import letters of credit and guarantees are collateralised by customer deposits of USD 66 million (31 December 2005: USD 55 million; 31 December 2004: USD 60 million).

At 31 December 2006, included in guarantees issued above are guarantees issued for one Russian company of USD 806 million (25% of the guarantees issued) (31 December 2005: USD 445 million, 22% of the guarantees issued; 31 December 2004: USD 930 million, 49% of the guarantees issued).

At 31 December 2004, included in other credit related commitments above is a commitment of the Group to guarantee the repayment of a loan issued to a Russian company in the amount of USD 500 million. This commitment expired and was cancelled in February 2005.

Movements in the allowance for losses on credit related commitments are disclosed in Note 29.

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

<u>Remaining contractual maturity</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Not later than 1 year	35	26	1
Later than 1 year but not later than 5 years	77	60	2
Later than 5 years	84	54	—
Total operating lease commitments	<u>196</u>	<u>140</u>	<u>3</u>

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

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

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

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

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 2006. These contracts were mainly entered into in December 2006 and settled early in January 2007.

The table below includes contracts outstanding at 31 December 2006:

	Domestic			Foreign		
	Notional amount	Negative fair value	Positive fair value	Notional amount	Negative fair value	Positive fair value
Forward and futures contracts						
—sale of foreign currency	287	—	7	1,662	(2)	16
—purchase of foreign currency	303	(6)	—	631	(4)	4
—exchange of foreign currency	5	—	—	332	(15)	1
—sale of precious metals	—	—	—	166	—	2
—sale of securities	—	—	—	6	—	—
—purchase of securities	—	—	—	100	—	23
Swaps						
—sale of foreign currency	64	—	—	111	—	1
—purchase of foreign currency	1	—	—	233	—	5
—exchange of foreign currency	5	—	—	1,292	(12)	2
—sale of credit default swaps	—	—	—	612	—	—
—purchase of credit default swaps	—	—	—	29	—	—
—interest rate swaps	78	—	—	219	(4)	—
Options on precious metals						
—purchased put on precious metals	—	—	—	9	—	—
—purchased call on precious metals	—	—	—	10	—	—
Options on foreign currency						
—written put on foreign currency	—	—	—	42	—	—
—purchased put on foreign currency	—	—	—	30	—	—
—written call on foreign currency	—	—	—	87	—	—
—purchased call on foreign currency	—	—	—	7	—	—
Options on securities						
—written put on securities	2,060	—	—	79	—	4
—purchased put on securities	—	—	—	190	(8)	—
—written call on securities	57	—	—	—	—	—
—purchased call on securities	55	—	—	96	—	10
Total	<u>2,915</u>	<u>(6)</u>	<u>7</u>	<u>5,943</u>	<u>(45)</u>	<u>68</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

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

The table below includes contracts outstanding at 31 December 2005.

	Domestic			Foreign		
	Notional amount	Negative fair value	Positive fair value	Notional amount	Negative fair value	Positive fair value
Forward and futures contracts						
—sale of foreign currency	671	(3)	1	10	—	—
—purchase of foreign currency	1,881	(4)	7	370	(11)	—
—exchange of foreign currency	—	—	—	22	—	—
—sale of precious metals	—	—	—	203	—	9
—sale of securities	48	—	—	—	—	—
—purchase of securities	8	—	—	61	(1)	—
Swaps						
—sale of foreign currency	77	—	—	70	—	1
—purchase of foreign currency	40	—	—	314	(8)	—
—exchange of foreign currency	64	—	1	644	(4)	2
—sale of credit default swaps	—	—	—	185	—	2
—interest rate swaps	—	—	—	17	(5)	—
Options on precious metals						
—purchased call on precious metals	—	—	—	5	—	—
Options on foreign currency						
—written put on foreign currency . .	—	—	—	474	—	—
—purchased put on foreign currency	—	—	—	65	—	—
—purchased call on foreign currency	—	—	—	18	—	—
Options on securities						
—written put on securities	—	—	—	83	—	—
—purchased put on securities	5	—	—	—	—	—
—written call on securities	—	—	—	59	—	—
—purchased call on securities	—	—	—	84	—	—
Total	2,794	(7)	9	2,684	(29)	14

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

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

The table below includes contracts outstanding at 31 December 2004.

	Domestic			Foreign		
	Notional amount	Negative fair value	Positive fair value	Notional amount	Negative fair value	Positive fair value
Forward and futures contracts						
—sale of foreign currency	25	—	—	69	—	—
—purchase of foreign currency	135	(1)	—	458	(11)	1
—sale of precious metals	—	—	—	1	—	—
—sale of securities	88	—	—	31	(1)	—
—purchase of securities	72	—	—	10	—	—
Swaps						
—sale of foreign currency	20	—	—	16	(1)	—
—purchase of foreign currency	203	—	—	896	—	18
Total	<u>543</u>	<u>(1)</u>	<u>—</u>	<u>1,481</u>	<u>(13)</u>	<u>19</u>

Purchase commitments. As of December 31, 2006 the Group had USD 275 million outstanding commitments for purchase of precious metals (31 December 2005: USD 249 million; 31 December 2004: USD 285 million). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognised on these contracts.

35. Analysis by Segment

In accordance with IAS 14, “Segment Reporting”, the Group’s primary format for reporting segment information is geographical segments. Geographical segment information is based on geographical location of assets and liabilities and related revenues of entities within the Group. VTB has predominantly one business segment, commercial banking, therefore no business segment disclosure is presented. Segment information for the three main reportable geographical segments of the Group, Russia, Other CIS and Europe, is set out below for the year ended 31 December 2006:

Revenues disclosed in the note include the following: interest income, fee and commission income, other operating income, income arising from non-banking activities, gains less losses from financial

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

35. Analysis by Segment (Continued)

assets available-for-sale, gains less losses from financial assets at fair value through profit or loss, gains less losses from dealing in foreign currencies and share in income of associates.

	Russia	Other CIS	Europe	Total before intersegment eliminations	Intersegment	Total
Revenues from:						
External customers	3,969	138	1,087	5,194		5,194
Other segments	119	—	12	131	(131)	—
Total revenues	4,088	138	1,099	5,325	(131)	5,194
Segment results (profit before taxation)						
	1,045	9	350	1,404		1,404
Income tax expense						(232)
Profit after taxation from continued operations						
						1,172
Profit from discontinued operations . .	7	—	—	7		<u>7</u>
Net profit						<u>1,179</u>
Segment assets as of 31 December 2006 less income tax assets						
	41,161	1,233	12,367	54,761	(2,468)	52,293
Income tax assets	16	4	90	110		110
Segment assets as of 31 December 2006	41,177	1,237	12,457	54,871	(2,468)	52,403
Segment liabilities as of 31 December 2006 less income tax liabilities						
	36,218	1,049	10,455	47,722	(2,468)	45,254
Income tax liabilities	136	4	17	157		157
Segment liabilities as of 31 December 2006	36,354	1,053	10,472	47,879	(2,468)	45,411
Other segment items						
Share in income of associates	3	—	12	15		15
Profit from disposal of subsidiaries . . .	54	—	—	54		54
Capital expenditure	232	50	8	290		290
Depreciation and amortisation charge	66	5	8	79		79
Other non-cash income (expenses)						
Provision for loan impairment	(382)	(27)	(33)	(442)		(442)
Interest income	2,869	113	784	3,766	(129)	3,637
Interest expense	(1,426)	(56)	(539)	(2,021)	129	(1,892)
Net interest income	1,443	57	245	1,745		1,745

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

35. Analysis by Segment (Continued)

Segment information for the three main reportable geographical segments of the Group, Russia, Other CIS and Europe, at 31 December 2005 is set out below:

	Russia	Other CIS	Europe	Total before intersegment eliminations	Inter- segment eliminations	Total
Revenues from						
External customers	2,178	34	364	2,576		2,576
Other segments	55	—	6	61	(61)	—
Total revenues	2,233	34	370	2,637	(61)	2,576
Segment results (profit before taxation)						
	607	5	91	703		703
Income tax expense						<u>(195)</u>
Profit after taxation from continued operations						
						508
Profit from discontinued operations . .	3	—	—	3		<u>3</u>
Net profit						<u>511</u>
Segment assets as of 31 December 2005 less income tax assets						
	27,615	427	10,168	38,210	(1,607)	36,603
Income tax assets	45	—	75	120		120
Segment assets as of 31 December 2005	27,660	427	10,243	38,330	(1,607)	36,723
Segment liabilities as of 31 December 2005 less income tax liabilities						
	24,109	371	8,394	32,874	(1,607)	31,267
Income tax liabilities	163	1	23	187		187
Segment liabilities as of 31 December 2005	24,272	372	8,417	33,061	(1,607)	31,454
Other segment items						
Share in income of associates	22	—	2	24		24
Capital expenditure	133	14	1	148		148
Depreciation and amortisation charge .	37	2	1	40		40
Provision for loan impairment	(102)	(3)	2	(103)		(103)
Interest income	1,558	23	308	1,889	(59)	1,830
Interest expense	(733)	(9)	(237)	(979)	59	(920)
Net interest income	825	14	71	910		910

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

35. Analysis by Segment (Continued)

Segment information for the three main reportable geographical segments of the Group, Russia, Other CIS and Europe, at 31 December 2004 is set out below:

	Russia	Other CIS	Europe	Total before intersegment eliminations	Intersegment eliminations	Total
Revenues from						
External customers	1,501	8	103	1,612		1,612
Other segments	5	—	20	25	(25)	—
Total revenues	1,506	8	123	1,637	(25)	1,612
Segment results (profit before taxation)						
Income tax expense	274	2	25	301		301
Profit after taxation from continued operations						(93)
						208
Segment assets as of						
31 December 2004 less income tax assets						
Income tax assets	14,975	87	3,762	18,824	(1,109)	17,715
Segment assets as of 31 December 2004	50	—	45	95		95
Segment liabilities as of						
31 December 2004 less income tax liabilities						
Income tax liabilities	12,968	73	3,148	16,189	(1,109)	15,080
Segment liabilities as of 31 December 2004	18	1	2	21		21
Other segment items						
Share in income of associates	—	—	2	2		2
Capital expenditure	89	2	2	93		93
Depreciation and amortisation charge	48	1	2	51		51
Provision for loan impairment	(200)	—	4	(196)		(196)
Interest income	936	5	138	1,079	(21)	1,058
Interest expense	(427)	(2)	(67)	(496)	21	(475)
Net interest income	509	3	71	583		583

36. Financial Risk Management

The Management Board has overall responsibility for risk management at VTB. On a Group level and within VTB a number of committees and departments are established to coordinate day-to-day risk management. On a Group-wide basis risk management is overseen by the Risk Management Commission.

The Assets and Liabilities Committee (the "ALCO") establishes major balance sheet parameters for use in asset and liability management and monitors compliance within VTB with the assistance of VTB's Credit and Risks Control Department (the "CRCD"). The ALCO, VTB's Credit Committee (the "CC"), the CRCD and the Treasury carry out risk management functions in respect of credit, market (interest rate, currency and securities portfolio) and liquidity risks.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

The CRCDC proposes risk limits on various banking operations and prepares recommendations regarding market risk and liquidity risk management for the ALCO. The CRCDC reports to the ALCO, the CC and the Management Board.

Credit risk

Credit risk is the risk that a counterparty will not be able to meet its obligations in full when due. The Group is primarily exposed to credit risk through its loan portfolio, securities portfolios, guarantees, commitments and other on- and off-balance sheet credit exposures. On a Group-wide basis credit risk management is overseen by the Risk Management Commission which adopted a Group-wide credit policy.

Credit risk management at VTB includes establishing limits in relation to single borrowers, groups of borrowers, industries, regions and foreign countries, which are set and regularly reviewed by the CRCDC, approved by the CC and comply with exposure limits established by the CBR.

VTB attempts to reduce credit risk by conducting a thorough investigation of each prospective borrower to determine its ability to repay its debt.

Each Group bank adopts and revises its credit risk management policy on a regular basis in compliance with the oversights and regulatory requirements of the country in which it operates.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

Geographical concentration

Geographical concentration information is based on geographical location of the Group's counterparties. As at 31 December 2006 the geographical concentration of the Group's assets and liabilities is set out below:

	<u>Russia</u>	<u>OECD</u>	<u>Other countries</u>	<u>Total</u>
Assets				
Cash and short-term funds	2,636	734	211	3,581
Mandatory cash balances with central banks	571	26	51	648
Financial assets at fair value through profit or loss	3,709	1,296	115	5,120
Financial assets pledged under repurchase agreements and loaned financial assets	219	2,676	43	2,938
Due from other banks	2,228	4,248	337	6,813
Loans and advances to customers	22,802	1,116	5,344	29,262
Financial assets available-for-sale	529	317	42	888
Investments in associates	129	66	5	200
Investment securities held-to-maturity	—	5	6	11
Premises and equipment	1,161	141	120	1,422
Investment property	177	—	1	178
Intangible assets	420	11	24	455
Deferred tax asset	—	90	3	93
Other assets	578	170	46	794
Total assets	<u>35,159</u>	<u>10,896</u>	<u>6,348</u>	<u>52,403</u>
Liabilities				
Due to other banks	2,707	4,270	610	7,587
Customer deposits	17,092	562	2,334	19,988
Other borrowed funds	733	3,467	268	4,468
Debt securities issued	2,992	8,223	350	11,565
Deferred tax liability	121	2	2	125
Other liabilities	274	215	20	509
Subordinated debt	—	1,155	14	1,169
Total liabilities	<u>23,919</u>	<u>17,894</u>	<u>3,598</u>	<u>45,411</u>
Net balance sheet position	<u>11,240</u>	<u>(6,998)</u>	<u>2,750</u>	<u>6,992</u>
Net off-balance sheet position—Credit Related Commitments .	<u>8,239</u>	<u>496</u>	<u>1,183</u>	<u>9,918</u>
Net off balance sheet position—derivatives	<u>(1)</u>	<u>25</u>	<u>—</u>	<u>24</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

As at 31 December 2005 the geographical concentration of the Group's assets and liabilities is set out below:

	<u>Russia</u>	<u>OECD</u>	<u>Other countries</u>	<u>Total</u>
Assets				
Cash and short-term funds	1,874	406	412	2,692
Mandatory cash balances with central banks	344	18	42	404
Financial assets at fair value through profit or loss	3,301	1,421	329	5,051
Financial assets pledged under repurchase agreements and loaned financial assets	629	713	10	1,352
Due from other banks	1,666	1,933	542	4,141
Loans and advances to customers	16,378	653	2,894	19,925
Assets of disposal group held for sale	337	—	—	337
Financial assets available-for-sale	573	207	101	881
Investments in associates	95	23	—	118
Investment securities held-to-maturity	—	5	2	7
Premises and equipment	656	108	68	832
Investment property	198	—	—	198
Intangible assets	450	1	—	451
Deferred tax asset	9	73	—	82
Other assets	208	35	9	252
Total assets	<u>26,718</u>	<u>5,596</u>	<u>4,409</u>	<u>36,723</u>
Liabilities				
Due to other banks	3,336	2,508	785	6,629
Customer deposits	11,245	653	869	12,767
Liabilities of disposal group held for sale	199	—	—	199
Other borrowed funds	1,262	1,345	330	2,937
Debt securities issued	2,812	4,352	77	7,241
Deferred tax liability	146	16	—	162
Other liabilities	245	80	33	358
Subordinated debt	7	1,140	14	1,161
Total liabilities	<u>19,252</u>	<u>10,094</u>	<u>2,108</u>	<u>31,454</u>
Net balance sheet position	<u>7,466</u>	<u>(4,498)</u>	<u>2,301</u>	<u>5,269</u>
Net off-balance sheet position—Credit Related Commitments	<u>5,615</u>	<u>354</u>	<u>491</u>	<u>6,460</u>
Net derivative position	<u>—</u>	<u>(13)</u>	<u>—</u>	<u>(13)</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

As at 31 December 2004 the geographical concentration of the Group's assets and liabilities is set out below:

	<u>Russia</u>	<u>OECD</u>	<u>Other countries</u>	<u>Total</u>
Assets				
Cash and short-term funds	598	319	603	1,520
Mandatory cash balances with central banks	217	11	4	232
Financial assets at fair value through profit or loss	2,317	238	11	2,566
Financial assets pledged under repurchase agreements and loaned financial assets	322	18	—	340
Due from other banks	678	1,100	245	2,023
Loans and advances to customers	8,088	1,887	194	10,169
Financial assets available-for-sale	190	—	—	190
Investments in associates	—	77	—	77
Investment securities held-to-maturity	—	7	—	7
Premises and equipment	300	12	9	321
Intangible assets	98	—	4	102
Deferred tax asset	40	34	—	74
Other assets	124	62	3	189
Total assets	<u>12,972</u>	<u>3,765</u>	<u>1,073</u>	<u>17,810</u>
Liabilities				
Due to other banks	1,877	974	403	3,254
Customer deposits	5,336	332	356	6,024
Other borrowed funds	700	1,029	—	1,729
Debt securities issued	1,851	2,097	—	3,948
Deferred tax liability	1	—	—	1
Other liabilities	109	36	—	145
Total liabilities	<u>9,874</u>	<u>4,468</u>	<u>759</u>	<u>15,101</u>
Net balance sheet position	<u>3,098</u>	<u>(703)</u>	<u>314</u>	<u>2,709</u>
Net off-balance sheet position—Credit Related Commitments	<u>4,060</u>	<u>170</u>	<u>31</u>	<u>4,261</u>
Net derivative position	<u>(1)</u>	<u>6</u>	<u>—</u>	<u>5</u>

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 ALCO sets VTB's policies for market risks, with the aim of limiting and reducing the amount of possible losses on open market positions which may be incurred by VTB due to negative changes in currency exchange rates, interest rates and securities quotations. The CRCDD monitors compliance with market risk limits on a daily basis. VTB measures markets risks using a value-at-risk methodology, which estimates the largest potential loss in pre-tax profit over a given holding period for a specified confidence level. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk measurement.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

Currency risk

The Group is exposed to currency risk through mismatches in the currency denomination of assets and liabilities and also through currency positions from transactions in foreign currencies. As the U.S. dollar is the functional currency of VTB, fluctuations in foreign currencies relative to the U.S. dollar could impact VTB's financial position and results of operation. VTB manages its currency exposure risk by seeking to match the currency of its assets with that of its liabilities on a currency-by-currency basis within certain limits. The ALCO reviews the currency position and sets open currency position limits, which are monitored on a daily basis. These limits also comply with the requirements of the Central Bank of Russia.

Non-monetary assets (such as shares, ADR, GDR) for the purposes of currency risk analysis are allocated based on the currency of the country of origin of issuer of underlying asset whereas other non-monetary assets (such as premises and equipment, investment property, intangible assets) are allocated based on the functional currency of VTB and the respective subsidiary.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

As at 31 December 2006 the Group's exposure to currency risk is as follows:

	<u>USD</u>	<u>RUR</u>	<u>EURO</u>	<u>Other currencies</u>	<u>Total</u>
Assets					
Cash and short-term funds	925	2,113	345	198	3,581
Mandatory cash balances with central banks	3	571	26	48	648
Financial assets at fair value through profit or loss	1,426	3,354	302	38	5,120
Financial assets pledged under repurchase agreements and loaned financial assets	243	212	1,707	776	2,938
Due from other banks	3,993	1,339	1,447	34	6,813
Loans and advances to customers	13,514	13,809	1,565	374	29,262
Financial assets available-for-sale	290	364	188	46	888
Investments in associates	5	129	40	26	200
Investment securities held-to-maturity	—	—	—	11	11
Premises and equipment	632	529	71	190	1,422
Investment property	—	177	—	1	178
Intangible assets	4	416	11	24	455
Deferred tax asset	—	—	61	32	93
Other assets	63	527	118	86	794
Total assets	<u>21,098</u>	<u>23,540</u>	<u>5,881</u>	<u>1,884</u>	<u>52,403</u>
Liabilities					
Due to other banks	2,851	1,244	2,497	995	7,587
Customer deposits	4,561	13,652	1,470	305	19,988
Other borrowed funds	3,759	3	519	187	4,468
Debt securities issued	7,226	3,351	987	1	11,565
Deferred tax liability	—	121	—	4	125
Other liabilities	78	247	113	71	509
Subordinated debt	1,169	—	—	—	1,169
Total liabilities	<u>19,644</u>	<u>18,618</u>	<u>5,586</u>	<u>1,563</u>	<u>45,411</u>
Net balance sheet position	<u>1,454</u>	<u>4,922</u>	<u>295</u>	<u>321</u>	<u>6,992</u>
Net off-balance sheet position—Credit Related					
Commitments	<u>4,708</u>	<u>2,974</u>	<u>1,836</u>	<u>400</u>	<u>9,918</u>
Net derivative position	<u>(1,035)</u>	<u>13</u>	<u>32</u>	<u>1,014</u>	<u>24</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

As at 31 December 2005 the Group's exposure to currency risk is as follows:

	<u>USD</u>	<u>RUR</u>	<u>EURO</u>	<u>Other currencies</u>	<u>Total</u>
Assets					
Cash and short-term funds	1,002	1,348	186	156	2,692
Mandatory cash balances with central banks	—	344	18	42	404
Financial assets at fair value through profit or loss	1,855	2,722	444	30	5,051
Financial assets pledged under repurchase agreements and loaned financial assets	490	327	33	502	1,352
Due from other banks	2,025	1,023	991	102	4,141
Loans and advances to customers	9,593	9,408	793	131	19,925
Assets of disposal group held for sale	—	337	—	—	337
Financial assets available-for-sale	575	182	110	14	881
Investments in associates	—	94	—	24	118
Investment securities held-to-maturity	—	—	—	7	7
Premises and equipment	358	299	88	87	832
Investment property	—	198	—	—	198
Intangible assets	4	442	—	5	451
Deferred tax asset	—	10	43	29	82
Other assets	89	130	19	14	252
Total assets	<u>15,991</u>	<u>16,864</u>	<u>2,725</u>	<u>1,143</u>	<u>36,723</u>
Liabilities					
Due to other banks	3,564	1,127	1,230	708	6,629
Customer deposits	4,685	6,425	1,242	415	12,767
Liabilities of disposal group held for sale	67	132	—	—	199
Other borrowed funds	2,325	4	384	224	2,937
Debt securities issued	4,913	2,261	67	—	7,241
Deferred tax liability	—	147	15	—	162
Other liabilities	124	151	80	3	358
Subordinated debt	1,113	48	—	—	1,161
Total liabilities	<u>16,791</u>	<u>10,295</u>	<u>3,018</u>	<u>1,350</u>	<u>31,454</u>
Net balance sheet position	<u>(800)</u>	<u>6,569</u>	<u>(293)</u>	<u>(207)</u>	<u>5,269</u>
Net off-balance sheet position—Credit Related					
Commitments	<u>3,658</u>	<u>1,609</u>	<u>1,044</u>	<u>149</u>	<u>6,460</u>
Net derivative position	<u>(51)</u>	<u>(1,121)</u>	<u>604</u>	<u>555</u>	<u>(13)</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

At 31 December 2004, the Group has the following positions in currencies:

	<u>USD</u>	<u>RUR</u>	<u>EURO</u>	<u>Other currencies</u>	<u>Total</u>
Assets					
Cash and short-term funds	530	750	134	106	1,520
Mandatory cash balances with central banks	—	217	11	4	232
Financial assets at fair value through profit or loss . .	1,276	1,235	55	—	2,566
Financial assets pledged under repurchase agreements and loaned financial assets	205	116	19	—	340
Due from other banks	984	732	286	21	2,023
Loans and advances to customers	5,115	4,531	483	40	10,169
Financial assets available-for-sale	—	190	—	—	190
Investments in associates	—	—	77	—	77
Investment securities held-to-maturity	—	1	—	6	7
Premises and equipment	204	97	9	11	321
Intangible assets	4	98	—	—	102
Deferred tax asset	—	40	34	—	74
Other assets	16	89	72	12	189
Total assets	<u>8,334</u>	<u>8,096</u>	<u>1,180</u>	<u>200</u>	<u>17,810</u>
Liabilities					
Due to other banks	2,124	438	569	123	3,254
Customer deposits	2,301	2,741	905	77	6,024
Other borrowed funds	1,714	—	7	8	1,729
Debt securities issued	2,542	1,378	28	—	3,948
Deferred tax liability	—	1	—	—	1
Other liabilities	55	66	18	6	145
Total liabilities	<u>8,736</u>	<u>4,624</u>	<u>1,527</u>	<u>214</u>	<u>15,101</u>
Net balance sheet position	<u>(402)</u>	<u>3,472</u>	<u>(347)</u>	<u>(14)</u>	<u>2,709</u>
Net off-balance sheet position—Credit Related					
Commitments	<u>2,840</u>	<u>853</u>	<u>537</u>	<u>31</u>	<u>4,261</u>
Net derivative position	<u>(242)</u>	<u>(681)</u>	<u>844</u>	<u>84</u>	<u>5</u>

Liquidity risk

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in the inability to liquidate a position in a timely manner at a reasonable price to meet its funding obligations. VTB is exposed to liquidity risk primarily in the funding of its customer loan and securities portfolio. To manage VTB's liquidity, the ALCO sets minimum levels of liquid assets and maturity mismatch limits, and determines liquidity requirements.

The Treasury currently performs functions of VTB's centralised liquidity, currency and interest rate risk management, including maintenance of required liquidity levels and optimal currency and term structure of the Bank's balance; forecasting VTB's future liquidity; taking part in centralised management of the cost-effectiveness and profitability of VTB's operations and yield levels with various terms on financial markets (yield curve); and, along with VTB's other departments, developing and executing transfer pricing of VTB's cash resources.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

VTB is also subject to liquidity requirements set by the CBR.

The table below shows assets and liabilities at 31 December 2006 by their remaining contractual maturity.

	<u>On demand and up to 1 month</u>	<u>From 1 month to 6 months</u>	<u>From 6 months to 1 year</u>	<u>More than 1 year</u>	<u>Overdue, maturity undefined</u>	<u>Total</u>
Assets						
Cash and short-term funds	3,581	—	—	—	—	3,581
Mandatory cash balances with central banks	266	135	75	172	—	648
Financial assets at fair value through profit or loss	4,787	33	7	287	6	5,120
Financial assets pledged under repurchase agreements and loaned financial assets	340	343	13	840	1,402	2,938
Due from other banks	5,295	461	479	578	—	6,813
Loans and advances to customers	2,290	7,477	5,744	13,672	79	29,262
Financial assets available-for-sale	14	49	6	317	502	888
Investments in associates	—	—	—	—	200	200
Investment securities held-to-maturity	6	—	—	5	—	11
Premises and equipment	—	—	—	—	1,422	1,422
Investment property	—	—	—	—	178	178
Intangible assets	—	—	—	—	455	455
Deferred tax asset	—	—	—	—	93	93
Other assets	150	323	182	93	46	794
Total assets	<u>16,729</u>	<u>8,821</u>	<u>6,506</u>	<u>15,964</u>	<u>4,383</u>	<u>52,403</u>
Liabilities						
Due to other banks	4,633	1,225	803	926	—	7,587
Customer deposits	10,205	5,603	2,275	1,905	—	19,988
Other borrowed funds	158	539	1,127	2,644	—	4,468
Debt securities issued	471	1,252	1,604	8,238	—	11,565
Deferred tax liability	—	—	—	—	125	125
Other liabilities	135	165	25	69	115	509
Subordinated debt	—	7	—	1,162	—	1,169
Total liabilities	<u>15,602</u>	<u>8,791</u>	<u>5,834</u>	<u>14,944</u>	<u>240</u>	<u>45,411</u>
Net liquidity gap	<u>1,127</u>	<u>30</u>	<u>672</u>	<u>1,020</u>	<u>4,143</u>	<u>6,992</u>
Cumulative liquidity gap	<u>1,127</u>	<u>1,157</u>	<u>1,829</u>	<u>2,849</u>	<u>6,992</u>	

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

The table below shows assets and liabilities at 31 December 2005 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined	Total
Assets						
Cash and short-term funds . . .	2,692	—	—	—	—	2,692
Mandatory cash balances with central banks	217	90	47	50	—	404
Financial assets at fair value through profit or loss	3,565	162	40	1,266	18	5,051
Financial assets pledged under repurchase agreements and loaned financial assets	908	37	26	381	—	1,352
Due from other banks	2,817	633	188	503	—	4,141
Loans and advances to customers	1,692	5,719	4,318	8,145	51	19,925
Assets of disposal group held for sale	—	337	—	—	—	337
Financial assets available-for-sale	32	28	38	424	359	881
Investments in associates	—	—	—	—	118	118
Investment securities held-to-maturity	—	1	2	4	—	7
Premises and equipment	—	—	—	—	832	832
Investment property	—	—	—	—	198	198
Intangible assets	—	—	—	—	451	451
Deferred tax asset	—	—	—	—	82	82
Other assets	25	36	8	104	79	252
Total assets	11,948	7,043	4,667	10,877	2,188	36,723
Liabilities						
Due to other banks	3,684	1,130	238	1,577	—	6,629
Customer deposits	7,219	2,693	1,565	1,290	—	12,767
Liabilities of disposal group held for sale	—	199	—	—	—	199
Other borrowed funds	104	736	905	1,192	—	2,937
Debt securities issued	364	870	830	5,177	—	7,241
Deferred tax liability	—	—	—	—	162	162
Other liabilities	54	40	18	45	201	358
Subordinated debt	4	6	7	1,144	—	1,161
Total liabilities	11,429	5,674	3,563	10,425	363	31,454
Net liquidity gap	519	1,369	1,104	452	1,825	5,269
Cumulative liquidity gap	519	1,888	2,992	3,444	5,269	

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

The table below shows assets and liabilities at 31 December 2004 by their remaining contractual maturity.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue, maturity undefined	Total
Assets						
Cash and short-term funds	1,520	—	—	—	—	1,520
Mandatory cash balances with central banks	77	66	33	56	—	232
Financial assets at fair value through profit or loss	2,017	12	4	531	2	2,566
Financial assets pledged under repurchase agreements and loaned financial assets	340	—	—	—	—	340
Due from other banks	1,107	373	329	214	—	2,023
Loans and advances to customers	1,208	3,108	2,105	3,733	15	10,169
Financial assets available-for-sale	—	—	—	—	190	190
Investments in associates	—	—	—	—	77	77
Investment securities held-to-maturity	—	—	2	5	—	7
Premises and equipment	—	—	—	—	321	321
Intangible assets	—	—	—	—	102	102
Deferred tax asset	—	—	—	—	74	74
Other assets	85	49	24	6	25	189
Total assets	<u>6,354</u>	<u>3,608</u>	<u>2,497</u>	<u>4,545</u>	<u>806</u>	<u>17,810</u>
Liabilities						
Due to banks	1,167	895	465	727	—	3,254
Customer deposits	3,267	1,682	635	440	—	6,024
Other borrowed funds	6	580	835	308	—	1,729
Debt securities issued	67	833	658	2,390	—	3,948
Deferred tax liability	—	—	—	—	1	1
Other liabilities	39	41	4	18	43	145
Total liabilities	<u>4,546</u>	<u>4,031</u>	<u>2,597</u>	<u>3,883</u>	<u>44</u>	<u>15,101</u>
Net liquidity gap	<u>1,808</u>	<u>(423)</u>	<u>(100)</u>	<u>662</u>	<u>762</u>	<u>2,709</u>
Cumulative liquidity gap	<u>1,808</u>	<u>1,385</u>	<u>1,285</u>	<u>1,947</u>	<u>2,709</u>	

Management believes that in spite of the fact that the part of the Group's trading securities mature after one year in accordance with the terms of issue, the majority of these securities are freely traded on the market and as such securities represent a hedge against potential liquidity risks. Therefore, the Group has included the trading securities in the "on demand and less than one month" category.

Further, Management believes that although a substantial portion of customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

of depositors, and the past experience of the Group indicates that these deposits provide a long-term and stable source of funding for the Group.

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The interest rate risk is managed by the ALCO and the Treasury.

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. In practice, interest rates are often fixed on a short-term or floating basis. Also, interest rates that are contractually fixed on both assets and liabilities may be renegotiated to reflect current market conditions. Therefore, the majority of the Group's balances carry interest at rates approximating market interest rates. The Group normally seeks to establish its interest rate positions at optimal profitability/risk level taken decisions if necessary in respect of the operations changing the asset/liabilities maturity structure.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks at 31 December 2006. 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 up to 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined/ non-interest bearing	Total
Assets						
Cash and short-term funds	3,581	—	—	—	—	3,581
Mandatory cash balances with central banks	266	135	75	172	—	648
Financial assets at fair value through profit or loss	1,633	2,303	248	622	314	5,120
Financial assets pledged under repurchase agreements and loaned financial assets	471	1,015	—	23	1,429	2,938
Due from other banks	5,454	761	340	258	—	6,813
Loans and advances to customers	3,257	8,327	10,999	6,600	79	29,262
Financial assets available-for-sale	44	88	1	253	502	888
Investments in associates	—	—	—	—	200	200
Investment securities held-to-maturity	6	—	5	—	—	11
Premises and equipment	—	—	—	—	1,422	1,422
Investment property	—	—	—	—	178	178
Intangible assets	—	—	—	—	455	455
Deferred tax asset	—	—	—	—	93	93
Other assets	—	—	—	—	794	794
Total assets	<u>14,712</u>	<u>12,629</u>	<u>11,668</u>	<u>7,928</u>	<u>5,466</u>	<u>52,403</u>
Liabilities						
Due to other banks	4,747	1,347	777	716	—	7,587
Customer deposits	10,215	5,604	2,274	1,895	—	19,988
Other borrowed funds	598	2,729	627	514	—	4,468
Debt securities issued	1,611	2,940	300	6,714	—	11,565
Deferred tax liability	—	—	—	—	125	125
Other liabilities	—	—	—	—	509	509
Subordinated debt	—	7	—	1,162	—	1,169
Total liabilities	<u>17,171</u>	<u>12,627</u>	<u>3,978</u>	<u>11,001</u>	<u>634</u>	<u>45,411</u>
Net repricing gap	<u>(2,459)</u>	<u>2</u>	<u>7,690</u>	<u>(3,073)</u>	<u>4,832</u>	<u>6,992</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks at 31 December 2005. 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 up to 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined/ non-interest bearing	Total
Assets						
Cash and short-term funds	2,692	—	—	—	—	2,692
Mandatory cash balances with central banks	217	90	47	50	—	404
Financial assets at fair value through profit or loss	44	509	292	3,542	664	5,051
Financial assets pledged under repurchase agreements and loaned financial assets	17	165	87	965	118	1,352
Due from other banks	3,267	643	169	62	—	4,141
Loans and advances to customers	3,464	5,763	3,965	6,682	51	19,925
Assets of disposal group held for sale	132	—	205	—	—	337
Financial assets available-for-sale	—	32	26	464	359	881
Investments in associates	—	—	—	—	118	118
Investment securities held-to-maturity	—	1	2	4	—	7
Premises and equipment	—	—	—	—	832	832
Investment property	—	—	—	—	198	198
Intangible assets	—	—	—	—	451	451
Deferred tax asset	—	—	—	—	82	82
Other assets	—	—	—	—	252	252
Total assets	<u>9,833</u>	<u>7,203</u>	<u>4,793</u>	<u>11,769</u>	<u>3,125</u>	<u>36,723</u>
Liabilities						
Due to other banks	3,969	1,295	104	1,261	—	6,629
Customer deposits	7,258	2,694	1,550	1,265	—	12,767
Liabilities of disposal group held for sale	94	65	—	—	40	199
Other borrowed funds	2,300	373	169	95	—	2,937
Debt securities issued	619	870	981	4,771	—	7,241
Deferred tax liability	—	—	—	—	162	162
Other liabilities	—	—	—	—	358	358
Subordinated debt	4	6	7	1,144	—	1,161
Total liabilities	<u>14,244</u>	<u>5,303</u>	<u>2,811</u>	<u>8,536</u>	<u>560</u>	<u>31,454</u>
Net repricing gap	<u>(4,411)</u>	<u>1,900</u>	<u>1,982</u>	<u>3,233</u>	<u>2,565</u>	<u>5,269</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks at 31 December 2004. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue, maturity undefined/ non-interest bearing	Total
Assets						
Cash and short-term funds . . .	1,520	—	—	—	—	1,520
Mandatory cash balances with central banks	77	66	33	56	—	232
Financial assets at fair value through profit or loss	4	27	684	1,696	155	2,566
Financial assets pledged under repurchase agreements and loaned financial assets	—	60	—	279	1	340
Due from other banks	1,117	373	319	214	—	2,023
Loans and advances to customers	1,187	3,975	2,104	2,888	15	10,169
Financial assets available-for-sale	—	—	—	—	190	190
Investments in associates . . .	—	—	—	—	77	77
Investment securities held-to-maturity	—	—	2	5	—	7
Premises and equipment . . .	—	—	—	—	321	321
Intangible assets	—	—	—	—	102	102
Deferred tax asset	—	—	—	—	74	74
Other assets	—	—	—	—	189	189
Total assets	<u>3,905</u>	<u>4,501</u>	<u>3,142</u>	<u>5,138</u>	<u>1,124</u>	<u>17,810</u>
Liabilities						
Due to banks	1,186	943	405	720	—	3,254
Customer deposits	3,267	1,682	635	440	—	6,024
Other borrowed funds	581	306	835	7	—	1,729
Debt securities issued	692	858	658	1,740	—	3,948
Deferred tax liability	—	—	—	—	1	1
Other liabilities	—	—	—	—	145	145
Total liabilities	<u>5,726</u>	<u>3,789</u>	<u>2,533</u>	<u>2,907</u>	<u>146</u>	<u>15,101</u>
Net repricing gap	<u>(1,821)</u>	<u>712</u>	<u>609</u>	<u>2,231</u>	<u>978</u>	<u>2,709</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

36. Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using effective contractual rates.

	31 December 2006				31 December 2005				31 December 2004			
	USD	RUR	EURO	Other currencies	USD	RUR	EURO	Other currencies	USD	RUR	EURO	Other currencies
Assets												
Cash and short-term funds	4%	0%	3%	1%	2%	1%	1%	1%	1%	1%	1%	1%
Financial assets at fair value through profit or loss	8%	7%	6%	6%	7%	7%	4%	4%	7%	6%	5%	—
Financial assets pledged under repurchase agreements and loaned financial assets	5%	6%	4%	5%	5%	6%	2%	5%	4%	1%	4%	—
Due from other banks	5%	4%	3%	4%	4%	8%	3%	3%	6%	9%	3%	1%
Loans and advances to customers	9%	13%	8%	14%	9%	13%	8%	11%	8%	13%	8%	7%
Debt investment securities												
available-for-sale	6%	—	3%	—	4%	2%	1%	2%	—	3%	—	—
Investment securities held-to-maturity	—	—	—	8%	—	—	—	3%	—	5%	—	3%
Liabilities												
Due to other banks	6%	6%	3%	5%	5%	5%	3%	5%	4%	4%	5%	1%
Customer deposits	6%	6%	6%	2%	4%	4%	4%	3%	4%	4%	5%	4%
Other borrowed funds	5%	11%	4%	4%	5%	4%	4%	2%	3%	—	4%	3%
Debt securities issued	6%	6%	4%	—	6%	6%	3%	—	6%	6%	4%	—
Subordinated debt	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.

37. Fair Values of Financial Instruments

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

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

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

Due from other bank and cash and cash equivalents. Management has estimated that at 31 December 2006, 2005 and 2004 the fair value of due from other banks and cash and cash equivalents was not materially different from their respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Loans and advances to customers. Management has estimated that at 31 December 2006, 2005 and 2004 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

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

37. Fair Values of Financial Instruments (Continued)

reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Borrowings. Management has estimated that at 31 December 2006, 2005 and 2004 the fair values of borrowings were not materially different from their respective carrying values. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Debt securities issued. The fair values of debt securities were determined by Management on the basis of market quotations.

	31 December 2006		31 December 2005		31 December 2004	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<i>Financial assets</i>						
Cash and short-term funds	3,581	3,581	2,692	2,692	1,520	1,520
Financial assets at fair value through profit or loss	5,120	5,120	5,051	5,051	2,566	2,566
Financial assets pledged under repurchase agreements and loaned financial assets	2,938	2,938	1,352	1,352	340	340
Due from other banks	6,813	6,813	4,141	4,141	2,023	2,023
Loans and advances to customers	29,262	29,262	19,925	19,926	10,169	10,169
Financial assets available-for-sale	888	888	881	881	190	190
Investment securities held-to-maturity	11	11	7	7	7	7
<i>Financial liabilities</i>						
Due to other banks	7,587	7,587	6,629	6,629	3,254	3,254
Customer deposits	19,988	19,988	12,767	12,767	6,024	6,024
Other borrowed funds	4,468	4,468	2,937	2,937	1,729	1,729
Debt securities issued	11,565	11,677	7,241	7,315	3,948	4,021
Subordinated debt	1,169	1,193	1,161	1,173	—	—

38. Related Party Transactions

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

Commencing 1 January 2005, the revised IAS 24 removed the exemption for state-controlled entities from the requirement to disclose transactions with other state-controlled entities. Since the Bank is a state-owned entity, the Bank introduced a policy, in accordance with which it discloses transactions and outstanding balances, as well as details of guarantees given or received, with directly or indirectly state-owned entities.

The following material related party transactions on non-arms’ length basis are disclosed in the report:

- Deposit of CBR in relation to the acquisition of “Bank VTB 24” in 2004 (Note 39)
- Contribution in kind of foreign banks in December 2005 (Note 39)
- Extinguishment of debt and the related loans write-off in 2004 (Note 29)
- Disposal of subsidiaries in 2006 (Note 22, 39)

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

38. Related Party Transactions (Continued)

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

Balance sheet

	31 December 2006		31 December 2005		31 December 2004	
	State-owned entities	Associates	State-owned entities	Associates	State-owned entities	Associates
Assets						
Cash and short-term funds . .	1,236	—	1,212	—	195	20
Mandatory cash balances with central banks	571	—	329	—	232	—
Financial assets at fair value through profit or loss	2,456	—	2,873	—	1,365	—
Financial assets pledged under repurchase agreements and loaned financial assets	207	—	454	—	322	—
Due from other banks	731	72	354	—	326	12
Loans and advances to customers	5,435	65	4,429	—	2,599	—
Allowance for loan impairment	(80)	(31)	(99)	—	(134)	—
Financial assets available-for-sale	470	—	301	—	176	—
Liabilities						
Due to other banks	495	7	1,242	—	556	10
Customer deposits	4,221	6	1,973	2	1,613	—
Other borrowed funds	653	—	982	—	694	—
Credit Related Commitments						
Guarantees issued	1,758	—	1,044	—	1,026	—
Undrawn credit lines	1,079	—	501	—	157	—
Import letters of credit	100	—	79	—	27	—
Commitments to extend credit	333	34	183	—	85	—
Other credit related commitments	100	2	—	—	—	—

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

38. Related Party Transactions (Continued)

Income Statement

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest income			
Loans and advances to customers	436	293	198
Securities	214	109	129
Due from other banks	30	22	10
Interest expense			
Customer deposits	(138)	(58)	(60)
Due to other banks	(79)	(85)	(11)
Extinguishment of liabilities	—	100	—
Reversal of allowance (provision) for impairment	(12)	35	34
Gain from disposal of subsidiaries	51	—	—

For the period ended 31 December 2006, the total remuneration of the directors and key management personnel amounted to USD 40.5 million (31 December 2005: USD 9.4 million; 2004: USD 7.4 million). Pension contributions of the directors and key management personnel amounted to USD 1.9 million (2005: USD 0.3 million; 2004: USD 0.2 million). A key management personnel includes VTB Supervisory Council, VTB Management Board, VTB Statutory Audit Committee and key management of subsidiaries.

39. Business Combination and Disposals of Subsidiaries

Acquisitions of Banks from the Central Bank of Russian Federation

Based on a decision of Russian Federation authorities the CBR sold shares in five European banks to VTB. At the end of December 2005, VTB purchased from the CBR 89% of ordinary shares of Moscow Narodny Bank (London) (renamed to “VTB Bank (Europe)”, Plc.), 87% of ordinary shares of BCEN-Eurobank (Paris) (renamed to “VTB Bank (France)”), 15% of ordinary shares of Donau-bank (renamed to “VTB Bank (Austria)”, AG) (thus increasing its stake to 100%), 15% in East-West United Bank (increasing its stake to 51%, since 2% is held by BCEN-Eurobank) and 52% in Ost-West Handelsbank (Frankfurt) (renamed to “VTB Bank (Deutschland)”, AG) (thus increasing its stake to 84%).

The acquisitions were completed by the end of December 2005. Additionally it was agreed to transfer certain deposits of the CBR in the above banks to VTB. The amount of consideration paid by VTB for the acquired shares in net assets and purchased deposits was based on the carrying amount of the above assets and deposits in the accounting records of the CBR, which is less than the fair value of these net assets at the date of the sale.

To finance the above transaction, on 26 December 2005 Russian Federation Government (the controlling shareholder of VTB) contributed cash in the amount of USD 1,303 million to the capital of VTB. On 26 December 2005, VTB paid the purchase consideration for the shares and deposits in the above five banks to the CBR in the total amount of USD 1,240 million.

Management of VTB believes that the above transaction represents contribution in kind of shares and deposits in certain banks by the controlling shareholder. Therefore, VTB has recorded the contribution in kind as an increase in equity at the Group’s share in the fair value of the banks contributed, which comprised USD 1,763 million. Additionally, the difference between the cash contributed by the Government and the cash paid to the CBR in the amount of USD 63 million was recorded as a contribution from the controlling shareholder.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

39. Business Combination and Disposals of Subsidiaries (Continued)

Management of VTB considers the acquisition of VTB Bank (Europe), VTB Bank (France), East-West United Bank, VTB Bank (Deutschland), a business combination under common control, as both the seller (the CBR) and the acquirer (VTB) are state-controlled entities. VTB has accounted for these acquisitions under the purchase method.

The aggregated fair value of identifiable assets, liabilities and contingent liabilities of VTB Bank (Europe), VTB Bank (France), East-West United Bank, VTB Bank (Deutschland) as at the date of acquisition were:

	<u>Fair value</u>	<u>Carrying value</u>
Assets		
Cash and short-term funds	180	180
Mandatory cash balances with central banks	9	9
Financial assets at fair value through profit or loss	405	405
Financial assets pledged under repurchase agreements and loaned financial assets	710	710
Due from other banks	1,929	1,937
Loans and advances to customers	1,877	1,877
Financial assets available-for-sale	580	526
Investments in associates	25	23
Premises and equipment	132	113
Deferred tax asset	39	36
Other assets	21	21
Total assets	<u>5,907</u>	<u>5,837</u>
Liabilities		
Due to other banks	3,134	3,134
Customer deposits	303	303
Other borrowed funds	422	422
Debt securities issued	425	425
Subordinated debt	354	354
Deferred tax liability	22	14
Other liabilities	111	111
Total liabilities	<u>4,771</u>	<u>4,763</u>
Fair value of net assets	<u>1,136</u>	<u>1,074</u>
Contribution of deposits	688	
Less: minority interests	(169)	
Group's share of the fair value of net assets	<u>1,655</u>	
Increase in equity attributable to shareholders of the parent (contribution of business: Group's share in fair values of contributed banks, including revaluation of share of associate plus cash difference)	1,849	
Existing interest before acquisitions	67	
Less: revaluation of investment in associate	(23)	
Less: minority interest in VTB Bank (Austria)	(84)	
Less: cash difference, including deposit in VTB Bank (Austria)	(154)	
Group's share of fair value of net assets contributed	<u>1,655</u>	

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

39. Business Combination and Disposals of Subsidiaries (Continued)

Contribution of deposits represents purchase of deposits in fore-mentioned subsidiary banks from the CBR as part of the business combination.

The amount of profit and loss of the acquired banks from the acquisition dates to 31 December 2005 is immaterial. The Group's share in the fair value of the banks business contributed approximates the fair value of the net assets of these banks, thus no goodwill was recorded as a result of this transaction.

The increase of share in VTB Bank (Austria) from 85% to 100% was accounted for as the increase of share in the previously consolidated subsidiary with necessary reallocations between minority interest and retained earnings in the Balance Sheet.

Revenues and profit for 2005 of the combined entity as though the acquisitions date had been the beginning of the period were not disclosed, as that would be impracticable because the majority of the newly acquired subsidiaries did not prepare IFRS financial statements for 2005.

Acquisition of OJSC "Industry & Construction Bank" (ICB)

In March 2005, VTB acquired a 25% plus one share of initial interest in OJSC "Industry & Construction Bank" (ICB), a major corporate and retail bank of the Russian North West located in St. Petersburg, in exchange for a cash payment of approximately USD 97 million.

On December 28, 2005 VTB purchased 630,488,500 ordinary shares of ICB with par value of 1 RUR per share for USD 480 million. As a result of this transaction, VTB's ownership percentage increased from 25% plus one share to 75% plus three shares of the share capital of ICB. VTB hired an independent appraiser to determine the fair value of identifiable assets, liabilities and contingent liabilities of ICB as of the acquisition date and allocate the cost of business combination at each acquisition date. The amount of profit and loss of ICB from the acquisition date to December 31, 2005 is immaterial.

As a result of the first acquisition of 25% plus one share in ICB, there was an excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost in the amount of USD 30 million. This excess was recognised in the consolidated income statement. As a result of the additional acquisition of 50% in ICB, goodwill in the amount of USD 182 million arose. This goodwill was recognised as an intangible asset at 31 December 2005.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

39. Business Combination and Disposals of Subsidiaries (Continued)

The fair value and carrying value of the identifiable assets and liabilities of ICB as at 31 March 2005 were:

	Fair value	Carrying value
Assets		
Cash and short-term funds	377	377
Mandatory cash balances with central banks	74	74
Financial assets at fair value through profit or loss	603	603
Due from other banks	375	375
Loans and advances to customers	1,944	1,927
Premises and equipment	179	130
Investment property	71	68
Intangible assets	148	6
Deferred tax asset	1	1
Other assets	35	35
Total assets	<u>3,807</u>	<u>3,596</u>
Liabilities		
Due to other banks	232	231
Customer deposits	2,292	2,287
Other borrowed funds	359	356
Debt securities issued	282	288
Deferred tax liability	50	—
Other liabilities	33	33
Total liabilities before subordinated debt	<u>3,248</u>	<u>3,195</u>
Subordinated debt	46	44
Total liabilities	<u>3,294</u>	<u>3,239</u>
Fair value of net assets	513	357
Initial acquisition share	25%	
Fair value of initial acquisition of net assets	127	
Contribution paid	(97)	
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	30	

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

39. Business Combination and Disposals of Subsidiaries (Continued)

The fair value and carrying value of identifiable assets and liabilities of ICB as at 31 December 2005 were:

	Fair value	Carrying value
Assets		
Cash and short-term funds	451	451
Mandatory cash balances with central banks	87	87
Financial assets at fair value through profit or loss	960	960
Financial assets pledged under repurchase agreements and loaned financial assets	241	241
Due from other banks	217	217
Loans and advances to customers	2,780	2,762
Financial assets available-for-sale	3	3
Investments in associates	2	2
Premises and equipment	189	138
Investment property	198	198
Intangible assets	154	—
Other assets	45	45
Total assets	5,327	5,104
Liabilities		
Due to other banks	389	389
Customer deposits	2,978	2,976
Other borrowed funds	330	328
Debt securities issued	529	533
Deferred tax liability	53	—
Other liabilities	40	40
Total liabilities before subordinated debt	4,319	4,266
Subordinated debt	410	409
Total liabilities	4,729	4,675
Fair value of net assets	598	429
Additional acquisition share	50%	
Fair value of additional acquisition of net assets	298	
Contribution paid	(480)	
Goodwill	182	

From the date of acquisition of 25% share to 31 December 2005, ICB bank generated USD 108 million net profit, which was included in the Group's consolidated income statement for the year ended 31 December 2005. If the acquisition of 25% share had taken place at the beginning of the year, the net profit of the Group would have been USD 516 million and operating income would have been USD 1,528 million. If the acquisition of 75% share had taken place at the beginning of the year, the net profit of the Group would have been USD 597 million and operating income would have been USD 1,609 million.

Acquisition of Guta Bank (renamed to “Bank VTB 24”, CJSC)

In July 2004, VTB purchased 85.8% of the ordinary voting shares in Guta Bank for a cash payment of approximately RUR 1 million (USD 34 thousand at the exchange rate of RUR 29.077

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

39. Business Combination and Disposals of Subsidiaries (Continued)

per USD 1). In connection with the acquisition of Guta Bank, the CBR placed a USD 700 million special purpose deposit with VTB at the LIBOR rate for one year. The deposit was provided to maintain Guta Bank's liquidity and for the use in the Bank's operations. The term of the deposit could be prolonged with the agreement of VTB and the CBR. VTB has extended a credit line to Guta Bank of RUR 10,000 million (USD 344 million at the exchange rate of RUR 29.077 per USD 1) maturing in one year and bearing interest rate of 6% p.a. with interest payment at maturity, which is secured by Guta Bank's loan portfolio. As of 31 December 2004, the amount drawn down by Guta Bank under this credit line was RUR 6,900 million (USD 249 million at the exchange rate of RUR 27.7487 per USD 1). As of the date of its acquisition by VTB, Guta Bank had a net loan exposure of approximately USD 240 million to companies related to its former shareholders.

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

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

From the date of acquisition to 31 December 2004, Guta bank incurred a USD 17 million net loss, which was included in the Group's consolidated statement of income for the year ended 31 December 2004. If the acquisition had taken place at the beginning of the year, the net profit of the Group would have been USD 199 million and operating income would have been USD 939 million.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

39. Business Combination and Disposals of Subsidiaries (Continued)

Other acquisitions

During 2005 the Group had business combinations with United Georgian Bank (renamed to “VTB Bank (Georgia)”, JSC) and Armsberbank (renamed to “VTB Bank (Armenia)”, CJSC), which did not have a material effect on the Group, thus they are not separately disclosed (Note 40).

At the end of March 2006 VTB purchased 1,312,802,167 ordinary shares (98% of the share capital) of the Bank “Mriya” located in Ukraine for USD 66 million. VTB hired an independent appraiser to determine the fair value of identifiable assets, liabilities and contingent liabilities of the Bank “Mriya” as of the acquisition date. Goodwill recognised at the purchase date was USD 13 million.

If the acquisition of the Bank “Mriya” had taken place at the beginning of the year, the net profit of the Group and operating income would not have been materially different. The fair values of identifiable assets and liabilities of the Bank “Mriya” at the date of acquisition were not materially different from carrying values of these assets and liabilities immediately before the acquisition. The fair values of identifiable assets and liabilities of the Bank “Mriya” at the acquisition date were:

	<u>Fair Value</u>	<u>Carrying Value</u>
Assets		
Cash and short-term funds	52	52
Financial assets at fair value through profit or loss	6	6
Due from other banks	8	7
Loans and advances to customers	325	329
Premises and equipment	26	18
Investment property	1	—
Intangible assets	6	—
Other assets	2	3
Total assets	<u>426</u>	<u>415</u>
Liabilities		
Due to other banks	32	33
Customer deposits	293	290
Other borrowed funds	26	26
Debt securities issued	1	1
Subordinated debt	1	1
Deferred tax liability	2	—
Other liabilities	17	16
Total liabilities	<u>372</u>	<u>367</u>
Fair value of net assets	<u>54</u>	
Contribution paid	66	
Goodwill	13	

Disposal of subsidiaries

At the end of 2005, VTB approved an increase in the participants’ fund of Trading House VTB. The increase of the participants fund was purchased in January 2006 by a state-owned bank (a related party), thus decreasing the share of the Group in Trading House VTB to 50%. This transaction was finalised in June 2006 and the Group retained control over Trading House VTB as of June 30, 2006. The Trading House VTB was renamed to “Interbank Trading House”, Ltd (ITH).

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

39. Business Combination and Disposals of Subsidiaries (Continued)

At the end of September 2006 the Board of Directors of “Interbank Trading House”, Ltd was reappointed to include new members representing the other participant resulting in the Group losing control over ITH. The Group accounted for a disposal of “Interbank Trading House”, Ltd with recognition of USD 51 million gain within Profit from disposal of subsidiaries. As of 30 September 2006, the Group accounted for ITH investment under IAS 28 requirement using the equity method of accounting. The assets and liabilities disposed are as follows:

	<u>30 September 2006</u>
Assets	
Cash and short-term funds	1
Due from other banks	54
Loans and advances to customers	4
Intangible assets	1
Other assets	<u>3</u>
Total assets	<u>63</u>
Liabilities	
Due to other banks	108
Other liabilities	<u>6</u>
Total liabilities	<u>114</u>
Net assets	<u>(51)</u>
Total carrying amount of net assets disposed	<u>(51)</u>

In May 2006 the Group decided to decrease the ownership in “Insurance Capital”, Ltd to a non-controlling share (49.99%) with simultaneous renaming of the company to “Insurance Company VTB-Rosno”, Ltd and increasing the share capital to RUR 436 million (USD 16 million). The deal was completed in July 2006. The Group lost control over “Insurance Company VTB-Rosno”, Ltd after the transaction and deconsolidated this entity. The Group recognised this investment under the equity method of accounting.

The assets and liabilities disposed are as follows:

	<u>1 July 2006</u>
Assets	
Cash and short-term funds	16
Deferred tax asset	1
Other assets	<u>7</u>
Total assets	<u>24</u>
Liabilities	
Other liabilities	29
Total liabilities	<u>29</u>
Net assets	<u>(5)</u>
Total carrying amount of net assets disposed	<u>(5)</u>

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

39. Business Combination and Disposals of Subsidiaries (Continued)

The Group has recorded a gain from the disposal of “Insurance Company VTB-Rosno”, Ltd in the amount of USD 5 million within Profit from disposal of subsidiaries.

In December 2006, VTB sold a 2% stake in “East-West United Bank”, S.A. (EWUB) to a third party, decreasing the Group’s share in EWUB to 48.55%, accordingly at the date of disposal the Group deconsolidated EWUB and accounted for that investment under the equity method.

At the disposal date the assets and liabilities of EWUB were as follows:

	31 December 2006
Assets	
Cash and short-term funds	8
Mandatory cash balances with central banks	4
Financial assets pledged under repurchase agreements and loaned financial assets . . .	25
Due from other banks	52
Loans and advances to customers	182
Financial assets available-for-sale	81
Premises and equipment	11
Other assets	13
Total assets	<u>376</u>
Liabilities	
Due to other banks	147
Customer deposits	111
Subordinated debt	6
Deferred tax liability	15
Other liabilities	15
Total liabilities	<u>294</u>
Net assets	<u>82</u>
Total carrying amount of net assets disposed	<u>82</u>

The Group has recorded a loss from the disposal of EWUB in the amount of USD 2 million within Profit from disposal of subsidiaries.

40. Consolidated Subsidiaries and Associates

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

<u>Name</u>	<u>Activity</u>	<u>Country of registration</u>	<u>Percentage of ownership</u>		
			<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Subsidiaries					
“VTB Bank (Austria)” AG	Banking	Austria	100.00%	100.00%	85.00%
“Russian Commercial Bank (Cyprus) Limited”	Banking	Cyprus	100.00%	100.00%	100.00%
“Russian Commercial Bank Ltd”	Banking	Switzerland	100.00%	100.00%	100.00%
“Vneshtorgbank (Ukraine)”, CJSC	Banking	Ukraine	100.00%	100.00%	—
“Mriya”, OJSC	Banking	Ukraine	98.47%	—	—

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

40. Consolidated Subsidiaries and Associates (Continued)

Name	Activity	Country of registration	Percentage of ownership		
			31 December 2006	31 December 2005	31 December 2004
“VTB Bank (Armenia)”, CJSC . . .	Banking	Armenia	70.00%	70.00%	70.00%
“VTB Bank (Georgia)”, JSC	Banking	Georgia	53.17%	50.00%	—
“Bank VTB 24”, CJSC	Banking	Russia	96.68%	92.19%	85.80%
“VTB Broker”, OJSC	Banking	Russia	99.83%	99.80%	99.80%
“Novosibirskvneshtorgbank”, CJSC	Banking	Russia	99.58%	97.60%	97.60%
“VTB Bank (Deutschland)” AG . .	Banking	Germany	78.82%	83.54%	31.90%
“Industry & Construction Bank”, OJSC	Banking	Russia	75.00%	75.00%	—
“VTB Bank (France)”	Banking	France	77.55%	87.04%	—
“VTB Bank (Europe)”, Plc.	Banking	Great Britain	89.10%	89.10%	—
Bank “Povolzhskiy”, CJSC	Banking	Russia	—	—	60.40%
“VTB Capital (Namibia) (Property) Limited”	Investment	Namibia	50.03%	—	—
“Multicarta”, Ltd	Plastic cards	Russia	100.00%	100.00%	100.00%
“Euroleasing”, GMBH	Leasing	Germany	63.00%	63.00%	60.00%
“Rafinco Co.”, Inc.	Trading	USA	100.00%	100.00%	100.00%
“I.T.C. Consultants (Cyprus)”, Ltd	Finance	Cyprus	100.00%	100.00%	100.00%
“VB-Service”, Ltd	Commerce	Russia	100.00%	100.00%	100.00%
“Konobeevo”, OJSC	Recreation	Russia	—	89.99%	89.99%
“Non-state Pension Fund of Vneshtorgbank”	Insurance	Russia	100.00%	100.00%	100.00%
“Almaz-Press”, CJSC	Publishing	Russia	100.00%	100.00%	100.00%
“Almaz-Print”, CJSC	Publishing	Russia	100.00%	100.00%	100.00%
“Rassvet-Expo”, CJSC	Publishing	Russia	100.00%	100.00%	100.00%
“Rasters”, CJSC	Publishing	Russia	100.00%	100.00%	100.00%
“Dom Rybaka”, Ltd	Recreation	Russia	100.00%	100.00%	100.00%
“VTB-Leasing”, OJSC	Leasing	Russia	100.00%	100.00%	100.00%
“Embassy Development Limited” .	Finance	Jersey	100.00%	100.00%	—
“VTB-Capital”, CJSC	Finance	Russia	100.00%	55.00%	—
“VTB-Capital-Stolitsa”, CJSC . . .	Trading	Russia	99.00%	—	—
“VTB Strategic Investments (Russia) Limited”	Investment	England	89.10%	—	—
“VTB Strategic Investments Limited”	Investment	England	89.10%	89.10%	—
“VTB Finance”, B.V.	Finance	Netherlands	89.10%	89.10%	—
“Business-Finance”, Ltd	Finance	Russia	96.68%	92.19%	—
“Baltiyskaya Trade Industrial Company”, CJSC	Commerce	Russia	—	75.00%	—
“ICB Finance B.V.”	Finance	Netherlands	75.00%	75.00%	—
“ICB Finance”, Ltd	Finance	Russia	75.00%	75.00%	—
“Uralpromstroyleasing”, Ltd	Leasing	Russia	75.00%	75.00%	—
“ICB-Invest Group”, OJSC	Finance	Russia	74.25%	74.25%	—
“Korsar”, Ltd	Commerce	Russia	—	75.00%	—
“Adamas”, Ltd	Real estate	Russia	—	75.00%	—
“Derzhava”, Ltd	Real estate	Russia	—	75.00%	—

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

40. Consolidated Subsidiaries and Associates (Continued)

Name	Activity	Country of registration	Percentage of ownership		
			31 December 2006	31 December 2005	31 December 2004
“Korpus 104”, Ltd	Real estate	Russia	—	75.00%	—
“Prestizh”, Ltd	Real estate	Russia	—	63.75%	—
“Dolgovoi centre VTB RU”, CJSC	Finance	Russia	96.68%	—	—
“Sistema Plus”, CJSC	Finance	Russia	96.68%	92.19%	—
“Tekhnoinvest”, CJSC	Trading	Russia	87.01%	92.19%	—
Subsidiaries within disposal group:					
“Sales”, CJSC	Finance	Russia	—	92.19%	—
“PM-Nedvigimost”, CJSC	Trading	Russia	—	92.19%	—
“Remos-PM”, CJSC	Manufacturing	Russia	—	92.19%	—
“Instrumentalniy zavod—Permskie Motory”, CJSC	Manufacturing	Russia	—	92.19%	—
“Energetic-PM”, OJSC	Energy	Russia	—	90.90%	—
“Reduktor-PM”, OJSC	Manufacturing	Russia	—	74.96%	—
“Kaskad-PM”, CJSC	Manufacturing	Russia	—	80.48%	—
“Gheleznodoroghnik-PM”, CJSC	Transport	Russia	—	92.19%	—
“Nedvighimost-PM”, Ltd	Leasing	Russia	—	91.27%	—
“Permskiy Motorniy zavod”, OJSC	Manufacturing	Russia	—	66.04%	—
“Metallist-PM”, CJSC	Manufacturing	Russia	—	78.86%	—
“Perm-Energy”, CJSC	Engineering	Russia	—	78.36%	—
“PM-Upravlenie”, CJSC	Leasing	Russia	—	68.26%	—
“Obscheghitie-PM”, OJSC	Service	Russia	—	42.26%	—
“Usluga-PM”, Ltd	Service	Russia	—	61.15%	—
Associates:					
“Eurofinance Mosnarbank”, OJSC	Banking	Russia	34.07%	32.65%	—
“Halladale PLC”	Property	Great Britain	23.00%	23.00%	—
“Vietnam—Russia Joint Bank (joint bank)”	Banking	Vietnam	49.00%	—	—
“East-West United Bank”, S.A.	Banking	Luxembourg	48.55%	50.74%	34.00%
“Insurance company VTB-Rosno”, Ltd	Insurance	Russia	49.99%	100.00%	69.80%
“Interbank Trading House”, Ltd	Commerce	Russia	50.00%	100.00%	100.00%
“Management Company ICB”, Ltd	Finance	Russia	24.98%	30.91%	—
Associates within disposal group:					
“UK PMK”	Finance	Russia	—	32.52%	—
“Permskie Motory”, OJSC	Manufacturing	Russia	—	26.70%	—

In April 2004, the Group acquired 70% of the share capital of CJSC Armsberbank located in Armenia in exchange for cash payment of USD 9 million. As of 31 December 2004, its financial statements are consolidated into the Group’s financial statements. As a result of this acquisition, the Group has recognised positive goodwill of USD 4 million in accordance with IFRS 3 “Business Combination”. In 2005, CJSC Armsberbank increased its equity by issuing additional shares of

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

40. Consolidated Subsidiaries and Associates (Continued)

USD 10 million. VTB purchased 70% additional shares in the amount of USD 7 million, and consequently VTB's share in the capital of CJSC Armsberbank was not changed.

In January 2005, VTB acquired a 50% plus one share interest in United Georgian Bank ("UGB") in Tbilisi, Georgia, for approximately USD 7 million.

On 21 January 2005, the National Bank of Ukraine registered CJSC "Vneshtorgbank (Ukraine)", a wholly-owned subsidiary of VTB. CJSC "Vneshtorgbank (Ukraine)" began operations on 18 March 2005 and initially focused on providing international settlement services, loans and trade financing. Its initial share capital, contributed by VTB, was 80 million hryvnas (approximately USD 15 million). On 10 June 2005, an extraordinary meeting of shareholders approved an increase of share capital by 195 million hryvnas (USD 38 million).

On 6 June 2005, Guta Bank's shareholders changed its name to CJSC "Vneshtorgbank Retail Services" (VTB Retail Services), as the Group planned to restructure its retail operations, combining the retail and small business banking operations of VTB and VTB Retail Services. Starting in autumn of 2005, VTB began to gradually transfer to VTB Retail Services its retail and small business operations, along with the related assets and liabilities. In August 2005, VTB Retail Services began offering retail and small business banking services in Moscow and Russian regions under the "Vneshtorgbank 24" brand.

In November 2005, VTB Retail Services issued 2,740,500 shares at par value of RUR 1,000. On 30 November 2005, VTB purchased all shares issued by VTB Retail Services at RUR 3,284 per share. As a result, the share capital of VTB Retail Services increased by RUR 8,999,999 thousand. As a result of this transaction, VTB's ownership percentage in VTB Retail Services increased from 85.8% to 92.2%.

In December 2005 VTB sold its 62.4% owned subsidiary, Bank "Povolzhskiy", CJSC located in Ulyanovsk to a third party for USD 1.5 million.

In March and April 2006 the Bank purchased an additional issue of shares of the "United Georgian Bank". The total increase of the share capital was planned to be Georgian lari 20 million (20 million shares, or USD 11 million at period end exchange rate), of which VTB purchased 11,281,848 shares. The share of VTB in the "United Georgian Bank" was 53.13% after the shares were fully subscribed.

In April, 2006 "Armsberbank", CJSC was renamed into "VTB Bank (Armenia)", CJSC.

In June 2006, VTB Retail Services issued 4,242,425 shares at a price of RUR 1,650 per share (par value RUR 1,000) for the total amount of RUR 7,000,000 thousand. VTB purchased all shares issued by VTB Retail Services. As a result of this transaction, VTB's ownership percentage in VTB Retail Services increased to 95.93%. The share issue was registered by the Central Bank of Russia on 5 June 2006.

In June 2006 VTB Group initiated the sale of a disposal Group held for sale. The deal was closed in August 2006, when the transfer of ownership was approved by Russian anti-monopoly authorities. VTB Group sold an 81.25% interest in CJSC "Sales" to an unrelated party (Refer to Note 33) for USD 122 million, which resulted in a profit of USD 8 million. The Group continues to own 18.75% interest in CJSC "Sales" and accounted for this investment under IAS 39 requirements as an available-for-sale financial asset.

On 22 September 2006 the extraordinary general meeting of shareholders of OJSC "Industry & Construction Bank" (ICB) approved the merger with the Bank. The ratio of share conversion was set at 1 ICB share with a face value of 1 RUR into 385 VTB shares with a face value of 0.01 Russian roubles. ICB also offered to ICB shareholders that dispute this merger to buy out all

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

40. Consolidated Subsidiaries and Associates (Continued)

shares at a price of 22 RUR per 1 ICB share. This merger is subject to approval of VTB's general meeting of shareholders.

In September 2006, two subsidiaries of ICB, "Adamas" and "Derzhava", ceased to be consolidated in the Group's financial statements, because ICB concluded option agreements with a third party, which has the right to purchase participation in these subsidiaries at any date before December 31, 2006. As a result, these option agreements give potential voting rights to the third party to govern the financial and operating policies of these subsidiaries. In December 2006 the options were executed.

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

In September 2006, VTB opened an office of a subsidiary bank in Angola Banco VTB Africa SA (VTB Africa) with 66% shareholding held by VTB.

In October 2006, VTB established a subsidiary financial company in Namibia "VTB Capital (Namibia) (Proprietary) Limited" with 50% plus 2 shares shareholding held by VTB.

In October 2006, the Group started the re-branding process to unite its principal subsidiaries under a common name—VTB. In October 2006, "Ost-West Handelsbank" AG, "Donau-bank" AG, "BCEN-Eurobank" and "Moscow Narodny Bank Limited" were renamed into "VTB Bank (Deutschland)" AG, "VTB Bank (Austria)" AG, "VTB Bank (France)" and "VTB Bank (Europe)", Plc., respectively. In November 2006, CJSC "Vneshtorgbank Retail Services" was renamed into CJSC "Bank VTB 24". In November 2006, OJSC Bank "Zabaikalsky" was renamed into OJSC "VTB Broker". In December 2006, "United Georgian Bank" was renamed into "VTB Bank (Georgia)".

In November 2006, VTB established a Vietnam-Russia Joint Venture Bank with a 49% shareholding held by VTB.

In December 2006, CJSC "Bank VTB 24" (VTB 24) issued 2,315,119 shares at a price of RUR 1,650 per share (par value RUR 1,000) for the total amount of RUR 3,819,946 thousand. VTB purchased all shares issued by VTB 24. As a result of this transaction, VTB's ownership percentage in VTB 24 increased to 96.68%. The share issue was registered by the Central Bank of Russia on 25 December 2006.

In December 2006 VTB sold VTB Bank (Deutschland) and VTB Bank (France) to VTB Bank (Europe), the Group's share in these banks decreased to 78.82% and 77.55%, accordingly.

In December 2006, VTB sold a 2% stake in East-West United Bank (EWUB) to a third party, decreasing the Group's share in capital of EWUB to 48.55%. Accordingly, at the date of disposal the Group deconsolidated EWUB and accounted for that investment under the equity method.

41. Capital Adequacy

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian accounting legislation. As of 31 December 2006, 2005 and 2004 the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2006, 2005 and 2004 was 14.0%, 14.1% and 12.0%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

VTB BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 December 2006, 2005 and 2004
(expressed in millions of US dollars)

42. Subsequent Events

In March 2007, OJSC Vneshtorgbank was renamed to “VTB Bank” (OJSC).

In March 2007, the extraordinary general meeting of shareholders of VTB approved the increase of the share capital by 1,734,333,866,664 shares (24.97% of VTB number of shares after the increase).

In March 2007, VTB issued a EUR 1,000 million Eurobond with a floating rate of EURIBOR+0.6% maturing in March 2009.

In March 2007, VTB issued a GBP 300 million Eurobond with an interest rate of 6.332% maturing in March 2010.

In March 2007, VTB purchased 25% plus one share in OJSC “Terminal” for approximately USD 40 million. OJSC “Terminal” is established to finance the construction of “Sheremetyevo-3” airport terminal.

In March 2007 VTB Bank (Europe) issued additional 194,700,000 ordinary shares. VTB purchased all shares issued by VTB Bank (Europe) for GBP 52 million (USD 102 million). As a result of this transaction VTB increased its ownership in VTB Bank (Europe) to 91.83%.

In March 2007, VTB’s subsidiary bank in Angola Banco VTB Africa SA (VTB Africa) with 66% shareholding of VTB was registered and started operations.

In March 2007, VTB has initiated the acquisition of a subsidiary bank in Belarus. The extraordinary general meeting of shareholders of “Slavneftebank”, CJSC approved the increase of share capital, the new share issue to be purchased by VTB whose share would be 50% + 1 share. VTB transferred approximately USD 25 million for these newly issued shares. Belarus bank authorities have not yet completed the registration of the share issue.

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