BANK FOR FOREIGN TRADE

Interim Condensed Consolidated Financial Statements
with Independent Auditors' Report on Review of Interim
Condensed Consolidated Financial Statements

30 June 2006

CONTENTS

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of the Bank for Foreign Trade ("the Bank") and its subsidiaries (together "the Group") as at 30 June 2006, and the related interim condensed consolidated statements of income for the three months and the six months then ended and interim condensed consolidated statements of cash flows, and changes in equity for the six months then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of work

We conducted our review in accordance with the International Standard on Review Engagements No. 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Vneshaudit

25 September 2006

(expressed in millions of US dollars)

	Note	30 June 2006 (unaudited)	31 December 2005
Assets			
Cash and short-term funds	4	3,250	2,692
Mandatory cash balances with local central banks		577	404
Financial assets at fair value through profit or loss	5	6,615	5,051
Financial assets pledged under repurchase agreements and loaned financial assets	6	1,869	1,352
Due from other banks	7	5,297	4,141
Loans and advances to customers	8	23,695	19,925
Assets of disposal group held for sale	23	387	337
Financial assets available-for-sale	9	1,213	881
Investments in associates	10, 27	129	118
Investment securities held-to-maturity		5	7
Premises and equipment		880	832
Investment property		200	198
Intangible assets		450	451
Deferred tax asset		101	82
Other assets		659	252
Total assets		**45,327**	**36,723**
Liabilities			
Due to other banks	11	6,163	6,629
Customer accounts	12	18,593	12,767
Liabilities of disposal group held for sale	23	249	199
Other borrowed funds	13	4,101	2,937
Debt securities issued	14	8,342	7,241
Deferred tax liability		116	162
Other liabilities		769	358
Total liabilities before subordinated debt		**38,333**	**30,293**
Subordinated debt	15	1,163	1,161
Total liabilities		**39,496**	**31,454**
Equity			
Share capital		2,500	2,500
Share premium		1,513	1,513
Unrealized (loss) gain on financial assets available-for-sale		(17)	89
Currency translation difference		220	86
Fixed Assets revaluation reserve		72	72
Retained earnings		1,146	660
Equity attributable to shareholders of the parent		**5,434**	**4,920**
Minority interest		397	349
Total equity		**5,831**	**5,269**
Total liabilities and equity		**45,327**	**36,723**

Approved for issue by the Management Board and signed on its behalf on 25 September 2006.

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

N.V. Tsekhomsky
Chief Financial Officer

(expressed in millions of US dollars, except earnings per share data)

	Note	For the three-month period ended 30 June (unaudited) 2006	2005	For the six-month period ended 30 June (unaudited) 2006	2005
Interest income	16	862	438	1,571	809
Interest expense	16	(449)	(214)	(828)	(385)
Net interest income		**413**	**224**	**743**	**424**
Provision for loan impairment	19	(91)	(48)	(185)	(80)
Net interest income after provision for loan impairment		**322**	**176**	**558**	**344**
Gains less losses arising from financial assets at fair value through profit or loss		56	77	146	102
Gain less losses from available-for-sale financial assets		8	–	119	–
Gains less losses arising from dealing in foreign currencies		24	(5)	–	(23)
Foreign exchange translation gains less losses		99	(44)	218	(21)
Fee and commission income	17	91	49	182	86
Fee and commission expense	17	(11)	(4)	(21)	(7)
Share in income of associates		1	9	5	10
Other operating income		45	30	87	63
Net non-interest income		**313**	**112**	**736**	**210**
Operating income		**635**	**288**	**1,294**	**554**
Operating expenses	18	(329)	(183)	(610)	(348)
Reversal (impairment charge) for other provisions	19	2	17	(1)	15
Profit before taxation		**308**	**122**	**683**	**221**
Income tax expense	21	(68)	(43)	(109)	(75)
Profit after taxation from continued operations		**240**	**79**	**574**	**146**
Profit from discontinued operations	23	2	–	2	–
Net profit		**242**	**79**	**576**	**146**
Net profit attributable to:					
Shareholders of the parent		**228**	**72**	**554**	**138**
Minority interest		**14**	**7**	**22**	**8**
Basic and diluted earnings per share (expressed in USD per share)	20	**4.4**	**1.7**	**10.6**	**3.3**
Basic and diluted earnings per share – continuing operations (expressed in USD per share)		4.4	1.7	10.6	3.3
Basic and diluted earnings per share – discontinued operations (expressed in USD per share)		0.0	0.0	0.0	0.0

(expressed in millions of US dollars)

	Note	For the six months ended 30 June (unaudited) 2006	2005
Cash flows from operating activities			
Interest received		1,507	761
Interest paid		(764)	(296)
Income received on operations with financial assets at fair value through profit or loss		158	43
Income received on operations with financial assets available-for-sale		119	
Expenses paid on dealing in foreign currency		(36)	(54)
Fees and commissions received		180	84
Fees and commissions paid		(22)	(7)
Other operating income received		82	27
Operating expenses paid		(575)	(274)
Income tax paid		(106)	(66)
Cash flows from operating activities before changes in operating assets and liabilities		**543**	**218**
Net decrease (increase) in operating assets			
Net increase in mandatory cash balances with local central banks		(142)	(30)
Net decrease in restricted cash		5	16
Net increase in trading securities and financial assets pledged under repurchase agreements and loaned financial assets		(1,505)	(226)
Net increase in due from other banks		(994)	(1,176)
Net increase in loans and advances to customers		(2,816)	(2,493)
Net increase in other assets		(396)	(71)
Net (decrease) increase in operating liabilities			
Net (decrease) increase in due to other banks		(698)	346
Net increase in customer accounts		4,906	2,446
Net increase (decrease) in promissory notes and certificates of deposits issued		132	(221)
Net increase in other liabilities		110	26
Net cash used in operating activities		**(855)**	**(1,165)**
Cash flows from investing activities			
Dividends received		10	–
Proceeds from sales or redemption of securities available-for-sale		160	77
Purchase of investment securities available-for-sale		(487)	(73)
Purchase of subsidiaries, net of cash acquired		(14)	6
Purchase of Disposal group held for sale		–	(140)
Purchase of associates		–	(97)
Purchase of premises and equipment		(81)	(73)
Proceeds from sales of premises and equipment		33	–
Proceeds from investment securities held-to-maturity		2	–
Purchase of intangible assets		(2)	–
Proceeds from sales of intangible assets		6	–
Net cash used in investing activities		**(373)**	**(300)**

(expressed in millions of US dollars) (Continued)

	Note	For the six months ended 30 June (unaudited) 2006	2005
Cash flows from financing activities			
Proceeds from bonds denominated in RUR		361	–
Cash paid in redemption of bonds denominated in RUR		(72)	–
Repayment of the Central Bank of the Russian Federation deposits		(75)	–
Proceeds from issuance of Eurobonds		603	1,200
Repayment of Eurobonds		(350)	(325)
Proceeds from issuance of debentures (Schuldscheindarlehen)		240	169
Cash paid in redemption of debentures (Schuldscheindarlehen)		(154)	–
Proceeds from credit lines		140	583
Repayment of credit lines		(134)	(849)
Proceeds from subordinated debt		–	750
Proceeds from syndicated loans		2,213	–
Repayment of syndicated loans		(1,120)	–
Net cash provided by financing activities		**1,652**	**1,528**
Effect of exchange rate changes on cash and cash equivalents		**129**	**(41)**
Net decrease in cash and cash equivalents		**553**	**22**
Cash and cash equivalents at beginning of the year	4	2,541	1,383
Cash and cash equivalents at the end of the period	4	**3,094**	**1,405**

(expressed in millions of US dollars)

	Attributable to shareholders of the parent								
	Share capital	**Share premium**	**Unrealized (loss) gain on financial assets available-for-sale**	**Fixed Assets revaluation reserve**	**Currency translation difference**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2004	**2,153**	**34**	**58**	**–**	**184**	**199**	**2,628**	**81**	**2,709**
Effect of translation	–	–	–	–	(60)	–	**(60)**	(2)	**(62)**
Total income and expense recognized directly in equity	–	–	–	–	(60)	–	**(60)**	(2)	**(62)**
Net profit	–	–	–	–	–	138	**138**	8	**146**
Total income and expense for the period	–	–	–	–	(60)	138	**78**	6	**84**
Dividends declared (Note 22)	–	–	–	–	–	(61)	**(61)**	–	**(61)**
Balance at 30 June 2005 (unaudited)	**2,153**	**34**	**58**	**–**	**124**	**276**	**2,645**	**87**	**2,732**
Balance at 31 December 2005	**2,500**	**1,513**	**89**	**72**	**86**	**660**	**4,920**	**349**	**5,269**
Unrealized loss on financial assets available for sale, net of tax	–	–	(17)	–	–	–	**(17)**	(2)	**(19)**
Transferred to profit or loss on sale, net of tax	–	–	(89)	–	–	–	**(89)**	–	(89)
Effect of translation	–	–	–	–	134	–	**134**	21	**155**
Total income and expense recognized directly in equity	–	–	(106)	–	134	–	**28**	19	**47**
Net profit	–	–	–	–	–	554	**554**	22	**576**
Total income and expense for the period	–	–	(106)	–	134	554	**582**	41	**623**
Dividends declared (Note 22)	–	–	–	–	–	(63)	**(63)**	(1)	**(64)**
Acquisition of subsidiaries	–	–	–	–	–	–	–	1	**1**
Increase in share capital of subsidiaries	–	–	–	–	–	(5)	**(5)**	7	**2**
Balance at 30 June 2006	**2,500**	**1,513**	**(17)**	**72**	**220**	**1,146**	**5,434**	**397**	**5,831**

1. Principal Activities

The Bank for Foreign Trade and its subsidiaries (the "Group") comprise Russian and foreign commercial banks ("Group 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"), was formed as Russia's foreign trade bank under the laws of the Russian Federation on 17 October 1990. In 1998, following several reorganizations, VTB was reorganized into an open joint stock company.

On 2 January 1991, VTB received a general banking license (number 1000) from the Central Bank of Russia (the "CBR"). In addition, VTB holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer and a custodian, and providing asset management and special depositary services. VTB and other Russian Group banks are regulated and supervised by the CBR and the Federal Service for Financial Markets. Foreign Group banks operate under the bank regulatory regimes of their respective countries.

On 29 December 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation "Agency for Deposits Insurance". The main retail subsidiary is also a member of the obligatory deposit insurance system since 22 February 2005. Industry & Construction Bank, a subsidiary acquired at the end of 2005, is also a member of the obligatory deposit insurance system since 11 January 2005. The State deposit insurance scheme implies that the State Corporation "Agency for Deposits Insurance" guarantees repayment of individual deposits up to 100 thousand Russian Roubles (RUR) (approximately US Dollars 4 thousand) per individual in case of the withdrawal of a license of a bank or a CBR imposed moratorium on payments. From 9 August 2006 the amount of guaranteed payment increased up to 190 thousand Russian Roubles (RUR) (approximately US Dollars 7 thousand).

On 5 October 2005, VTB re-registered its legal address to 29 Bolshaya Morskaya Street, Saint-Petersburg 190000, Russian Federation. VTB's Head Office is located in Moscow. A full list of subsidiaries and associates included in these consolidated financial statements is provided in Note 27.

The Group operates predominantly in the commercial banking sector. This includes deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients' export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. The Group's operations are not subject to seasonal fluctuations. The Group conducts its banking business in Russia through one associated and four subsidiary banks with its network of 153 branches, including 57 branches of VTB, 42 branches of CJSC "VTB Retail Services" and 54 branches of OJSC "Industry & Construction Bank", located in major Russian regions. The Group operates outside Russia through 11 bank subsidiaries of VTB, located in the Commonwealth of Independent States ("CIS") (Armenia, Georgia, Ukraine (2 banks)), Western Europe (Austria, Cyprus, Switzerland , Germany, Luxembourg, France) and Great Britain and through 5 representative offices located in India, Italy, China, Byelorussia and Ukraine.

The Group's majority shareholder is the State of Russian Federation, acting through the Federal Property Agency, which holds 99.9% of VTB's issued and outstanding shares.

The number of employees of the Group at 30 June 2006 was 26,580 (31 December 2005: 23,145).

Unless otherwise noted herein, all amounts are expressed in millions of US dollars.

2. Operating Environment of the Group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

3. Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". Accordingly, they do not include all of the information required by International Financial Reporting Standards (IFRS) for a complete set of financial statements. Operating results for the six-month period ended 30 June 2006 are not necessarily indicative of the results that may be expected for the year ending 31 December 2006. The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These interim condensed consolidated financial statements are based on those accounting books and records, as adjusted and reclassified to comply with International Accounting Standard 34 "Interim Financial Reporting".

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian Rouble (RUR). However, the Bank's assets and liabilities are mainly denominated in United States dollars ("US dollars" or "USD"). The US dollar is used to a significant extent in, and has a significant impact on the operations of the Bank, and the Bank's cash flows are primarily denominated in US dollars. Also, the US dollar is the currency in which Management of the Bank manages the business risks and exposures, and measures the performance of the Bank's business. Based upon these and other factors, the functional currency of the Bank is considered to be the US dollar. The Bank's accounting records provide sufficient accounting information regarding the original US dollar equivalent of transactions executed in other currencies.

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements as of 31 December 2005, considering the effect of revision of existing International Accounting Standards ("IAS"), which is described below.

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.

Changes in Accounting Policies

The accounting policies followed in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements at 31 December 2005 and for the year then ended, except for the adoption of the following amendments in IAS 39 (revised) "Financial Instruments: Recognition and Measurement" on annual periods beginning on or after 1 January 2006.

IAS 39 - Amendment for financial guarantee contracts accounting - amended the scope of IAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under revised IAS 39 financial guarantee contracts are recognized initially at fair value and remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

IAS 39 - Amendment for the fair value option - which restricted the use of the option to designate any financial asset or any financial liability as at fair value through profit or loss.

According to the revised IAS 39, an entity may designate financial assets and liabilities as at fair value through profit or loss only upon initial recognition when doing so results in more relevant information, because either:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IAS 24 Related Party Disclosures (as revised in 2003)), for example the entity's board of directors and chief executive officer.

(expressed in millions of US dollars)

3. Basis of Preparation (continued)

Changes in Accounting Policies (continued)

Also, according to the revised IAS 39, if a contract contains one or more embedded derivatives an entity may designate the entire hybrid (combined) contract as a financial asset or liability at fair value through profit or loss unless:

a) The embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

b) It is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost.

The Group has changed the name of the balance sheet line from “Securities pledged under repurchase agreements” to “Financial assets pledged under repurchase agreements and loaned financial assets” .This balance sheet line includes financial assets at fair value through profit or loss that are pledged as a collateral under sale and repurchase agreements or are loaned by the Group to the third parties.

The effect of the application of the new and revised standards on the balance sheet as at 31 December 2005 is as follows:

	As previously reported	Effect of adoption of IAS 39 revised	As adjusted
Financial assets available for sale	665	216	881
Financial assets designated as at fair value through profit or loss	1,709	(216)	1,493

Foreign Currency Translation

At 30 June 2006, the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 to RUR 27.0789 (at 31 December 2005: USD 1 to RUR 28.7825) and the principal rate of exchange used for translating balances in Euro was USD 1 to EURO 0.7970 (at 31 December 2005: USD 1 to EURO 0.8420).

Reclassifications

The Group made certain reclassifications within the statement of income for the six months ended 30 June 2005 to conform to the 2006 presentation.

	As previously reported	Reclassification	As adjusted
Other operating income	58	5	63
Other operating expenses	(328)	(20)	(348)
Reversal of impairment of other assets and provisions	–	15	15

The Group made certain reclassifications within the statement of cash flows for the six months ended 30 June 2005 to conform to the 2006 presentation.

	As previously reported	Reclassification	As adjusted
Net (decrease) increase in due to other banks	515	(169)	346
Proceeds from issuance of debentures (Schuldscheindarlehen)	–	169	169

(expressed in millions of US dollars)

4. Cash and Short-Term Funds

	30 June 2006 (unaudited)	31 December 2005
Cash on hand	593	568
Cash balances with local central banks (other than mandatory reserve deposits)	1,494	995
Correspondent accounts with other banks		
- Russian Federation	590	576
- Other countries	573	553
Total cash and short-term funds	**3,250**	**2,692**
Less: restricted cash	(156)	(151)
Total cash and cash equivalents	**3,094**	**2,541**

5. Financial Assets at Fair Value through Profit or Loss

	30 June 2006 (unaudited)	31 December 2005
Financial assets held for trading	5,436	3,558
Financial assets designated as at fair value through profit or loss	1,179	1,493
Total financial assets at fair value through profit or loss	**6,615**	**5,051**

Management of the Bank and its subsidiaries which were acquired prior to 2005 decided to designate as "financial assets at fair value through profit or loss" on 1 January 2005 all debt and equity securities, except for investments in equity instruments that do not have a quoted market price in an active market, loans and receivables and held-to-maturity instruments. Such designation is performed at the initial recognition of the respective assets. The same approach was applied to securities purchased during 2005, except for the securities held by subsidiaries acquired by the Bank in 2005. The financial assets designated as at fair value through profit or loss are managed on a fair value basis, in accordance with the risk management or investment strategies adopted by each Group member and the information on these instruments provided to key management personnel is prepared on a fair value basis.

Financial Assets Held for Trading

	30 June 2006 (unaudited)	31 December 2005
USD denominated securities		
Russian corporate Eurobonds	370	290
Bonds issued by foreign companies and banks	207	234
Equity securities	174	60
Bonds issued by foreign governments	92	65
Russian MinFin bonds (OVGVZ)	38	34
Eurobonds of the Russian Federation	36	59
RUR denominated securities		
Promissory notes and debentures	2,043	1,460
Equity securities	1,210	530
Russian Federal loan bonds (OFZ)	778	606
Bonds of the Central Bank of the Russian Federation	–	7
Securities denominated in other currencies		
Equity securities	201	74
Foreign corporate bonds	24	103
Russian corporate Eurobonds	–	13
Balances arising from derivative financial instruments	263	23
Total financial assets held for trading	**5,436**	**3,558**

(expressed in millions of US dollars)

5. Financial Assets at Fair Value through Profit or Loss (continued)

Financial Assets Held for Trading (continued)

The increase in RUR denominated securities was mainly attributable to the increase of investments in equities of leading Russian companies in oil and gas industry and bonds of local authorities.

Financial Assets Designated as at Fair Value through Profit or Loss

	30 June 2006 (unaudited)	31 December 2005
Bonds of Russian companies and banks	474	548
Eurobonds of the Russian Federation	314	360
Bonds issued by foreign companies and banks	205	99
Bonds issued by foreign governments	125	252
Municipal bonds	16	15
Russian MinFin bonds (OVGVZ)	11	85
Promissory notes of foreign companies and banks	7	100
Promissory notes of Russian companies and banks	4	16
Other	23	18
Total	**1,179**	**1,493**

6. Financial Assets Pledged under Repurchase Agreements and Loaned Financial Assets

	30 June 2006 (unaudited)	31 December 2005
Bonds issued by foreign companies and banks	506	375
Russian Eurobonds and MinFin Bonds	496	303
Foreign government bonds	299	281
Russian corporate Eurobonds	172	67
Promissory notes	131	–
Russian Federal loan bonds (OFZ)	129	38
Equity securities	89	118
Municipal bonds	30	170
Russian corporate bonds	17	–
Total	**1,869**	**1,352**

(expressed in millions of US dollars)

7. Due from Other Banks

	30 June 2006 (unaudited)	31 December 2005
Current term placements with other banks	4,179	3,558
Reverse sale and repurchase agreements with other banks	1,124	590
Overdue placements with other banks	2	–
	5,305	**4,148**
Less: Allowance for loan impairment	(8)	(7)
Total due from other banks	**5,297**	**4,141**

8. Loans and Advances to Customers

	30 June 2006 (unaudited)	31 December 2005
Current loans and advances	22,813	19,078
Reverse sale and repurchase agreements with customers	1,020	1,168
Rescheduled loans and advances	276	60
Overdue loans and advances	374	227
	24,483	**20,533**
Less: Allowance for loan impairment	(788)	(608)
Total loans and advances to customers	**23,695**	**19,925**

At 30 June 2006, included in current loans are lease receivables of USD 99 million (31 December 2005: USD 94 million), equal to the net investment in the lease.

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

	30 June 2006 (unaudited)		31 December 2005	
	Amount	**%**	**Amount**	**%**
Finance	5,206	22	3,970	19
Trade and commerce	4,178	17	3,000	15
Manufacturing	4,077	17	4,231	20
Building construction	1,925	8	1,605	8
Individuals	1,508	6	851	4
Government bodies	1,100	4	959	5
Mining	1,095	4	1,041	5
Oil and Gaz	945	4	888	4
Chemical	787	3	652	3
Food and agriculture	704	3	523	3
Energy	678	3	706	3
Transport	556	2	382	2
Telecommunications and media	391	2	360	2
Others	1,333	5	1,365	7
Total loans and advances to customers	**24,483**	**100**	**20,533**	**100**

At 30 June 2006, total amount of outstanding loans issued to 10 largest groups of related borrowers by the Group comprised USD 4,217 million or 17% of the gross loan portfolio (31 December 2005: USD 4,049 million or 20%).

At 30 June 2006, total amount of outstanding loans issued under reverse sale and repurchase agreements with 3 major customers represented USD 553 million, or 2% of gross loan portfolio (31 December 2005: 4 customers are USD 595 million - 3% of gross loan portfolio).

(expressed in millions of US dollars)

8. Loans and Advances to Customers (continued)

At 30 June 2006 and at 31 December 2005, included in loans and advances was a loan to a large corporate customer totaling USD 1,000 million (4% of gross loan portfolio) with maturity in 2009 at an interest rate of 9.6% per annum. The Group has cash collateral of USD 250 million (31 December 2005: USD 550 million) in respect of this loan, therefore its net exposure is USD 750 million (31 December 2005: USD 450 million), which is fully collateralized by the shares of a large Russian metal company.

The Group has transferred USD 450 million of this USD 750 million participation in the loan to an unrelated third party. Additionally the Group has written a put option on the transferred asset executable in 3 years. As a result of this transaction, the Group has retained the credit risk but transferred certain other risks of the USD 450 million participation and has retained control over this asset. Accordingly, the Group has continued to recognize the above participation in the amount of USD 450 million and recognized the associated liability in the amount of USD 461 million within customer accounts. An additional receivable of the put option premium of USD 11 million is included in Other assets.

9. Financial Assets Available-for-sale

	30 June 2006 (unaudited)	31 December 2005
Bonds issued by foreign companies and banks	319	192
CJSC "ALROSA" shares	309	–
International Moscow Bank (Russia) shares	151	146
Russian corporate Eurobonds	132	115
Eurobonds of the Russian Federation	129	104
Other equity investments	71	81
Russian MinFin bonds (OVGVZ)	35	36
Bonds issued by foreign governments	33	26
Promissory notes	22	39
Municipal bonds	8	7
Russian corporate bonds	4	3
JSC "KAMAZ" shares	–	132
Total	**1,213**	**881**

At 31 December 2005, included in the financial assets available-for-sale were corporate shares of an automobile production company JSC "KAMAZ" with a fair value of USD 132 million which were sold in February 2006 for USD 132 million.

As a result of the acquisition of BCEN-Eurobank in 2005, the Group acquired 19.8% of the total shares of JSC "International Moscow Bank" ("IMB") domiciled in Russia. At 30 June 2006, the fair value of these shares was USD 151 million (31 December 2005: USD 146 million). At 30 June 2006 and 31 December 2005, the Group's percentage of voting ordinary shares in IMB amounted to 15.9%.

10. Investments in Associates

			30 June 2006 (unaudited)		31 December 2005	
	Country of registration	Industry	Amount	Ownership percentage	Amount	Ownership percentage
"Eurofinance Mosnarbank", OJSC	Russia	Bank	103	32.65%	92	32.65%
"Halladale PLC"	Great Britain	Property	23	23.00%	23	23.00%
"Management Company ICB", limited	Russia	Finance	3	30.91%	3	30.91%
Total investments in associates			**129**		**118**	

(expressed in millions of US dollars)

11. Due to Other Banks

	30 June 2006 (unaudited)	31 December 2005
Term loans and deposits	2,703	3,787
Sale and repurchase agreements with other banks	2,086	1,288
Correspondent accounts and overnight deposits of other banks	1,374	1,554
Total due to other banks	**6,163**	**6,629**

12. Customer Accounts

	30 June 2006 (unaudited)	31 December 2005
State and public organizations		
Current/settlement accounts	882	574
Term deposits	2,595	79
Other legal entities		
Current/settlement accounts	5,325	3,863
Term deposits	3,803	3,069
Individuals		
Current/settlement accounts	1,363	1,010
Term deposits	4,584	4,170
Sale and repurchase agreements	41	2
Total customer accounts	**18,593**	**12,767**

Included in term deposits of state and public organizations are RUR denominated short-term deposits of Russian local authorities.

13. Other Borrowed Funds

	30 June 2006 (unaudited)	31 December 2005
CBR deposits	1,045	982
Syndicated loans	2,519	1,426
Revolving credit lines	13	8
Other credit lines	524	521
Total other borrowed funds	**4,101**	**2,937**

In connection with the acquisition of Guta Bank (now named CJSC “VTB Retail Services”) by the Group in July 2004, the CBR placed a USD 700 million special purpose deposit with VTB at one-year LIBOR, maturing in July 2005, with carrying value of USD 700 million, which is included in CBR deposits. The deposit is available to maintain Guta Bank’s liquidity and for the use in its operations. In July 2005, the term of the deposit has been prolonged to 20 July 2006 at a fixed rate of 4.07%. The Group has initially recognized the CBR deposit at its fair value, calculated based on market rates for similar deposits. The gain on initial recognition is reflected in the goodwill arising from the Guta Bank acquisition. In July 2006 the amount of deposit was reduced to USD 500 million and the deposit was prolonged to July 2007 at a fixed rate 5.66 %.

(expressed in millions of US dollars)

13. Other Borrowed Funds (continued)

In February 2006, VTB fully repaid a syndicated unsecured loan with total contractual amount of USD 500 million, arranged by BTM (Europe) Limited and Sumitomo Mitsui Finance (Dublin) Ltd in December 2005 at LIBOR + 0.15% with the carrying amount of USD 501 million.

In May 2006, VTB repaid before maturity a syndicated unsecured loan arranged by ABN AMRO Bank NV, Citibank NA London, ING Bank NV with the carrying amount of USD 452 million, at LIBOR + 1.2%, maturing in April 2008 and a syndicated unsecured loan arranged by ABN AMRO Bank NV, Citibank NA London, ING Bank NV and JP Morgan plc with the carrying amount of USD 151 million, at LIBOR + 1.6%, maturing in November 2007. These syndicated loans were refinanced by a loan facility arranged by a club of 17 banks in the amount of USD 600 million, at LIBOR + 0.375%, maturing in May 2009.

In February 2006, VTB received a syndicated unsecured loan arranged by JP Morgan plc, Deutsche Bank AG, Barclays Bank plc, at 3month LIBOR + 0.4%, maturing in November 2006, with total contractual amount of USD 850 million. As of 30 June 2006, the loan facility is still outstanding and its carrying amount is USD 856 million.

As of June 2006, VTB repaid USD 1 million under the contract with Japan Bank for International Cooperation jointly with three Japanese banks from the total facility amount of USD 9 million with a floating interest rate from 2.54% to 2.64%, maturing in February 2007.

In March 2006, Industry and Construction Bank, OJSC received an additional syndicated loan in the amount of USD 175 million from Bank of Tokyo-Mitsubishi, Ltd and Raiffeisen Zentralbank Österreich Aktiengesellschaft at LIBOR + 0.575%, maturing in March 2008.

In June 2006, Moscow Narodny Bank Limited received a syndicated loan of the USD 200 million, arranged by Mandated Lead Arrangers Bankgesellschaft Berlin, Bayerische Hypo-und Vereinsbank AG, HSH Nordbank AG and Natexis Banques Populaires, maturing in December 2006 at LIBOR + 0.35%.

14. Debt Securities Issued

	30 June 2006 (unaudited)	**31 December 2005**
Bonds	5,734	5,060
Promissory notes	2,030	1,736
Deposit certificates	324	288
Debentures	254	157
Total debt securities issued	**8,342**	**7,241**

At 30 June 2006, debentures issued include EUR 200 million (31 December 2005: EUR 130 million) of SSD ("Schuldscheindarlehen") issued in January 2006 under the local German rules and the rules of Austrian market with maturity in January 2007 bearing an interest rate of one month EURIBOR + 0.3% p.a. payable semi-annually (31 December 2005: maturity in January 2006, bearing an interest rate of six month EURIBOR + 1.15% p.a.).

In January 2006, VTB redeemed EURO denominated Schuldscheindarlehen with face value of USD 154 million.

In February 2006, VTB issued EURO 500 million Series 9 Eurobonds under EMTN Program with a fixed rate of 4.25% p.a. The issue has 10-year maturity (February 2016) and may be redeemed in February 2011 at the option of noteholders (5-year put option).

(expressed in millions of US dollars)

14. Debt Securities Issued (continued)

In February 2006, VTB redeemed Series 3 RUR denominated bonds with face value of USD 72 million.

In April 2006, VTB issued RUR-denominated Eurobonds with a face value of 10 billion (or USD 369 million) with fixed rate 7% p.a.

In June 2006, VTB redeemed Series 5 Eurobonds with face value of USD 350 million.

15. Subordinated Debt

On 4 February 2005, VTB Capital S.A., a Luxembourg based special purpose entity of the Group used for issuance of Eurobonds, issued USD 750 million of Eurobonds (with a call option for early repayment on the fifth anniversary of such date) due February 2015, the proceeds of which financed a subordinated loan to VTB. The Eurobonds bear interest at 6.315% per annum payable semi-annually, with an interest rate step-up in 2010. As of 30 June 2006, the carrying amount of this subordinated debt was USD 765 million (31 December 2005: USD 766 million). The Bank's management expects to settle the debt in 2010 before the interest rate step-up.

On 29 September 2005, OJSC "Industry & Construction Bank" issued USD 400 million subordinated Eurobonds due September 2015 with a call option on 1 October 2010 at face value. The Eurobonds bear interest at 6.3% per annum payable semi-annually, with an interest rate step-up in 2010. The transaction was structured as an issue of notes by Or-ICB S.A. (Luxemburg) for the purpose of financing a subordinated loan to the Bank. As of 30 June 2006, the carrying amount of this subordinated debt was USD 389 million (31 December 2005: USD 387 million).

16. Interest Income and Expense

	For the three-month period ended 30 June (unaudited)		For the six-month period ended 30 June (unaudited)	
	2006	**2005**	**2006**	**2005**
Interest income				
Loans and advances to customers	658	363	1,209	653
Securities	141	58	236	109
Due from other banks	63	17	126	47
Total interest income	**862**	**438**	**1,571**	**809**
Interest expense				
Customer accounts	(183)	(90)	(313)	(159)
Debt securities issued	(130)	(76)	(251)	(130)
Due to banks and other borrowed funds	(136)	(48)	(264)	(96)
Total interest expense	**(449)**	**(214)**	**(828)**	**(385)**
Net interest income	**413**	**224**	**743**	**424**

(expressed in millions of US dollars)

17. Fee and Commission Income and Expense

	For the three-month period ended 30 June (unaudited)		For the six-month period ended 30 June (unaudited)	
	2006	**2005**	**2006**	**2005**
Commission on settlement transactions	52	15	88	28
Commission on cash transactions	18	9	31	15
Commission on guarantees issued	11	9	28	16
Commission on operations with securities	9	5	15	6
Other	1	11	20	21
Total fee and commission income	**91**	**49**	**182**	**86**
Commission on settlement transactions	(6)	(2)	(10)	(3)
Commission on cash transactions	(2)	–	(4)	(1)
Other	(3)	(2)	(7)	(3)
Total fee and commission expense	**(11)**	**(4)**	**(21)**	**(7)**
Net fee and commission income	**80**	**45**	**161**	**79**

18. Operating Expenses

	For the three-month periods ended 30 June (unaudited)		For the six-month periods ended 30 June (unaudited)	
	2006	**2005**	**2006**	**2005**
Staff costs	129	75	249	140
Define contribution pension expense	19	17	31	25
Administrative expenses, depreciation and other expenses related to premises and equipment	48	33	85	60
Leasing and rent expenses	20	9	37	19
Taxes other than on income	21	11	33	19
Advertising expenses	17	6	27	11
Professional services	10	3	14	7
Charity	3	4	5	8
Security expenses	8	4	15	7
Insurance	8	3	15	3
Post and telecommunication expenses	7	3	12	4
Amortization of core deposit intangible	7	–	15	–
Transport expenses	2	–	5	2
Expenses arising from non-banking activities	16	15	33	20
Other	14	–	34	23
Total operating expenses	**329**	**183**	**610**	**348**

(expressed in millions of US dollars)

19. Allowances for Impairment and Provisions

The movements in allowances for impairment of interest earning assets were as follows:

	Due from other banks	Loans and advances to customers	Total
31 December 2004	**111**	**553**	**664**
(Reversal of provision) / Provision for loan impairment during the period	(3)	83	**80**
30 June 2005 (unaudited)	**108**	**636**	**744**
31 December 2005	**7**	**608**	**615**
Provision for loan impairment during the period	1	184	**185**
Write-offs	–	(8)	**(8)**
Currency translation difference	–	4	**4**
30 June 2006 (unaudited)	**8**	**788**	**796**

The movements in allowances for other assets and provisions were as follows:

	Other assets	Credit related commitments	Total
31 December 2004	**–**	**18**	**18**
Reversal during the period	–	(15)	**(15)**
30 June 2005 (unaudited)	**–**	**3**	**3**
31 December 2005	**–**	**–**	**–**
Provision during the period	–	1	**1**
30 June 2006 (unaudited)	**–**	**1**	**1**

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities. In accordance with the Russian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

20. Basic and Diluted Earnings per Share

Basic earning per share are calculated by dividing the net profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

The Group has no diluted potential ordinary shares; therefore, the diluted earnings per share are equal to basic earning per share.

20. Basic and Diluted Earnings per Share (continued)

	For the three-month periods ended 30 June (unaudited)		For the six-month periods ended 30 June (unaudited)	
	2006	**2005**	**2006**	**2005**
Net profit attributable to shareholders of the parent *(in millions of US dollars)*	228	72	554	138
Weighted average number of ordinary shares in issue	52,111,124	42,137,236	52,111,124	42,137,236
Basic and diluted earnings per share (expressed in USD per share)	**4.4**	**1.7**	**10.6**	**3.3**

21. Income Tax

In the first half of 2006, VTB earned non-taxable profits from operating activities and non-taxable gains from foreign exchange and one of the foreign subsidiaries recognized tax losses giving rise to tax benefits of USD 38 million, USD 36 million and USD 11 million, respectively, which contributed to the reduction of the Group's effective tax rate for the first six months of 2006 from 34% to 16%.

22. Dividends

VTB does not have a formal policy for payment of dividends. The amount of dividends to be declared and paid is decided at the VTB's annual shareholders' meeting on the basis of VTB's net profit for the previous fiscal year determined in accordance with Russian Accounting Legislation on a stand-alone basis. In 2005, VTB declared and paid dividends of RUR 1.7 billion (USD 61 million at the exchange rate of RUR 27.87 per USD 1.00) for 2004. On 29 June 2006, VTB's shareholders meeting approved dividends of RUR 1.7 billion (USD 63 million at the exchange rate of RUR 27.0611 per USD 1.00) for 2005, which were paid on 25 August 2006.

On 30 June 2006, ICB's shareholders approved dividends of RUR 126 million (USD 4.7 million at the exchange rate of RUR 27.0789 per USD 1.00) for 2005, which were paid on 19 July 2006, thus resulting in decrease in minority interest by USD 1 million.

23. Disposal Group Held for Sale

At the end of June 2005, a subsidiary of CJSC "VTB Retail Services" purchased a 100% interest in CJSC "Sales", a holding company for a number of Russian companies involved in aircraft engine manufacturing. The current management intention is to sell this investment within twelve months, therefore the Bank applied IFRS 5 for its accounting. The Bank has calculated fair values of the CJSC "Sales" consolidated assets and liabilities at the acquisition date amounting to USD 334 million and USD 201 million, respectively. No negative goodwill has arisen from this acquisition. CJSC "Sales" holding was classified as a disposal group held for sale under provisions of IFRS 5 and is included in the geographical segment "Russia". In June 2006 the Group initiated the sale of the Disposal Group. The deal was closed in August 2006 (Refer to Note 28).

As of 30 June 2006 consolidated assets and liabilities of CJSC "Sales" were USD 387 million and USD 249 million, respectively (31 December 2005: USD 337 million and USD 199 million, respectively).

Net profit of discontinued operations relating to the disposal group held for sale for six months of 2006 was USD 2 million (from the date of acquisition to 30 June 2005 – zero).

(expressed in millions of US dollars)

24. 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.

Credit related commitments.

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

Outstanding credit related commitments are as follows:

	30 June 2006 (unaudited)	31 December 2005
Guarantees issued	2,320	2,040
Undrawn credit lines	3,559	2,828
Import letters of credit	715	559
Commitments to extend credit	1,192	1,023
Other credit related commitments	135	10
Less: provision for losses on credit related commitments	(1)	–
Total credit related commitments	**7,920**	**6,460**

The Bank has also received export letters of credit for further advising to its customers. Total amount outstanding as of 30 June 2006 was USD 1,847 million (31 December 2005: USD 1,829 million). Commitments under import letters of credit and guarantees are collateralized by customer deposits of USD 54 million (31 December 2005: USD 55 million).

At 30 June 2006, included in guarantees issued above are guarantees issued for one Russian company of USD 425 million (18% of the guarantees issued) (31 December 2005: USD 445 million, 22% of the guarantees issued).

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

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 30 June 2006. These contracts were mainly entered into in June 2006 and settled in early July 2006.

(expressed in millions of US dollars)

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

The table below includes contracts outstanding at 30 June 2006:

	Domestic			Foreign		
	Notional amount	**Negative fair value**	**Positive fair value**	**Notional amount**	**Negative fair value**	**Positive fair value**
Term						
- sale of foreign currency	1,859	(6)	9	506	(2)	5
- purchase of foreign currency	2,034	(24)	4	1,234	(20)	5
- exchange of foreign currency	–	–	–	266	(1)	3
- sale of precious metals	–	–	–	397	(2)	43
- purchase of precious metals	–	–	–	7	–	–
- sale of securities	2,623	(157)	2	574	–	–
- purchase of securities	2,367	(7)	186	15	–	–
Swap						
- sale of foreign currency	5	–	–	301	(3)	4
- purchase of foreign currency	296	–	–	194	(2)	1
- exchange of foreign currency	19	–	–	1,068	(6)	1
- sale of securities	–	–	–	26	–	–
- purchase of securities	–	–	–	541	(7)	–
Options						
-purchased call on foreign currency	–	–	–	64	–	–
Options						
-written put on securities	–	–	–	9	–	–
-purchased put on securities	–	–	–	19	–	–
-written call on securities	–	–	–	43	–	–
-purchased call of securities	54	–	–	34	–	–
Total	**9,257**	**(194)**	**201**	**5,298**	**(43)**	**62**

(expressed in millions of US dollars)

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

The table below includes contracts outstanding at 31 December 2005:

	Domestic			Foreign		
	Notional amount	**Negative fair value**	**Positive fair value**	**Notional amount**	**Negative fair value**	**Positive fair value**
Term						
- sale of foreign currency	671	(3)	1	10	–	–
- purchase of foreign currency	1,881	(4)	7	370	(11)	–
- exchange of foreign currency	–	–	–	22	–	–
- sale of precious metals	–	–	–	203	–	9
- sale of securities	48	–	–	–	–	–
- purchase of securities	8	–	–	61	(1)	–
Swap						
- sale of foreign currency	77	–	–	70	–	1
- purchase of foreign currency	40	–	–	314	(8)	–
- exchange of foreign currency	64	–	1	644	(4)	2
- purchase of securities	–	–	–	17	(5)	–
- sale of Credit Default Swap	–	–	–	185	–	2
Options						
- purchased call on precious metals	–	–	–	5	–	–
Options						
-written put on foreign currency	–	–	–	474	–	–
-purchased put on foreign currency	–	–	–	65	–	–
-purchased call on foreign currency	–	–	–	18	–	–
Options						
-written put on securities	–	–	–	83	–	–
-purchased put on securities	5	–	–	–	–	–
-written call on securities	–	–	–	59	–	–
-purchased call on securities	–	–	–	84	–	–
Total	**2,794**	**(7)**	**9**	**2,684**	**(29)**	**14**

Purchase commitments. As of 30 June 2006 the Group had USD 229 million outstanding commitments for purchase of precious metals (31 December 2005: USD 249 million). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognised on these contracts.

(expressed in millions of US dollars)

25. Analysis by Segment

In accordance with IAS 14, "Segment Reporting", the Group's primary format for reporting segment information is geographical segments and the secondary format is business segments. Geographical segment information is based on geographical location of assets and liabilities and related revenues of entities within the Group. The Group separated segment "Other CIS" (which includes other countries of CIS) from segment "Russia and CIS" to reflect the increase in operations of that segment. Segment information for the three main reportable geographical segments of the Group, Russia, Other CIS and Europe, is set out below for the period ended 30 June 2006 (unaudited):

	Russia	Other CIS	Europe	Total before intercompany eliminations	Intercompany	Total
Total revenues	1,691	51	438	2,180	(75)	**2,105**
External customers	1,624	51	430	2,105		**2,105**
Other segments	67	–	8	75	(75)	**–**
Segment results	642	10	31			**683**
Taxation	(115)	(3)	9			**(109)**
Profit after taxation	527	7	40			**574**
Share in profit of associated companies	–	–	5			**5**
Share in profit of Disposal group held for sale	2	–	–			**2**
Net profit	**529**	**7**	**40**			**576**
Segment assets as of 30 June 2006 less tax assets	35,583	1,023	11,667	48,273	(3,067)	**45,206**
Tax assets	28	1	92	121	–	**121**
Segment assets as of 30 June 2006	35,611	1,024	11,759	48,394	(3,067)	**45,327**
Segment liabilities as of 30 June 2006 less tax liabilities	32,083	858	9,480	42,421	(3,067)	**39,354**
Tax liabilities	114	5	23	142	–	**142**
Segment liabilities as of 30 June 2006	32,197	863	9,503	42,563	(3,067)	**39,496**
Other segment items						
Capital expenditure	81	4	5	90		**90**
Depreciation	31	2	4	37		**37**
Other non-cash income (expenses)						
- Provision for loans	(111)	(3)	(71)	(185)		**(185)**
- Provision for other items	1	–	(2)	(1)		**(1)**

(expressed in millions of US dollars)

25. Analysis by Segment (continued)

Segment information for the three main reportable geographical segments of the Group (Russia, Other CIS and Europe), at 31 December 2005 and results for the six months ended 30 June 2005 is set out below:

	Russia	Other CIS	Europe	Total before intercompany eliminations	Intercompany	Total
Total revenues	914	13	176	1,103	(66)	**1,037**
External customers	854	13	170	1,037	–	**1,037**
Other segments	60		6	66	(66)	–
Segment results	167	1	53			**221**
Taxation	(65)		(10)			**(75)**
Profit after taxation	102	1	43			**146**
Share in profit of associated companies	7		3			**10**
Net profit	**102**	**1**	**43**			**146**
Segment assets as of 31 December 2005 less tax assets	28,052	423	10,766	39,241	(2,664)	**36,577**
Tax assets	71	0	75	146	–	**146**
Segment assets as of 31 December 2005	28,123	423	10,841	39,387	(2,664)	**36,723**
Segment liabilities as of 31 December 2005 less tax liabilities	24,915	372	8,644	33,931	(2,664)	**31,267**
Tax liabilities	163	1	23	187	–	**187**
Segment liabilities as of 31 December 2005	25,078	373	8,667	34,118	(2,664)	**31,454**
Other segment items						
Capital expenditure	91	12	1	104		**104**
Depreciation	25	1	1	27		**27**
Other non-cash income (expenses)						
- Provision for loans	(78)	-	(2)	(80)		**(80)**
- Reversal (impairment charge) for other provisions	17	–	(2)	15		**15**

VTB has predominantly one business segment, commercial banking, therefore no business segment disclosure is presented.

26. 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.

Commencing 1 January 2005, the revised IAS 24 removed the exemption for state-controlled entities from the requirement to disclose transactions with other state-controlled entities. Since the Bank is a state-owned entity, the Bank introduced a policy in accordance with which it discloses transactions and outstanding balances with state-owned entities, as well details of guarantees given or received whether directly or indirectly.

Transactions with related parties entered by the Bank during the period ended 30 June 2006 were made in the normal course of business and mostly on an arm-length basis.

(expressed in millions of US dollars)

26. Related Party Transactions (continued)

Transactions and balances with related parties comprise transactions and balances with state-owned entities and associates and are stated in the table below:

Balance sheet and credit related commitments:

	30 June 2006 (unaudited)		31 December 2005	
	State-owned entities	Associates	State-owned entities	Associates
Assets				
Cash and short-term funds	1,395	–	1,212	–
Mandatory cash balances with local central banks	468	–	329	–
Due from other banks	373	64	354	–
Financial assets at fair value through profit or loss	2,688	31	3,012	–
Financial assets pledged under repurchase agreements and loaned financial assets	811	–	454	–
Financial assets available-for-sale	518	–	162	–
Loans and advances to customers	3,533	7	4,429	–
Allowance for loan impairment	(56)	–	(99)	–
Liabilities				
Due to other banks	843	–	1,242	–
Customer accounts	4,831	1	1,973	2
Other borrowed funds	1,077	–	982	–
Credit Related Commitments				
Guarantees issued	1,281	1	1,044	–
Undrawn credit lines	541	–	501	–
Import letters of credit	118	–	79	–
Commitments to extend credit	244	–	183	–
Other credit related commitments	35	–	–	–

Income Statement:

	For the six months ended (unaudited)	
	30 June 2006	30 June 2005
Interest income		
Loans and advances to customers	265	123
Securities	114	51
Due from other banks	14	11
Interest expense		
Customer accounts	(49)	(35)
Due to other banks	(23)	(22)
Reversal of allowance for impairment	43	29

For the period ended 30 June 2006, the total remuneration of the directors and key management personnel, including pension contributions and discretionary compensation amounted to USD 15.5 million (30 June 2005: USD 6.3 million).

(expressed in millions of US dollars)

27. Consolidated Subsidiaries and Associates

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

			Percentage of ownership	
Name	**Activity**	**Country of registration**	**30 June 2006 (unaudited)**	**31 December 2005**
Subsidiaries				
"Donau-bank Aktiengesellschaft, Wien"	Banking	Austria	100.00%	100.00%
"Russian Commercial Bank (Cyprus) Limited"	Banking	Cyprus	100.00%	100.00%
"Russian Commercial Bank Ltd"	Banking	Switzerland	100.00%	100.00%
"Vneshtorgbank (Ukraine)", CJSC	Banking	Ukraine	100.00%	100.00%
"Mriya", JSCB	Banking	Ukraine	98.00%	–
"VTB Bank (Armenia)", CJSC	Banking	Armenia	70.00%	70.00%
"United Georgian Bank" Corporation	Banking	Georgia	58.90%	50.00%
"Vneshtorgbank Retail Services", CJSC	Banking	Russia	95.93%	92.19%
Bank "Zabaikalsky" , OJSC	Banking	Russia	99.80%	99.80%
"Novosibirskvneshtorgbank", CJSC	Banking	Russia	97.60%	97.60%
"East-West United Bank", S.A.	Banking	Luxembourg	50.74%	50.74%
"Ost -West Handelsbank", AG	Banking	Germany	83.54%	83.54%
"Industry & Construction Bank", OJSC	Banking	Russia	75.00%	75.00%
"BCEN-Eurobank"	Banking	France	87.04%	87.04%
"Moscow Narodny Bank Limited"	Banking	Great Britain	89.10%	89.10%
"Multicarta", Ltd	Plastic cards	Russia	100.00%	100.00%
"Euroleasing", GMBH	Leasing	Germany	63.00%	63.00%
"Rafinco Co.", Inc.	Trading	USA	100.00%	100.00%
"I.T.C. Consultants (Cyprus)", Ltd	Finance	Cyprus	100.00%	100.00%
"VB-Service", Ltd	Commerce	Russia	100.00%	100.00%
"Interbank Trading House", Ltd	Commerce	Russia	50.00%	100.00%
"Non-state Pension Fund of Vneshtorgbank"	Insurance	Russia	100.00%	100.00%
"Konobeevo", OJSC	Recreation	Russia	89.99%	89.99%
"Insurance Capital", Ltd	Insurance	Russia	100.00%	100.00%
"Almaz-Press", CJSC	Publishing	Russia	100.00%	100.00%
"Almaz-Print", CJSC	Publishing	Russia	100.00%	100.00%
"Rassvet-Expo", CJSC	Publishing	Russia	100.00%	100.00%
"Rasters", CJSC	Publishing	Russia	100.00%	100.00%
"Dom Rybaka", Ltd	Recreation	Russia	100.00%	100.00%
"VTB-Leasing", OJSC	Leasing	Russia	100.00%	100.00%
"Embassy Development Limited"	Finance	Jersey	100.00%	100.00%
"VTB-Capital", CJSC	Finance	Russia	45.00%	45.00%
"VTB Trading", Ltd	Finance	Cyprus	99.99%	99.99%
"MNB Strategic Investments Limited"	Investment	England	89.10%	89.10%
"Moscow Narodny Finance", B.V.	Finance	Netherlands	89.10%	89.10%
"Business-Finance", Ltd	Finance	Russia	92.19%	92.19%
"Baltiyskaya Trade Industrial Company", CJSC	Commerce	Russia	75.00%	75.00%
"ICB Finance B.V."	Finance	Netherlands	75.00%	75.00%
"ICB Finance", limited	Finance	Russia	75.00%	75.00%
"Uralpromstroyleasing", limited	Leasing	Russia	75.00%	75.00%
"ICB-Invest Group", OJSC	Finance	Russia	74.25%	74.25%
"Korsar", limited	Commerce	Russia	75.00%	75.00%
"Adamas", limited	Real estate	Russia	75.00%	75.00%
"Derzhava", limited	Real estate	Russia	75.00%	75.00%
"Korpus 104", limited	Real estate	Russia	75.00%	75.00%
"Prestizh", limited	Real estate	Russia	63.75%	63.75%
"Dolgovoi centre VTB RU", CJSC	Finance	Russia	92.19%	-
Subsidiaries within disposal group:				
"Sistema Plus", CJSC	Finance	Russia	92.19%	92.19%
"Sales", CJSC	Finance	Russia	92.19%	92.19%
"Tekhnoinvest", CJSC	Trading	Russia	92.19%	92.19%
"PM-Nedvigimost", CJSC	Trading	Russia	92.19%	92.19%
"Remos-PM", CJSC	Manufacturing	Russia	92.19%	92.19%
"Instrumentalniy zavod - Permskie Motory", CJSC	Manufacturing	Russia	92.19%	92.19%

(expressed in millions of US dollars)

27. Consolidated Subsidiaries and Associates (continued)

Name	Activity	Country of registration	Percentage of ownership 30 June 2006 (unaudited)	Percentage of ownership 31 December 2005
"Energetic-PM", OJSC	Energy	Russia	90.90%	90.90%
"Reduktor-PM", OJSC	Manufacturing	Russia	74.96%	74.96%
"Kaskad-PM", CJSC	Manufacturing	Russia	80.48%	80.48%
"Gheleznodoroghnik-PM", CJSC	Transport	Russia	92.19%	92.19%
"Nedvighimost-PM", Ltd	Leasing	Russia	91.27%	91.27%
"Permskiy Motorniy zavod", OJSC	Manufacturing	Russia	66.04%	66.04%
"Metallist-PM", CJSC	Manufacturing	Russia	78.86%	78.86%
"Perm-Energy", CJSC	Engineering	Russia	78.36%	78.36%
"PM-Upravlenie", CJSC	Leasing	Russia	68.26%	68.26%
"Obscheghitie-PM", OJSC	Service	Russia	42.26%	42.26%
"Usluga-PM", Ltd	Service	Russia	61.15%	61.15%
Associates:				
"Eurofinance Mosnarbank", OJSC	Banking	Russia	32.65%	32.65%
"Halladale PLC"	Property	Great Britain	23.00%	23.00%
"Management Company ICB", limited	Finance	Russia	30.91%	30.91%
Associates within disposal group:				
"UK PMK"	Finance	Russia	32.52%	32.52%
"Permskie Motory", OJSC	Manufacturing	Russia	24.61%	24.61%

At the end of 2005, VTB approved an increase in the participants fund of Trading House VTB. The increase of the participants fund was purchased in January 2006 by a state-owned party, thus decreasing the share of the Group in Trading House VTB to 50%. This transaction was finalized in June 2006 and the Group retained control over Trading House VTB. The Trading House VTB was renamed to "Interbank Trading House", Ltd.

In March and April 2006 the Bank purchased additional issue of shares of the "United Georgian Bank". The total increase of the share capital is planned to be Georgian lari 20 million (20 million shares, or USD 11 million at period end exchange rate), of which VTB purchased 11,281,848 shares. Some other shareholders have not as yet made their contributions and accordingly, VTB's ownership share in the "United Georgian Bank" will vary until all other shareholders subscribe for their entitlements. The share of VTB in the "United Georgian Bank" is expected to be 53.13% after the shares are fully subscribed.

The Group consolidated VTB-Capital, 45%-owned company based on the existence of an option to acquire an additional 10% shares, which can be executed by the Group at any time.

In June 2006, CJSC "Vneshtorgbank Retail Services" (VTB Retail) issued 4,242,425 shares at a price of RUR 1,650 per share (par value RUR 1,000) for the total amount of RUR 7,000,000 thousand. VTB purchased all shares issued by VTB Retail. As a result of this transaction VTB's ownership percentage in VTB Retail increased to 95.93%. The share issue was registered by the Central Bank of Russia on 5 June 2006.

In April, 2006 "Armsavingsbank", CJSC was renamed into "VTB Bank (Armenia)", CJSC.

At the end of March 2006 VTB purchased 1,312,802,167 ordinary shares (98% of the share capital) of the Bank "Mriya" located in Ukraine with 26 branches and 154 outlets for USD 66 million. VTB has hired an independent appraiser to determine the fair value of identifiable assets, liabilities and contingent liabilities of the Bank "Mriya" as of the acquisition date. As of 30 June 2006 the Group used provisional accounting, as explicit fair values are being calculated. Goodwill recognized at the purchase date using provisional accounting was USD 13 million.

(expressed in millions of US dollars)

27. Consolidated Subsidiaries and Associates (continued)

If the acquisition of the Bank "Mriya" had taken place at the beginning of the year, the net profit of the Group and operating income would not have been materially different. The provisional fair values of identifiable assets and liabilities of the Bank "Mriya" at the date of acquisition were not materially different from carrying values of these assets and liabilities immediately before the acquisition. The provisional fair values of identifiable assets and liabilities of the Bank "Mriya" at the acquisition date were:

Assets	Provisional Fair Value	Carrying Value
Cash and short-term funds	52	52
Financial assets for trading	6	6
Due from other banks	8	7
Loans and advances to customers	325	329
Premises and equipment	26	18
Investment property	1	–
Intangible assets	6	–
Other assets	2	3
Total assets	**426**	**415**
Liabilities		
Due to other banks	32	33
Customer accounts	293	290
Other borrowed funds	26	26
Debt securities issued	1	1
Subordinated debt	1	1
Deferred tax liabilities	2	–
Provision on contingent liabilities losses	1	–
Other liabilities	16	16
Total liabilities	**372**	**367**

28. Subsequent Events

In July 2006, VTB issued RUR 15 billion (USD 554 million) Series 6 bonds due July 2016 with a fixed rate of 6.5% p.a. The issue has 10-year maturity (July 2016) and may be redeemed in July 2007 at the option of the noteholders (1-year put option).

In July 2006 VTB issued USD 88.3 million Mortgage-backed notes through a special purpose entity. The notes are issued at a floating LIBOR–based rate and are finally due in May 2034. The securities are collateralised with a portfolio of 1,696 mortgage loans to individuals secured by residential properties in Moscow and St. Petersburg.

In June 2006 VTB Group initiated the sale of Disposal Group held for sale. The deal was closed in August 2006 when the transfer of ownership was approved by Russian anti–monopoly authorities. VTB Group sold an 81.25% interest in CJSC "Sales" to an unrelated party (refer to Note 23) for USD 122 million, resulted in a profit of USD 10 million. The Group continues to own 18.75% interest in CJSC "Sales" and will account for this investment under IAS 39 requirements.

In August 2006 the Group purchased approximately 41 million of European Aeronautic Defence and Space Company shares (approximately 5% the share capital) for approximately EUR 1 billion (USD 1,255 million) from unrelated parties.

28. Subsequent Events (continued)

In May 2006 the Group decided to decrease the ownership in “Insurance Capital”, Ltd to a non-controlling share (49.99%) with simultaneous renaming the company to “VTB-ROSNO”, Ltd and increasing the share capital to RUR 436 million (USD 16 million). The deal was closed in July 2006. The Group lost control over “VTB-ROSNO”, Ltd after the transaction and will deconsolidate this entity. The Group will continue to recognize this investment under equity method of accounting.

In September 2006 “Vneshtorgbank Retail Services”, CJSC raised a syndicated loan facility amounting to USD 330 million for the purpose of retail business expansion. The loan bears a floating rate of LIBOR+0.35% p.a. and has maturity of 3 years.

On 18 September 2006 the extraordinary general meeting (EGM) of shareholders of the Bank approved splitting each share in the bank with a face value of 1,000 Russian roubles into 100,000 shares with a face value of 0.01 Russian roubles.

On 22 September 2006 the extraordinary general meeting of shareholders of OJSC "Industry & Construction Bank" (ICB) approved the merger with the Bank. The ratio of share conversion was set at 1 ICB share with a face value of 1 RUR into 385 VTB shares with a face value of 0.01 Russian roubles. The Bank also offered to ICB shareholders that argued this merger to buy out all shares at a price of 22 RUR per 1 ICB share."