BANK FOR FOREIGN TRADE

Consolidated Financial Statements and Auditors' Report

31 December 2004

Contents

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of the Bank for Foreign Trade ("the Bank") and its subsidiaries (together "the Group") as of 31 December 2004, and the related consolidated statements of income, cash flows, and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank for Foreign Trade and its subsidiaries at 31 December 2004, and the consolidated results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards as published by the International Accounting Standard Board.

Ernst & Young Vneshaudit

16 May 2005

(expressed in millions of US dollars)

	Note	31 December 2004	31 December 2003
Assets			
Cash and short-term funds	5	1,520	1,030
Mandatory cash balances with local central banks		232	382
Trading securities	6	2,155	1,270
Due from other banks	7	2,012	1,895
Loans and advances to customers, net	8	10,034	4,795
Investment securities available for sale	9	885	1,133
Investments in associated banks	10	77	41
Investment securities held to maturity		7	7
Accrued interest receivable and other assets	11	479	330
Premises and equipment	12	335	262
Deferred tax asset	24	74	83
Total assets		**17,810**	**11,228**
Liabilities			
Due to other banks	13	3,244	1,812
Customer accounts	14	5,956	4,259
Other borrowed funds	15	1,723	707
Debt securities issued	16	3,923	1,738
Accrued interest payable and other liabilities	17	254	222
Deferred tax liability	24	1	12
Total liabilities		**15,101**	**8,750**
Minority interest	18	**81**	**105**
Shareholders' equity			
Share capital	19	2,153	2,153
Share premium		34	34
Retained earnings		441	186
Total shareholders' equity		**2,628**	**2,373**
Total liabilities, minority interest and shareholders' equity		**17,810**	**11,228**
Commitments and contingencies	28		

Approved for issue by the Management Board and signed on its behalf on 16 May 2005.

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

O.A. Avdeeva
Chief Accountant

(expressed in millions of US dollars)

	Note	2004	2003
Interest income	20	996	665
Interest expense	20	(475)	(345)
Net interest income		**521**	**320**
Provision for loan impairment	7,8	(143)	(78)
Net interest income after provision for loan impairment		**378**	**242**
Gains less losses arising from trading securities		46	105
Gains less losses arising from investment securities available for sale	9	29	105
Gains less losses arising from dealing in foreign currencies		31	34
Gains less losses from derivative financial instruments	28	5	24
Foreign exchange translation gains less losses		114	22
Fee and commission income	21	118	74
Fee and commission expense	21	(12)	(6)
Release of provision for credit related commitment		7	–
Extinguishment of liability	8, 13	100	–
Other income	22	73	61
Operating income		**889**	**661**
Operating expenses	23	(514)	(391)
Profit before taxation		**375**	**270**
Income tax (expense) benefit	24	(111)	17
Profit after taxation		**264**	**287**
Minority interest	18	(3)	(23)
Share in profit of associated companies		2	–
Net profit		**263**	**264**

The notes set out on pages 5 to 41 form an integral part of these consolidated financial statements.

(expressed in millions of US dollars)

	Note	2004	2003
Cash flows from operating activities			
Interest received		958	650
Interest paid		(411)	(289)
Income received on operations with securities		65	421
Income received on dealing in foreign currency		31	39
Fees and commissions received		139	74
Fees and commissions paid		(13)	(6)
Other operating income received		47	44
Operating expenses paid		(429)	(366)
Income tax paid		(98)	(119)
Cash flows from operating activities before changes in operating assets and liabilities		**289**	**448**
Net decrease (increase) in operating assets			
Net decrease (increase) in mandatory cash balances with local central banks		179	(146)
Net (increase) decrease in restricted cash		(35)	69
Net increase in trading securities		(839)	(393)
Net (increase) decrease in due from banks		85	(585)
Net increase in loans and advances to customers		(4,856)	(1,734)
Net increase in other assets		(26)	(60)
Net (decrease) increase in operating liabilities			
Net increase in due to banks		1,201	443
Net increase in customer accounts		1,667	1,659
Net increase in promissory notes and certificates of deposits issued		302	820
Net (decrease) increase in other liabilities		(24)	11
Net cash (used in) provided by operating activities		**(2,057)**	**532**
Cash flows from investing activities			
Proceeds from sales or maturities of investment securities available for sale		1,473	322
Purchases of investment securities available for sale		(1,806)	(641)
Purchase of subsidiary, net of cash acquired		84	(40)
Disposal of subsidiary, net of cash disposed		33	(1)
Cash inflow from dividends		1	2
Purchases of investment securities held to maturity		(5)	(7)
Purchases of premises and equipment		(97)	(99)
Proceeds from disposal of premises and equipment		–	2
Net cash used in investing activities		**(317)**	**(462)**
Cash flows from financing activities			
Increase in Central Bank of the Russian Federation funding		701	–
Decrease in Central Bank of the Russian Federation funding		–	(380)
Proceeds from other borrowed funds		–	144
Repayment of other borrowed funds		(2)	(86)
Cash proceeds from issue of debentures		153	66
Cash paid in redemption of debentures		–	–
Dividends paid		(57)	(53)
Proceeds from issuance of Eurobonds		1,656	300
Proceeds from syndicated loans		883	455
Repayment of syndicated loans		(560)	(120)
Net cash provided by financing activities		**2,774**	**326**
Effect of exchange rate changes on cash and cash equivalents		**54**	**46**
Net increase in cash and cash equivalents		**454**	**442**
Cash and cash equivalents at beginning of the year	5	929	487
Cash and cash equivalents at the end of the period	**5**	**1,383**	**929**

(expressed in millions of US dollars)

	Share capital	Share premium	Retained earnings (accumulated deficit)	Total shareholders' equity
Balance at 31 December 2002	**2,153**	**34**	**(69)**	**2,118**
Net profit for the period	–	–	264	264
Dividends declared and paid (Note 25)	–	–	(53)	(53)
Other movements	–	–	44	44
Balance at 31 December 2003	**2,153**	**34**	**186**	**2,373**
Net profit for the period	–	–	263	263
Dividends declared and paid (Note 25)	–	–	(57)	(57)
Other movements	–	–	49	49
Balance at 31 December 2004	**2,153**	**34**	**441**	**2,628**

1. Principal Activities

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

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

A full list of subsidiaries and associates included within these consolidated financial statements is provided in Note 29.

The Group operates in the commercial banking sector. This includes deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients’ export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group’s operations are conducted in both Russian and international markets. VTB conducts its banking business in Russia through its network of 53 branches, located in Moscow and all major Russian regions.

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

The number of employees of the Group at 31 December 2004 was 13,132 (31 December 2003: 6,892).

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. The Russian economy while deemed to be of market status continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The stability of the Russian economy will be significantly impacted by the government’s policies and actions with regards to supervisory, legal, and economic reforms.

3. Basis of Presentation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards (“IAS”) and Standing Interpretations Committee interpretations (“SIC”) approved by the International Accounting Standards Committee that remain in effect. The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These consolidated financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

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

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

3. Basis of Presentation (continued)

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

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

4. Significant Accounting Policies

Principles of consolidation. Subsidiaries are those companies and other entities in which the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of the enterprise so as to benefit from its activities. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are removed from consolidation from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances, and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded separately from liabilities and shareholders' equity and is affected by the foreign currency translation adjustment applicable to the minority shareholders' interest in the subsidiary. Minority interest related to operational results of the current period is recorded in the consolidated statement of income.

The line "Other movements" in the consolidated statement of changes in shareholders' equity includes the translation effect on equity, which arises for those subsidiaries whose measurement currency differs from the reporting currency of the Group (the US dollar).

Associates. Associates are entities over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for using the equity method. The investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking. Where necessary, the accounting policies used by the associates have been changed to ensure consistency with the policies adopted by the Group. The income statement reflects the Group's share of the results of operations of the associate.

Cash and short-term funds. Cash and cash equivalents are items which can be converted into cash within a day. All short term interbank placements, including overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with local Central banks. Mandatory cash balances with local Central banks represent mandatory reserve deposits which are not available to finance the Group's day to day operations and are not considered part of cash and cash equivalents for purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are securities which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities as trading securities if it has the intention to sell them within one year after purchase.Trading securities are initially recognised at cost (which includes transaction costs) and subsequently

4. Significant Accounting Policies (continued)

remeasured at their estimated fair value. In determining fair value, all trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

All related realised and unrealised gains and losses are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period in which the change occurs. Interest earned on trading securities is reflected in the consolidated statement of income as interest income on securities. Dividends received are included within other operating income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at the trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in trading securities or investment securities available for sale as appropriate. The corresponding liability is presented within due to other banks or other borrowed funds. Securities purchased under agreements to resell ("reverse repo") are recorded as due from other banks or loans and advances to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties continue to be recognised in the consolidated financial statements. Securities borrowed are not recognised in the consolidated financial statements, unless they are sold to third parties, in which case the results of purchase and sale are recorded within gains less losses arising from trading securities in the consolidated statement of income. The obligation to return the securities is recorded at fair value as a trading liability.

Originated loans and advances and allowances for loan impairment. Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recognised when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less allowance for loan impairment.

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

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

4. Significant Accounting Policies (continued)

Originated loans and advances and allowances for loan impairment (continued). If the amount of the allowance for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the provision for loan impairment in the consolidated statement of income.

Loans held for sale. Loans are designated as held for sale when the Bank has a positive intent to sell them. Loans held for sale are carried at fair value. Interest income with respect to loans held for sale is accrued on the principal amount outstanding.

Leases

- ***Finance – Group as lessor.*** The Group presents leased assets as lease receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.
- ***Operating – Group as lessee.*** Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease-term and included into operating expenses.

Other credit related commitments. In the normal course of business, the Group enters into other credit related commitments including letters of credit, commitments to extend credit, and guarantees. Specific allowances are recorded against other credit related commitments when losses are considered probable.

Promissory notes purchased. Promissory notes purchased are included in trading securities, due from other banks, or in loans and advances to customers, depending on their substance, and are recognised, subsequently remeasured, and accounted for in accordance with the accounting policies for these categories of assets.

Investment securities available for sale. This classification includes investment securities which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or market prices. Management determines the appropriate classification of its securities at the time of purchase.

Investment securities available for sale are initially recognised at cost (which includes transaction costs) and are subsequently remeasured to fair value based at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price, or fair value as estimated by Management. Certain investments available for sale for which there is no available independent quotation have been recorded at fair value estimated by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Realised and unrealised gains and losses arising from changes in the value of investment securities available for sale are included in the consolidated statement of income in the period in which they arise. Interest earned on investment securities available for sale are reflected in the consolidated statement of income as interest income on securities. Dividends received are included within other operating income.

All regular way purchases and sales of investment securities available for sale are recognised at the trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

Investment securities held to maturity. This classification includes investment securities which Management intends to hold to maturity. Initially, investment securities held to maturity are recorded at cost (which includes transaction costs), which is the fair value of the consideration given, and subsequently are carried at amortised cost less allowance for impairment, if any. Amortised cost is based on the fair value of expected future cash inflows discounted at the market rate on acquisition. The difference between cost and amortised cost is recorded in the consolidated statement of income as interest income from securities.

Premises and equipment. Premises and equipment are stated at cost or revalued amounts less accumulated depreciation and allowance for impairment where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognised in the consolidated statement of income. The estimated recoverable amount is the higher of an asset's net selling price and its value in use.

(expressed in millions of US dollars)

4. Significant Accounting Policies (continued)

Premises and equipment (continued). Premises and equipment of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition. Premises of the Group are subject to revaluation on a regular basis, approximately every three to five years. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued.

Construction in progress is carried at cost less allowance for impairment in value, if any. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and maintenance are charged to the consolidated statement of income when the expense is incurred.

Goodwill. The excess of the cost of an acquisition over the Bank's interest in the fair value of the net identifiable assets acquired at the date of the transaction is recorded as goodwill and recognised as an asset in the consolidated balance sheet.

Goodwill arising from acquisitions prior to 31 March 2004 is amortised using the straight-line method over its useful life, which has been estimated as being 10 years. Goodwill net of amortisation is included within other assets; amortisation of goodwill is included in operating expenses of the consolidated income statement. Beginning in 2005, goodwill arising from acquisitions prior to 31 March 2004 will not be amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired.

As at the acquisition date, any goodwill acquired in acquisitions from 31 March 2004 is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses.

Depreciation. Depreciation is recognised on a straight line basis over the estimated useful lives of the assets using the following rates:

	Useful life	**Depreciation rates**
Premises	40 years	2.5% per annum
Equipment	4 – 20 years	5 – 25% per annum

Borrowings. Borrowings are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gain or loss arising from early retirement of debt in the consolidated statement of income.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit, eurobonds, and debentures issued by the Group. Debt securities in issue are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the security issue using the effective interest method.

4. Significant Accounting Policies (continued)

Debt securities in issue (continued). If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gain or loss arising from early retirement of debt in the consolidated statement of income.

Share premium. Share premium represents the excess of contributions received over the nominal value of the shares issued.

Dividends. Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Group entities are the basis for profit distribution and other appropriations.

Taxation. Taxation has been provided for in the consolidated financial statements in accordance with taxation legislation currently in force in the respective territories that the Group operates. The income tax charge in the consolidated statement of income comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Taxes, other than on income, are recorded within operating expenses.

Income and expense recognition. Interest income and expense are recognised in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes interest earned on fixed income securities and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful as to collection, they are written down to their recoverable amount based on discounted estimated cash flows and interest income is thereafter recognised based on contractual interest rate.

Loan origination fees for loans issued to customers are deferred together with related 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. Commissions and fee income related to certain corporate finance and investment banking activities are recorded on completion of the underlying transaction.

Foreign currency translation. Monetary assets and liabilities originally denominated in USD are stated at their original USD amounts. Monetary assets and liabilities in other currencies have been translated into USD using the exchange rate at the balance sheet date. Non-monetary assets and liabilities, which are denominated in currencies other than USD, have been translated into USD at the exchange rates in effect at the date of the transaction. Income and expenses, which were earned and incurred in currencies other than USD, have been translated into USD using a basis that approximates the rate of exchange at the date of the transaction.

Gains and losses arising from the translation of assets and liabilities into USD are reflected in the consolidated statement of income as foreign exchange translation gains less losses.

4. Significant Accounting Policies (continued)

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

At 31 December 2004, the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 = RR 27.7487 (at 31 December 2003: USD 1 = RR 29.4545) and the principal rate of exchange used for translating balances in Euro was USD 1 = Euro 0.7339 (at 31 December 2003: USD 1 = EURO 0.7999).

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, currency swaps, options, and other derivative financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, or using the spot rate at the year end as the basis, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative and are included within other assets or other liabilities as appropriate.

Changes in the fair value of derivatives are included in gains less losses arising from derivative financial instruments.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but for the account of third parties, are not reported in the consolidated balance sheet. Commissions received from such operations are shown within fee and commission income within the consolidated statement of income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions. Provisions are recorded when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Salary costs. The Group's contributions to state and Group defined contribution pension schemes, social insurance, and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within operating expenses.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, net profit or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately based on the ultimate domicile of the subsidiary.

(expressed in millions of US dollars)

5. Cash and Short-Term Funds

	31 December 2004	31 December 2003
Cash on hand	271	165
Cash balances with local central banks (other than mandatory reserve deposits)	485	408
Correspondent accounts with other banks		
- Russian Federation	358	195
- Other countries	406	262
Total cash and short-term funds	**1,520**	**1,030**
Less: restricted cash	(137)	(101)
Total cash and cash equivalents	**1,383**	**929**

Restricted cash balances represent the balances on escrow accounts placed by the Bank in foreign banks on behalf of its customers totaling USD 80 million (31 December 2003: USD 52 million) and cash placed by the Bank on nostro accounts with foreign and Russian banks in non-freely convertible currencies totaling USD 57 million (31 December 2003: USD 49 million). For the purposes of the consolidated statement of cash flows, restricted cash is not considered to be cash and cash equivalents.

6. Trading Securities

	31 December 2004	31 December 2003
USD denominated securities		
Bills of exchange	452	63
Russian corporate Eurobonds	254	90
MinFin bonds (OVGVZ)	109	500
Securities issued by foreign companies and banks	78	10
Eurobonds of the Russian Federation	11	–
Other	11	2
RR denominated securities		
Bills of exchange and debentures	880	424
Equity securities	139	56
Federal loan bonds (OFZ)	111	92
Bonds of the Central Bank of the Russian Federation	85	–
Securities denominated in other currencies		
Foreign corporate bonds	14	13
Securities issued by foreign governments	3	3
Russian corporate Eurobonds	4	15
Other	4	2
Total trading securities	**2,155**	**1,270**

Bills of exchange and debentures represent securities denominated in Russian roubles and USD and issued primarily by Russian banks, large manufacturing, telecom and oil and gas companies, and local authorities. The bills of exchange and debentures have maturities ranging from February 2005 to August 2014 (31 December 2003: from January 2004 to February 2009) and coupon ranging from 4% to 17% (31 December 2003: from 6% to 20%).

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

(expressed in millions of US dollars)

6. Trading Securities (continued)

MinFin bonds (OVGVZ) are interest bearing securities denominated in USD, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%. The bonds have maturity dates ranging from May 2006 to May 2011 (31 December 2003: from November 2007 to May 2011) and yields to maturity ranging from 5% to 6% (31 December 2003: from 5% to 7%).

In 2004, the Bank purchased USD denominated credit linked notes with fair value of USD 35 million and USD 30 million issued by Deutsche Bank Luxemburg S.A. and Dresdner Bank A.G., respectively. As collateral of the performance, these notes are linked to VTB Eurobonds. These notes pay 10.7% and 9.7%, respectively, and mature in March 2007 and December 2008, respectively. Though the notes are linked to VTB Eurobonds, there is no legal right to offset these instruments. The above credit linked notes are included in line "Securities issued by foreign companies and banks" of USD denominated securities.

Eurobonds of the Russian Federation are US dollar denominated securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. The Group's portfolio of Eurobonds as of 31 December 2004 consists of 4 tranches of securities with maturities ranging from June 2007 to March 2030 (31 December 2003: 8 tranches with maturity dates from March 2004 to March 2030). The annual coupon rates on these bonds vary from 4% to 7% p.a. (31 December 2003: from 5% to 13% p.a.) and interest is payable semi-annually.

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 March 2005 to August 2018 (31 December 2003: January 2004 to August 2012), coupon rates ranging from 6% to 12% (31 December 2003: from 8% to 12%).

Bonds of the Central Bank of the Russian Federation are Russian Rouble denominated securities with maturity in December 2005 issued at discount to their nominal value.

At 31 December 2004, included in line "Equity securities" of RR denominated securities are corporate shares of Russian "blue chip" companies involved in banking, telecommunication and energy sectors with fair value of USD 67 million, USD 6 million, USD 57 million, respectively (at 31 December 2003: USD 33 million, USD 4 million, USD 11 million, respectively).

Included in trading securities are securities with fair value at 31 December 2004 of USD 184 million (31 December 2003: nil) pledged under sale and repurchase agreements.

7. Due from Other Banks

	31 December 2004	31 December 2003
Current term placements with other banks	1,849	1,792
Reverse sale and repurchase agreements with other banks	174	112
Overdue placements with other banks	100	113
Less: Allowance for loan impairment	(111)	(122)
Total due from other banks	**2,012**	**1,895**

Due from other banks includes Rouble denominated loans to a Russian bank totaling USD 100 million (31 December 2003: USD 96 million). At 31 December 2004, the allowance for impairment on these loans comprised USD 100 million (31 December 2003: USD 96 million).

(expressed in millions of US dollars)

7. Due from Other Banks (continued)

Movements in the allowance for loan impairment are as follows:

	2004	2003
Allowance for loan impairment at 1 January	**122**	**119**
Provision for loan impairment during the period	11	3
Deconsolidation of subsidiary	(22)	–
Allowance for loan impairment at 31 December	**111**	**122**

At 31 December 2004, the estimated fair value of due from other banks was USD 2,012 million (31 December 2003: USD 1,895 million).

8. Loans and Advances to Customers

	31 December 2004	31 December 2003
Current loans and advances	10,254	4,925
Rescheduled loans and advances	84	100
Overdue loans and advances	158	202
Less: Allowance for loan impairment	(462)	(432)
Total loans and advances to customers	**10,034**	**4,795**

At 31 December 2004, included in current loans is lease receivables of USD 23 million (31 December 2003: USD 9 million), equal to the net investment in the leases.

At 31 December 2003, included in overdue loans is a deposit of USD 100 million placed with a foreign bank for the purpose of financing Russian fishing enterprises. The Group has treated this amount as loans to customers and created a 100% allowance for loan impairment against these loans. The loans were originally financed by deposits from a state-owned Russian bank, which are included in due to other banks. In December 2004, the Group has favorably negotiated the extinguishment of debt related to these deposits, thus resulting in the recognition of a gain from extinguishment of liability of USD 100 million in the Group's income statement for 2004. The respective loans were written off during the reporting period as uncollectable.

Movements in the allowance for loan impairment are as follows:

	2004	2003
Allowance for loan impairment at 1 January	**432**	**362**
Provision for loan impairment during the period	132	75
Loans and advances to customers written off during the period as uncollectable	(102)	(5)
Allowance for loan impairment at 31 December	**462**	**432**

(expressed in millions of US dollars)

8. Loans and Advances to Customers (continued)

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

	31 December 2004		31 December 2003	
	Amount	**%**	**Amount**	**%**
Manufacturing	3,265	31	1,958	37
Trade and commerce	1,554	15	764	15
Energy	1,206	11	506	10
Finance	1,643	16	530	10
Government bodies	504	5	128	2
Food and Agriculture	386	4	205	4
Construction	360	3	216	4
Telecommunications and media	346	3	161	3
Transport	345	3	158	3
Chemical	232	2	201	4
Mining	173	2	185	4
Fishing	6	–	109	2
Other	476	5	106	2
Total loans and advances to customers	**10,496**	**100**	**5,227**	**100**

At 31 December 2004, total amount of outstanding loans issued to 10 biggest borrowers by the Group comprise USD 3,704 million or 35% of the gross loan portfolio. Included in loans and advances was a loan to a large corporate customer totaling USD 1,000 million (9% of the loan portfolio) with maturity in 2009 and interest rate of 9.6% per annum. The Group has cash collateral of USD 550 million, therefore its exposure is USD 450 million.

At 31 December 2003, total amount of outstanding loans issued to 10 biggest borrowers by the Group comprise USD 1,593 million or 30% of the gross loan portfolio. Included in loans and advances were loans to a large corporate customer totaling USD 322 million (6% of the loan portfolio) with maturity dates from March 2005 to March 2006 and a fixed interest rate of 8.4% per annum.

At 31 December 2004, the total gross amount of impaired loans, on which interest was not accrued, was USD 166 million (31 December 2003: USD 259 million). The unrecognised interest, in accordance with the original terms of the loans, related to such loans amounted to USD 89 million for the twelve-month period ended 31 December 2004 (31 December 2003: USD 69 million).

At 31 December 2004, the estimated fair value of loans and advances to customers was USD 10,034 million (31 December 2003: USD 4,795 million).

9. Investment Securities Available for Sale

	31 December 2004	31 December 2003
Debt securities		
Eurobonds of the Russian Federation	313	483
Bonds of Russian companies and banks	186	213
Bonds of foreign companies and banks	98	58
Municipal bonds	38	21
State bonds of foreign countries	37	122
Bills of exchange of Russian companies and banks	12	22
MinFin bonds (OVGVZ)	9	100
Other	2	–
Equity securities		
Corporate shares	176	104
Other	14	10
Total investment securities available for sale	**885**	**1,133**

9. Investment Securities Available for Sale (continued)

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

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

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

Municipal bonds are bonds issued by regional authorities of Russian Federation with maturities ranging from December 2005 to December 2014 (31 December 2003: April 2006) and interest rates ranging from 6% to 11% per annum (31 December 2003: 11% per annum).

Included in state bonds of foreign countries are bonds of Germany with fair value of USD 22 million (31 December 2003: USD 20 million) and bonds of Ecuador with fair value of USD 9 million (31 December 2003: nil). At 31 December 2003 state bonds of foreign countries also included bonds of Austria with fair value of USD 63 million (nil at 31 December 2004).

MinFin bonds (OVGVZ) are interest bearing securities denominated in USD, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%. The bonds have maturity dates ranging from May 2006 to May 2011 (31 December 2003: November 2007 to May 2011) and yields to maturity ranging from 5% to 6% (31 December 2003: from 5% to 7%).

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

Included in investment securities available for sale are securities with fair value at 31 December 2004 of USD 156 million (31 December 2003: USD 503 million) pledged under sale and repurchase agreements. In addition, investment securities available for sale with fair value of USD 74 million (31 December 2003: USD 56 million) have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds.

10. Investments in Associated Banks

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

At 23 June 2004, the Bank sold 5% of East-West United Bank shares. As a result of this transaction, the Bank's participation in East-West United Bank decreased from 53% to 48% effective 23 June 2004. 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 is accounted for using the equity method. The carrying value at 31 December 2004 amounted to USD 29 million.

(expressed in millions of US dollars)

11. Accrued Interest Receivable and Other Assets

	31 December 2004	31 December 2003
Accrued interest income	107	75
Goodwill	88	20
Trade debtors and prepayments	84	43
Loans held for sale	42	34
Prepaid taxes	21	53
Balances arising from derivative financial instruments	19	25
Settlements on conversion operations	15	3
Precious metals	11	10
Unsettled transactions	10	30
Other	82	37
Total accrued interest income and other assets	**479**	**330**

	2004	2003
Goodwill at 1 January	**20**	**–**
Acquisitions	75	22
Amortization	(4)	(2)
Other	(3)	–
Goodwill at 31 December	**88**	**20**

12. Premises and Equipment

	Premises	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2003	**158**	**94**	**10**	**262**
Cost or revalued amount, net of impairment				
Opening balance at 1 January 2004	171	151	10	332
Acquisitions of subsidiaries	15	21	2	38
Disposal of subsidiaries	(8)	(1)	–	(9)
Additions	22	58	17	97
Disposals	(4)	(5)	(4)	(13)
Translation difference	3	6	–	9
Closing balance at 31 December 2004	**199**	**230**	**25**	**454**
Accumulated depreciation				
Opening balance at 1 January 2004	13	57	–	70
Disposal of subsidiaries	–	(1)	–	(1)
Depreciation charge	6	45	–	51
Disposals	(1)	(2)	–	(3)
Translation difference	–	2	–	2
Closing balance at 31 December 2004	**18**	**101**	**–**	**119**
Net book amount at 31 December 2004	**181**	**129**	**25**	**335**

(expressed in millions of US dollars)

12. Premises and Equipment (continued)

The Bank's premises were independently valued as of 31 December 2000. The valuation was carried out by an internationally recognised independent firm of valuers, American Appraisal. The basis used for the appraisal was primarily open market value.

13. Due to Other Banks

	31 December 2004	31 December 2003
Correspondent accounts and overnight deposits of other banks	465	512
Sale and repurchase agreements with other banks	181	503
Term loans and deposits	2,598	797
Total due to other banks	**3,244**	**1,812**

At 31 December 2004, securities pledged against sale and repurchase agreements are trading and available for sale securities with a fair value of USD 184 million and USD 156 million, respectively (31 December 2003: nil and USD 503 million, respectively). The repurchase agreements bear interest rates ranging from 1% to 6% and mature in January 2005.

At 31 December 2003, included in correspondent accounts and overnight deposits of other banks are USD 100 million collateral deposits placed by a state-owned Russian bank in relation to a deposit placed by the Group with a foreign bank for the purpose of financing Russian fishing enterprises. In December 2004 the Group has favorably negotiated the extinguishment of debt related to these deposits, thus resulting in the recognition of a gain from extinguishment of liability of USD 100 million in the Group’s income statement for 2004.

At 31 December 2004, the estimated fair value of due to other banks was USD 3,244 million (31 December 2003: USD 1,812 million).

14. Customer Accounts

	31 December 2004	31 December 2003
State and public organizations		
Current/settlement accounts	167	167
Term deposits	50	7
Other legal entities		
Current/settlement accounts	2,011	1,441
Term deposits	1,647	1,665
Individuals		
Current/settlement accounts	312	169
Term deposits	1,769	810
Total customer accounts	**5,956**	**4,259**

Included in customer accounts are:

- Restricted deposits amounting to USD 80 million (31 December 2003: USD 52 million), where matching deposits were placed by the Group in escrow accounts.
- Deposits of USD 60 million (31 December 2003: USD 60 million) were held as collateral against irrevocable commitments under import letters of credit.

(expressed in millions of US dollars)

14. Customer Accounts (continued)

Economic sector concentrations within customer accounts are as follows:

	31 December 2004		31 December 2003	
	Amount	**%**	**Amount**	**%**
Individuals	2,082	35	979	23
Manufacturing	1,005	17	820	19
Trade	832	14	940	22
Finance	752	13	634	15
Government bodies	217	4	174	4
Energy	158	3	172	4
Transport	109	2	67	2
Construction	105	2	52	1
Foreign entities representative offices	85	1	50	1
Telecommunication and mass media	69	1	41	1
Other	542	8	330	8
Total customer accounts	**5,956**	**100**	**4,259**	**100**

At 31 December 2004, the estimated fair value of customer accounts was USD 5,956 million (31 December 2003: USD 4,259 million).

15. Other Borrowed Funds

	31 December 2004	31 December 2003
CBR deposit	694	–
Syndicated loans	884	560
Revolving credit lines	145	147
Total other borrowed funds	**1,723**	**707**

Syndicated loans at 31 December 2004 comprise the following:

	Interest rate	Maturity	Amount outstanding	Total amount of loan facility available
Syndicated unsecured loan arranged by ABN AMRO Bank NV, Citibank NA London, ING Bank NV and JP Morgan plc	LIBOR plus 1.6%	November 2007	300	300
Syndicated unsecured loan arranged by ABN AMRO Bank NV, Citibank NA London, ING Bank NV	LIBOR plus 1.0%	March 2005	300	300
Syndicated unsecured loan arranged by HSBC Bank plc, London, United Kingdom	LIBOR plus 1.4%	June 2005	275	275
JPY-denominated syndicated unsecured loan arranged by Japan Bank for International Cooperation jointly with three Japanese banks	From 2.54% to 2.82%	From August 2005 to February 2007	9	9
Total syndicated loans			**884**	**884**

(expressed in millions of US dollars)

15. Other Borrowed Funds (continued)

Syndicated loans at 31 December 2003 comprise the following:

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

Revolving credit lines at 31 December 2004 comprise the following:

	Interest rate	Maturity	Amount outstanding	Total amount of loan facility available
Revolving unsecured credit line from EBRD	LIBOR plus 1.0-2.5%.	From March 2005 to December 2005	145	145

Revolving credit lines at 31 December 2003 comprise the following:

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

In connection with the acquisition of Guta Bank, as discussed in Note 32, the CBR placed a USD 700 million special purpose deposit with VTB at rate of 2.33% for the term of one year, maturing July 2005. The deposit is available to maintain Guta Bank's liquidity and for the use in its operations. The term of the deposit may be prolonged with the agreement of VTB and the CBR. The Group has recognised the CBR deposit at its fair value, calculated based on market rates for similar deposits. Initial gain arising from this calculation is reflected in the goodwill associated with the Guta bank acquisition.

Syndicated loans and revolving credit lines have covenants such as maintenance of certain financial ratios. The Bank was in compliance with such covenants as of 31 December 2004 and 2003.

(expressed in millions of US dollars)

16. Debt Securities Issued

	31 December 2004	31 December 2003
Promissory notes	1,517	1,154
Eurobonds	1,954	298
Debentures and deposit certificates	452	286
Total debt securities issued	**3,923**	**1,738**

USD denominated Eurobonds issued under Euro Medium Term Note borrowings program of USD 2,000 million, which was increased in December 2004 to USD 3,000 million, comprise the following at 31 December 2004:

	Interest rate	Maturity	Face value	Carrying value	Market price
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	550	543	104.8%
Series 2 issued in April 2004	LIBOR plus 2% payable quarterly	April 2005	325	324	100.2%
Series 3 issued in July 2004	LIBOR plus 2.9% payable quarterly	July 2007	300	299	103.5%
Series 4 issued in October 2004	7.5% payable semi-annually	October 2011	450	439	107.0%
Series 5 issued in December 2004	LIBOR plus 1.35% payable quarterly	June 2006	350	349	100.1%
Total Eurobonds			**1,975**	**1,954**	

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

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

Debentures and deposit certificates issued comprise the following as of 31 December 2004:

Description	Interest rate	Maturity	Face value	Carrying value	Market price
3rd tranche of Russian Rouble denominated debentures	From 14% to 15.5%	February 2006	72	72	108%
4th tranche of Russian Rouble denominated debentures	5.43%	March 2009	180	180	99%
Deposit certificates	From 0% to 6%	On demand/till December 2005	200	200	N/A
Total debentures and deposit certificates			**452**	**452**	

(expressed in millions of US dollars)

16. Debt Securities Issued (continued)

Debentures issued comprise the following as of 31 December 2003:

Description	Interest rate	Maturity	Face value	Carrying value	Market price
2nd tranche of Russian Rouble denominated debentures	16%	April 2004	33	31	98%
3rd tranche of Russian Rouble denominated debentures	From 14% to 15.5%	February 2006	68	68	108%
Deposit certificates	From 1.6% to 15%	On demand/ till June 2004	187	187	N/A
Total debentures and deposit certificates			**288**	**286**	

Promissory notes issued include both discount and interest bearing promissory notes denominated mostly in US Dollars and maturing on demand and up to December 2012 (31 December 2003: the same). Effective interest rates range between 0% and 16% (31 December 2003: from 0% to 16%). Eurobonds have certain financial covenants. The Bank was in compliance with such covenants as of 31 December 2004 and 2003.

17. Accrued Interest Payable and Other Liabilities

	31 December 2004	31 December 2003
Accrued interest expense	103	45
Trade creditors	36	41
Other reserves	22	26
Taxation payable	20	72
Allowance for credit related commitments	18	10
Balances arising from derivative financial instruments	14	1
Unsettled transactions	13	13
Other	28	14
Total accrued interest expense and other liabilities	**254**	**222**

18. Minority Interest

	2004	2003
Minority interest at 1 January	**105**	**76**
Share of net profit	3	23
Disposal of subsidiary	(36)	–
Other movements	9	6
Minority interest at 31 December	**81**	**105**

The caption “Other movements” includes movements in the minority interest arising due to the translation effect on minority interest arising for subsidiaries whose measurement currency differs from the reporting currency of the Group (US dollar).

(expressed in millions of US dollars)

19. Share Capital

Authorised, issued, and fully paid share capital of the Group comprises:

	31 December 2004		31 December 2003	
	Number of shares	**Amount**	**Number of shares**	**Amount**
Ordinary shares	42,137,236	2,153	42,137,236	2,153
Total share capital	**42,137,236**	**2,153**	**42,137,236**	**2,153**

Contributions to the Bank's share capital were originally made in Roubles, foreign currency, and gold bullion. All ordinary shares have a nominal value of RR 1 thousand per share, rank equally and carry one vote. The Bank also has 10,000,000 authorized ordinary shares with a par value of RR 1 thousand each, which are currently unissued.

In October 2002, the CBRF transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation. In March 2004 the Ministry of Property Relations was abolished and succeeded by the Federal Property Management Agency.

20. Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	720	454
Securities	214	139
Due from other banks	62	72
Total interest income	**996**	**665**
Interest expense		
Customer accounts	(224)	(154)
Debt securities in issue	(209)	(121)
Due to banks and other borrowed funds	(42)	(70)
Total interest expense	**(475)**	**(345)**
Net interest income	**521**	**320**

(expressed in millions of US dollars)

21. Fee and Commission Income and Expense

	2004	2003
Commission on settlement transactions	34	28
Commission on cash transactions	23	12
Commission on guarantees issued	25	16
Commission on operations with securities	8	4
Other	28	14
Total fee and commission income	**118**	**74**
Commission on settlement transactions	(3)	(2)
Commission on cash transactions	(3)	(1)
Commission on cash collection	(2)	(1)
Other	(4)	(2)
Total fee and commission expense	**(12)**	**(6)**
Net fee and commission income	**106**	**68**

22. Other Income

	2004	2003
Income arising from non-banking activities	27	40
Dividends received	1	2
Fines and penalties received	1	–
Income less expenses on operations with precious metals	–	1
Other	44	18
Total other income	**73**	**61**

23. Operating Expenses

	2004	2003
Staff costs	236	165
Administrative expenses, depreciation and other expenses related to premises and equipment	107	78
Taxes other than on income	36	40
Leasing and rent expenses	34	20
Professional services	18	7
Charity	14	6
Security expenses	12	10
Advertising expenses	12	9
Post and telecommunication expenses	8	6
Amortization of goodwill	4	2
Other	33	48
Total operating expenses	**514**	**391**

(expressed in millions of US dollars)

24. Income Taxes

Income tax (benefit) expense comprises the following:

	2004	2003
Current tax charge	113	81
Deferred taxation movement due to the origination and reversal of temporary differences	(2)	(98)
Income tax expense (benefit) for the year	**111**	**(17)**

The income tax rate applicable to the majority of the Group's income is 24%. The income tax rate applicable to subsidiaries income ranges from 4.25% to 34%. A reconciliation between the expected and the actual taxation charge is provided below.

	2004	2003
IFRS profit before taxation	**375**	**270**
Theoretical tax charge at the applicable statutory rate	101	76
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	42	38
- Changes in value of investment in shares	(12)	–
- Income which is exempt from taxation	(4)	(6)
- Income on government securities taxed at different rates	(4)	(9)
- Effect of change in tax rates	18	21
- Other non-temporary differences	11	9
- Tax losses utilized	(11)	(14)
- Translation effect	(30)	(33)
- Previously unrecorded tax losses now recognised	–	(99)
Income tax (benefit) expense for the year	**111**	**(17)**

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 4.25% to 34%. The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities, so that deferred tax assets and deferred tax liabilities are separately assessed for each entity.

(expressed in millions of US dollars)

24. Income Taxes (continued)

	31 December 2004	Movement	31 December 2003
Tax effect of deductible temporary differences			
Tax loss carry forward	49	(29)	78
Provision for loan impairment	29	(19)	48
Accruals	20	19	1
Other	20	14	6
Gross deferred tax asset	**118**	**(15)**	**133**
Tax effect of taxable temporary differences			
Fair valuation of securities	(25)	23	(48)
Premises and equipment	(15)	(1)	(14)
Other	(5)	(5)	–
Gross deferred tax liability	**(45)**	**17**	**(62)**
Total net deferred tax liability	**(1)**	**11**	**(12)**
Total net deferred tax asset	**74**	**(9)**	**83**

The Group calculated net deferred liability and net deferred asset which were attributable to net deferred tax position in the respective territories that the Group operates.

The Group's subsidiaries have approximately USD 238 million (31 December 2003: USD 203 million) of unrecognized tax losses available for relief against future profits. In 2003 the Group recognised the probable portion of tax losses carry forward for one of its subsidiaries of USD 292 million. As of 31 December 2004 this amount was re-estimated at USD 261 million. These tax losses can be carried forward for an indefinite period of time. The remaining tax losses carry forwards have not been recognised as a deferred tax asset due to uncertainty surrounding the Group’s ability to utilize these tax losses in the future.

25. Dividends

On 30 June 2004, VTB’s annual meeting of shareholders declared dividends for the year ended 31 December 2003, totaling RUB 1.6 billion (USD 57 million at the exchange rate of RUR 27.75 per USD 1). Dividends were paid in Russian roubles in August 2004.

In 2003, the Bank declared and paid dividends in the amount of USD 53 million for the year ended 31 December 2002. Dividends were declared and paid in Russian roubles.

Dividends per share comprised 1.37 USD in 2004 (1.26 USD in 2003).

(expressed in millions of US dollars)

26. Analysis by Segment

In accordance with IAS 14, "Segment Reporting", the Group's primary format for reporting segment information is geographical segments and the secondary format is business segments. Segment information for the two main reportable geographical segments of the Group, Russia and Europe, is set out below for the period ended 31 December 2004.

	Russia	Europe	Total
Operating income	823	66	889
Segment results	342	33	375
Taxation			(111)
Profit after taxation			264
Minority interest			(3)
Share of profit in associated companies			2
Net profit			**263**
Segment assets as of 31 December 2004	14,308	3,502	17,810
Segment liabilities as of 31 December 2004	12,795	2,306	15,101
Other segment items			
Capital expenditure	95	2	97
Depreciation	49	2	51
Other non-cash (expenses) income	59	(33)	26

The Group has one reportable business segment, which is commercial banking. The summary information of this business segment at 31 December 2004 is presented below:

	Commercial banking
Operating income	889
Segment assets	17,810
Credit related commitments	4,261
Capital expenditure	97

Segment information for the two main reportable geographical segments of the Group, Russia and Europe, at 31 December 2003 is set out below:

	Russia	Europe	Total
Operating income	509	152	661
Segment results	156	114	270
Taxation			17
Profit after taxation			287
Minority interest			(23)
Net profit			**264**
Segment assets as of 31 December 2003	8,441	2,787	11,228
Segment liabilities as of 31 December 2003	6,768	1,982	8,750
Other segment items			
Capital expenditure	107	5	112
Depreciation	22	1	23
Other non-cash (expenses) income	(55)	–	(55)

26. Analysis by Segment (continued)

The Group has one reportable business segment, which is commercial banking. The summary information of this business segment at 31 December 2003 is presented below:

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

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

27. Financial Risk Management

The risk management function within the Group is carried out in respect of credit risk, financial risks (market risks, including currency, securities portfolio, interest rate risks and liquidity risk), operational risks, and legal risks. The primary objectives of the risk management function are to establish risk limits, rations and indicatiors, and then ensure that exposure to risks stays within these parameters. Risk assessment also forms the basis for optimal risk-adjusted capital allocation, transaction pricing, and performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and limits are subject to an annual or more frequent review. Limits on the level of credit risk by borrower and industry sector are approved regularly by the Credit Committee.

The exposure to any one borrower including groups and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored regularly.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits, and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities products, all of which are exposed to general and specific market movements. The Asset/Liability Committee sets limits on the value of risk that may be accepted, which is monitored on a regular basis.

(expressed in millions of US dollars)

27. Financial Risk Management (continued)

Currency risk. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset/Liability Committee sets limits on the level of exposure by currency and in total for both spot and forward positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2004. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values. At 31 December 2004, the Group has the following positions in currencies:

	USD	RR	Euro	Other currencies	Total
Assets					
Cash and short term funds	530	751	134	105	**1,520**
Mandatory cash balances with local central banks	–	217	11	4	**232**
Trading securities	915	1,216	24	–	**2,155**
Due from other banks, net	981	727	284	20	**2,012**
Loans and advances to customers, net	5,046	4,500	449	39	**10,034**
Investment securities available for sale	535	209	141	–	**885**
Investment in associated banks	–	–	77	–	**77**
Investment security held to maturity	–	1	6	–	**7**
Accrued interest income and other assets	119	328	17	15	**479**
Premises and equipment	1	314	9	11	**335**
Deferred tax asset	–	40	34	–	**74**
Total assets	**8,127**	**8,303**	**1,186**	**194**	**17,810**
Liabilities					
Due to other banks	2,123	438	560	123	**3,244**
Customer accounts	2,268	2,715	897	76	**5,956**
Other borrowed funds	1,708	–	7	8	**1,723**
Debt securities in issue	2,532	1,363	28	–	**3,923**
Accrued interest expense and other liabilities	105	107	35	7	**254**
Deferred tax liability	–	1	–	–	**1**
Total liabilities	**8,736**	**4,624**	**1,527**	**214**	**15,101**
Net balance sheet position	**(609)**	**3,679**	**(341)**	**(20)**	**2,709**
Credit related commitments	**2,840**	**853**	**537**	**31**	**4,261**
Off-balance sheet net notional position	**(242)**	**(681)**	**844**	**84**	**5**

At 31 December 2003, the Group had the following positions in currencies:

	USD	RR	Euro	Other currencies	Total
Net balance sheet position	**1,137**	**1,287**	**9**	**45**	**2,478**
Credit related commitments	**2,443**	**373**	**183**	**42**	**3,041**
Off-balance sheet net notional position	**(578)**	**(39)**	**481**	**160**	**24**

(expressed in millions of US dollars)

27. Financial Risk Management (continued)

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees, and from margin and other calls on cash settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Asset/Liability Committee and the Treasury department.

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	No stated maturity	Total
Assets						
Cash and short-term funds	1,383	–	–	–	137	**1,520**
Mandatory cash balances with local central banks	77	66	33	56	–	**232**
Trading securities	2,155	–	–	–	–	**2,155**
Due from other banks	1,054	359	317	206	76	**2,012**
Loans and advances to customers	1,058	3,069	2,079	3,687	141	**10,034**
Investment securities available for sale	885	–	–	–	–	**885**
Investments in associated banks	77	–	–	–	–	**77**
Investment securities held to maturity	–	–	2	5	–	**7**
Accrued interest income and other assets	375	49	24	6	25	**479**
Premises and equipment	–	–	–	–	335	**335**
Deferred tax asset	–	–	–	74	–	**74**
Total assets	**7,064**	**3,543**	**2,455**	**4,034**	**714**	**17,810**
Liabilities						
Due to banks	1,153	895	465	727	4	**3,244**
Customer accounts	3,198	1,682	635	440	1	**5,956**
Other borrowed funds	–	580	835	308	–	**1,723**
Securities issued	42	833	656	2,390	2	**3,923**
Accrued interest expense and other liabilities	148	41	4	18	43	**254**
Deferred tax liability	–	–	–	1	–	**1**
Total liabilities	**4,541**	**4,031**	**2,595**	**3,884**	**50**	**15,101**
Net liquidity gap	**2,523**	**(488)**	**(140)**	**150**	**664**	**2,709**
Cumulative liquidity gap	**2,523**	**2,035**	**1,895**	**2,045**	**2,709**	

(expressed in millions of US dollars)

27. Financial Risk Management (continued)

Liquidity risk (continued). The liquidity position of the Group at 31 December 2003 is set out below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and short-term funds	923	–	–	–	107	1,030
Mandatory cash balances with local central banks	274	70	28	10	–	382
Trading securities	1,270	–	–	–	–	1,270
Due from other banks	1,159	354	77	305		1,895
Loans and advances to customers	515	1,393	1,200	1,613	74	4,795
Investment securities available for sale	1,133	–	–	–	–	1,133
Investments in associated banks	41	–	–	–	–	41
Investment securities held to maturity	–	–	–	7	–	7
Accrued interest income and other assets	170	51	40	3	66	330
Premises and equipment	–	–	–	–	262	262
Deferred tax asset	–	–	–	83	–	83
Total assets	**5,485**	**1,868**	**1,345**	**2,021**	**509**	**11,228**
Liabilities						
Due to banks	1,142	440	92	137	1	1,812
Customer accounts	2,830	878	361	190	–	4,259
Other borrowed funds	6	120	562	19	–	707
Securities issued	174	537	121	905	1	1,738
Accrued interest expense and other liabilities	62	16	34	7	103	222
Deferred tax liability	–	–	–	–	12	12
Total liabilities	**4,214**	**1,991**	**1,170**	**1,258**	**117**	**8,750**
Net liquidity gap	**1,271**	**(123)**	**175**	**763**	**392**	**2,478**
Cumulative liquidity gap	**1,271**	**1,148**	**1,323**	**2,086**	**2,478**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses or diminished profitability. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of the fact that the majority of the Group's security portfolio matures after one year in accordance with the terms of issue, the majority of these securities are freely traded on the market and as such securities represent a hedge against potential liquidity risks. As such, the Group has included the securities in the "on demand and less than one month" category.

Further, Management believes that although a substantial portion of customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these deposits provide a long-term and stable source of funding for the Group.

(expressed in millions of US dollars)

27. Financial Risk Management (continued)

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 Asset/Liability Committee and the Treasury department.

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 generally fixed on a short-term basis. Also, in some cases interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

In the absence in fact of any available hedging instruments, 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.

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	No stated maturity/ overdue/ non-interest bearing	Total
Assets						
Cash and short-term funds	1,383	–	–	–	137	**1,520**
Mandatory cash balances with local central banks	77	66	33	56	–	**232**
Trading securities	2,155	–	–	–	–	**2,155**
Due from other banks	1,064	359	307	206	76	**2,012**
Loans and advances to customers	1,071	3,936	2,078	2,808	141	**10,034**
Investment securities available for sale	885	–	–	–	–	**885**
Investments in associated banks	77	–	–	–	–	**77**
Investment securities held to maturity	–	–	2	5	–	**7**
Accrued interest income and other assets	375	49	24	6	25	**479**
Premises and equipment	–	–	–	–	335	**335**
Deferred tax asset	–	–	–	74	–	**74**
Total assets	**7,087**	**4,410**	**2,444**	**3,155**	**714**	**17,810**
Liabilities						
Due to banks	1,172	943	405	720	4	**3,244**
Customer accounts	3,198	1,682	635	440	1	**5,956**
Other borrowed funds	575	306	835	7	–	**1,723**
Securities issued	667	858	656	1,740	2	**3,923**
Accrued interest expense and other liabilities	148	41	4	18	43	**254**
Deferred tax liability	–	–	–	1	–	**1**
Total liabilities	**5,760**	**3,830**	**2,535**	**2,926**	**50**	**15,101**
Net repricing gap	**1,327**	**580**	**(91)**	**229**	**664**	**2,709**
Cumulative repricing gap	**1,327**	**1,907**	**1,816**	**2,045**	**2,709**	

(expressed in millions of US dollars)

27. Financial Risk Management (continued)

At 31 December 2003, the Group's interest rate sensitivity analysis based on the repricing of the Group's assets and liabilities is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ overdue/ non-interest bearing	Total
Assets						
Cash and short-term funds	923	–	–	–	107	1,030
Mandatory cash balances with local central banks	274	70	28	10	–	382
Trading securities	1,270	–	–	–	–	1,270
Due from other banks	1,159	354	77	305	–	1,895
Loans and advances to customers	515	1,420	1,333	1,453	74	4,795
Investment securities available for sale	1,133	–	–	–	–	1,133
Investments in associated banks	41					41
Investment securities held to maturity	–	–	–	7	–	7
Accrued interest income and other assets	170	51	40	3	66	330
Premises and equipment	–	–	–	–	262	262
Deferred tax asset	–	–	–	83	–	83
Total assets	**5,485**	**1,895**	**1,478**	**1,861**	**509**	**11,228**
Liabilities						
Due to banks	1,142	440	92	137	1	1,812
Customer accounts	2,830	878	361	190	–	4,259
Other borrowed funds	6	690	5	6	–	707
Securities issued	174	537	121	905	1	1,738
Accrued interest expense and other liabilities	62	16	34	7	103	222
Deferred tax liability	–	–	–	–	12	12
Total liabilities	**4,214**	**2,561**	**613**	**1,245**	**117**	**8,750**
Net repricing gap	**1,271**	**(666)**	**865**	**616**	**392**	**2,478**
Cumulative repricing gap	**1,271**	**605**	**1,470**	**2,086**	**2,478**	

(expressed in millions of US dollars)

27. Financial Risk Management (continued)

Liquidity risk (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 2004				31 December 2003			
	USD	**RR**	**Euro**	**Other currencies**	**USD**	**RR**	**Euro**	**Other currencies**
Assets								
Cash and cash equivalents	1%	1%	1%	1%	1%	–	1%	1%
Debt trading securities	7%	6%	5%	4%	4%	10%	8%	4%
Due from other banks	6%	9%	3%	1%	5%	8%	3%	1%
Loans and advances to customers	8%	13%	8%	7%	9%	14%	7%	2%
Debt investment securities available for sale	7%	3%	5%	–	8%	2%	6%	–
Liabilities								
Due to other banks	4%	4%	5%	1%	5%	6%	2%	1%
Customer accounts	4%	4%	5%	4%	4%	6%	4%	4%
Other borrowed funds	3%	–	4%	3%	3%	–	4%	3%
Debt securities in issue	6%	6%	4%	3%	8%	12%	3%	–

The sign "–" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

28. Contingencies, Commitments, and Derivative Financial Instruments

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

Tax legislation. 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 Bank 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. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. 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.

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

As at 31 December 2004 management believes that its interpretation of the relevant legislation is appropriate and that it is most likely that the Group's tax, currency and customs positions will be sustained. Management believes that it has provided an adequate accrual for taxes.

Capital commitments. At 31 December 2004 and 2003, the Group has no capital commitments.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are USD 3 million during 2004 and 2005.

(expressed in millions of US dollars)

28. Contingencies, Commitments, and Derivative Financial Instruments (continued)

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.

Starting January 2005 the Bank is a member of the obligatory deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation “Agency for Deposits Insurance”. Insurance covers Bank’s liabilities to individual depositors for the amount up to RUB 100 thousand for each individual in case of business failure and revocation of the CBR banking license.

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

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

Outstanding credit related commitments are as follows:

	31 December 2004	**31 December 2003**
Guarantees issued	1,908	1,514
Undrawn credit lines	995	718
Import letters of credit	389	157
Commitments to extend credit	477	162
Other credit related commitments	510	500
Less: allowance for losses on credit related commitments	(18)	(10)
Total credit related commitments	**4,261**	**3,041**

The Bank has also received export letters of credit for further advising to its customers. Total amount outstanding as of 31 December 2004 and 31 December 2003 was USD 2,005 and 1,345 million, respectively. Commitments under import letters of credit are secured by customer deposits of USD 60 million (31 December 2003: USD 60 million).

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 one Russian company in the amount of USD 500 million. In February 2005 the commitment was closed prior to its contractual enforcement date which was stated as 9 March 2005.

(expressed in millions of US dollars)

28. Contingencies, Commitments, and Derivative Financial Instruments (continued)

Credit related commitments (continued). At 31 December 2004, included in guarantees issued above are guarantees issued for one Russian company of USD 930 million (49% of the guarantees issued) (31 December 2003: USD 932 million, 62% of the guarantees issued). These guaranties were secured by promissory notes issued by VTB with total nominal amount of USD 517 million (31 December 2003: USD 577 million). Movements in the allowance for losses on credit related commitments are as follows:

	2004	2003
Allowance for losses on credit related commitments at 1 January	**10**	**10**
Purchase of subsidiary	13	–
Provision for losses on credit related commitments during the period	(5)	–
Allowance for losses on credit related commitments at 31 December	**18**	**10**

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 favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2004. These contracts were mainly entered into in December 2004 and settled early in January 2005.

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**
Spot						
- sale of foreign currency	71	–	1	1	–	–
- purchase of foreign currency	120	–	–	5	–	–
- sale of securities	21	–	–	–	–	–
- purchase of securities	–	–	–	16	–	–
Term						
- 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	–	–
Swap						
- sale of foreign currency	20	–	–	16	(1)	–
- purchase of foreign currency	203	–	–	896	–	17
Total	**755**	**(1)**	**1**	**1,503**	**(13)**	**18**

(expressed in millions of US dollars)

28. Contingencies, Commitments, and Derivative Financial Instruments (continued)

The table below includes contracts outstanding at 31 December 2003.

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

Purchase commitments. As of 31 December 2004, the Group had a USD 285 million outstanding commitments for purchase of precious metals (31 December 2003: USD 119 million).

Fiduciary assets. These assets are not included in the Group's consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of the respective securities. The fiduciary assets fall into the following categories:

	31 December 2004 Nominal value	31 December 2003 Nominal value
MinFin bonds (OVGVZ)	5,694	4,712
Eurobond of the Russian Federation	145	304
Eurobond of foreign countries	20	39
Russian Corporate Eurobonds	1,258	155
GKO and OFZ	203	6
Municipal bonds	142	3
Equity securities	239	63
Other	1,507	577

Assets pledged. At 31 December 2004, the Group had USD 74 million (31 December 2003: USD 56 million) of securities pledged as collateral. At 31 December 2004, the Bank also pledged securities with the fair value of USD 340 million (31 December 2003: of USD 503 million) under sale and repurchase agreements with other banks. All of these operations were performed by the Bank in the normal course of business.

(expressed in millions of US dollars)

29. Consolidated Subsidiaries and Associates

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

Name	Activity	Country of registration	Equity controlled 31 December 2004	Equity controlled 31 December 2003
Subsidiaries				
Donau-bank	Banking	Austria	85.0%	85.0%
Russian Commercial Bank	Banking	Cyprus	100.0%	100.0%
Russian Commercial Bank	Banking	Switzerland	100.0%	100.0%
ArmSberbank	Banking	Armenia	70.0%	–
Guta bank	Banking	Russia	85.8%	–
Bank “Zabaikalsky”	Banking	Russia	99.9%	99.9%
Novosibirskvneshtorgbank	Banking	Russia	97.5%	97.5%
Ulyanovskvneshtorgbank	Banking	Russia	60.4%	60.4%
Multicarta Ltd	Plastic cards	Russia	100.0%	100.0%
Euroleasing, GMBH	Leasing	Germany	60.0%	60.0%
Rafinco Co., NY	Trading	USA	100.0%	100.0%
ITC Consultants	Finance	Cyprus	100.0%	100.0%
VB Service	Commerce	Russia	100.0%	100.0%
Trading House VTB	Commerce	Russia	100.0%	100.0%
Vympel-B Ltd	Security	Russia	–	100.0%
Non-state Pension Fund of Vneshtorgbank	Finance	Russia	100.0%	100.0%
ZAO Konobeevo	Recreation	Russia	89.9%	89.9%
Insurance capital Ltd	Insurance	Russia	69.8%	69.8%
ZAO “Binex”	Oil	Russia	–	51.0%
ZAO “Almaz Press”	Publishing	Russia	100.0%	100.0%
OAO “VTB-Leasing”	Leasing	Russia	100.0%	100.0%
Associates				
East-West United Bank	Banking	Luxembourg	34.0%	53.0%
Ost -West Handelsbank	Banking	Germany	31.9%	31.9%

In June 2004, the Bank sold 5% of East-West United Bank shares to third party for cash consideration of USD 2 million. The effect of the disposal of these shares was not material. As a result of this transaction, the Bank’s participation in East-West United Bank decreased from 53% to 48% effective 23 June 2004. In December 2004, the Bank sold additional 14% of share capital of East-West United Bank for cash consideration of approximately USD 5 million, reducing its participation from 48% to 34%.

In April 2004, the Group acquired 70% of the share capital of ArmSberbank located in Armenia in exchange for cash payment of USD 9 million. As of 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. As discussed in Note 32, in July 2004 the Group also acquired 85.8% of the share capital of Guta Bank.

30. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation has shown signs of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

(expressed in millions of US dollars)

30. Fair Value of Financial Instruments (continued)

Financial instruments carried at fair value. Cash and cash equivalents, trading securities, and investment securities available for sale are carried on the balance sheet at their fair value. The fair value of these assets were determined by Management on the basis of market quotations.

Due from other banks. Management has estimated that at 31 December 2004 and 2003 the fair value of due from other banks 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 advance to customers. Management has estimated that at 31 December 2004 and 2003 the fair value of loans and advances to customers was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Borrowings. Management has estimated that at 31 December 2004 and 2003 the fair values of borrowings were not materially different from their respective carrying values. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Debt securities in issue. The fair value of debt securities were determined by Management on the basis of market quotations.

31. Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with shareholders and associates. These transactions include settlements, loans, deposit taking, trade finance, and foreign currency transactions. Transactions are priced predominantly at market rates.

Transactions and balances with related parties are as stated in the table below:

	2004	**2003**
Due from other banks	12	–
Loans to customers	8	–
Due to other banks	10	–

For the year ended 31 December 2004, the total remuneration of the directors and key management personnel, including pension contributions and discretionary compensation amounted to USD 14 million (31 December 2003: USD 11 million).

(expressed in millions of US dollars)

32. Business Combinations

Acquisition of Guta bank

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

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

From the date of acquisition to 31 December 2004, Guta bank incurred USD 17 million net loss, which was included in the Group's consolidated income statement 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 254 million and operating income would have been USD 899 million.

33. Capital Adequacy

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian accounting rules. As of 31 December 2004 and 2003, 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, as of 31 December 2004 and 2003, was 12.0% and 19.6%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

34. Subsequent Events

On 21 January 2005, the National Bank of Ukraine registered VTB-Ukraine, a wholly-owned subsidiary of VTB. VTB-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, is 80 million hryvnas (approximately USD15 million).

On 25 January 2005, VTB acquired a 50% plus one share interest in United Georgian Bank ("UGB") in exchange for a cash payment of approximately USD 7 million. UGB was established in 1995 and is located in Tbilisi, Georgia. UGB is the third-largest bank in Georgia. It provides a full range of banking services and has approximately 40 branches and sub-branches throughout Georgia.

In January 2005, VTB made its debut issue of Euro denominated notes ("Schuldscheindarlehen") in the amount of Euro 130 million. The notes have one year maturity and a floating coupon rate stated at EURIBOR plus 1.15% per annum.

On 4 February 2005, the Group attracted a subordinated loan in the amount of USD 750 million in the form of USD denominated eurobonds (with call option) maturing in February 2015. The coupon is paid semi-annually and bears interest rate of 6.315% per annum with interest rate step-up in 2010.

In March 2005, VTB acquired a 25% plus one share of initial interest in Industry and 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. VTB believes that acquisition of a shareholding in ICB will facilitate its ability to expand its banking operations in St. Petersburg, the Leningrad Region and other areas of Russia where it currently does not have a presence.

In March 2005, VTB repaid a syndicated loan of USD 300 million to ABN Amro Bank N.V., Citibank N.A. London and ING Bank N.V.

On 8 April 2005, VTB signed a syndicated loan facility agreement with ABN AMRO Bank, Citibank and ING Bank as arrangers and a group of financial institutions as lenders in the amount of USD 450 million with 3 years maturity, and the interest rate set at LIBOR+1.2% per annum. The facility is expected to be drawn down by the beginning of June 2005.

In April 2005, VTB's representative office started operations in Delhi, India.

In April 2005, VTB redeemed Series 2 USD denominated floating rate Eurobonds with a face value of USD 325 million.