

## IMPORTANT NOTICE

**IMPORTANT: You must read the following before continuing.** The following applies to the document following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached document. In accessing the attached document you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THE FOLLOWING DOCUMENT CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY SECURITIES TO BE ISSUED WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your representation:** In order to be eligible to view the attached document or make an investment decision with respect to the securities, investors must be (i) “**qualified institutional buyers**” (as defined in Rule 144A under the Securities Act) that are also “**qualified purchasers**” as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended, or (ii) non-U.S. Persons (as defined in Regulation S under the Securities Act) outside the United States who are not acting for the account or benefit of U.S. Persons. By accessing these materials, you shall be deemed to have represented to us that you (i) are a qualified institutional buyer and a qualified purchaser or (ii) are outside the United States and are not a U.S. Person and are not acting for the account or benefit of a U.S. Person.

Under no circumstances shall the attached document constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase any securities referred to herein are reminded that any subscription or purchase may only be made on the basis of the information contained in a final prospectus prepared in accordance with the Directive 2003/71/EC (the “**Prospectus Directive**”), to be made available from the registered office of the Issuer and on the website of the Central Bank of Ireland.

The attached document may only be provided to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply to VTB Eurasia Limited (the “**Issuer**”) or JSC VTB Bank (“**VTB**”). Accordingly, the attached document is being distributed to and directed only at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Any securities referred to herein are not eligible for placement and circulation in the Russian Federation unless and to the extent otherwise permitted by Russian law. The information provided in the attached document is not an offer, or an invitation to make offers, sell, exchange or otherwise transfer any securities referred to herein in the Russian Federation or to or for the benefit of any Russian person or entity.

The attached document and information contained herein does not constitute an advertisement or an offer of any securities in the Russian Federation. It is not intended to be, and must not be, distributed or circulated in the Russian Federation unless and to the extent otherwise permitted under Russian law.

You are reminded that you are accessing the attached document on the basis that you are a person by whom the attached document may be lawfully accessed in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the attached document to any other person.

The attached document does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

The attached document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, neither VTB, the Issuer, nor the Managers (defined herein), nor any person who controls any of them, nor any director, officer, employee or agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the attached document distributed to you in electronic format and the hard copy version available to you on request from VTB, the Issuer or the Managers.



*U.S.\$1,250,000,000 Perpetual Loan Participation Notes*

to be issued by, but with limited recourse to,

**VTB Eurasia Limited**

for the purpose of financing a subordinated loan to

**JSC VTB Bank**

VTB Eurasia Limited (the “**Issuer**”), a company organised and existing as a private limited company under the laws of Ireland, is issuing an aggregate principal amount of U.S.\$1,250,000,000 Perpetual Loan Participation Notes (the “**Further Notes**”), subject to compliance with all relevant laws, regulations and directives and on the terms set out herein, to be consolidated and form a single series with the U.S.\$1,000,000,000 Perpetual Loan Participation Notes (the “**Original Notes**” and together with the Further Notes, the “**Notes**”) which were issued for the sole purpose of financing a subordinated loan (the “**Original Subordinated Loan**”) to JSC VTB Bank (“**VTB**”) as borrower, on the terms of an original subordinated loan agreement between the Issuer and VTB dated August 2, 2012 (the “**Original Subordinated Loan Agreement**”). The Further Notes are limited recourse obligations of the Issuer and will be issued for the sole purpose of financing a further subordinated loan (the “**Further Subordinated Loan**” and together with the Original Subordinated Loan, the “**Subordinated Loan**”) to VTB as borrower, on the terms of an amendment addendum to the Subordinated Loan Agreement between the Issuer and VTB dated November 6, 2012 (the “**Amendment Addendum**”, and together with the Original Subordinated Loan Agreement, as may be further amended and supplemented from time to time, the “**Subordinated Loan Agreement**”).

The Notes will be constituted by, be subject to, and have the benefit of, a trust deed dated August 6, 2012, as amended by the Supplemental Trust Deed to be dated November 8, 2012 (the “**Trust Deed**”) between the Issuer and Citibank N.A., London Branch as trustee (the “**Trustee**”) for the holders of the Notes from time to time (the “**Noteholders**”). Subject as provided in the Trust Deed the Issuer (a) has charged (in respect of the Original Notes) and will charge (in respect of the Further Notes), in favour of the Trustee, by way of a first fixed charge as security for its payment obligations in respect of the Notes certain of its rights and interests under the Subordinated Loan Agreement and the Account (as defined herein) but excluding any Reserved Rights (as defined in the Trust Deed) (the “**Charge**”), and (b) has assigned (in respect of the Original Notes) and will assign (in respect of the Further Notes), in favour of the Trustee, certain of its other rights under the Subordinated Loan Agreement but excluding any Reserved Rights (as defined in “*Terms and Conditions of the Notes*”), in each case for the benefit of the Noteholders, all as more fully described under “*Overview*”.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment constitutes an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) from VTB by or for the account of the Issuer pursuant to the Subordinated Loan Agreement less any amounts in respect of the Reserved Rights. The Issuer will have no other financial obligation under the Further Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the credit and financial standing of VTB in respect of the payment obligations of the Issuer under the Further Notes.**

**The Further Notes will be perpetual securities and will have no fixed or final redemption date. Subject to satisfaction of certain conditions (as described herein), VTB may, at its option, prepay the Subordinated Loan on the Interest Payment Date falling 10.5 years from the Original Closing Date**

(each as defined in the Subordinated Loan Agreement) or on any Interest Payment Date thereafter and, prior to such date, VTB may repay the Subordinated Loan for regulatory or tax reasons, as described in Clause 5 of the Subordinated Loan Agreement.

On each Interest Payment Date (being June 6 and December 6 in each year commencing on December 6, 2012), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Subordinated Loan Agreement. **Interest on the Subordinated Loan accrues, subject to (i) the right (or obligation, as the case may be) of VTB to cancel interest pursuant to Clause 4.4 of the Subordinated Loan Agreement or (ii) the right of the CBR to require VTB to defer interest pursuant to Clause 4.5 of the Subordinated Loan Agreement, at the aggregate of (a) the relevant Treasury Rate and (b) the Margin (as each term is defined in the Subordinated Loan Agreement from (and including) the Relevant Closing Date to (but excluding) the First Reset Date and, provided that the Subordinated Loan is not prepaid at or before such time, thereafter, to each following Reset Date (being, in each case, the 10th anniversary of the previous Reset Date) at the then prevailing interest rate under the Subordinated Loan Agreement. Clause 4.4 of the Subordinated Loan Agreement provides that VTB at its discretion may, and in certain circumstances must, cancel all or part of any payment of interest that is scheduled to be paid on any interest payment date under the Subordinated Loan Agreement and, in such circumstances, subject to Clause 4.4.5 of the Subordinated Loan Agreement, the Issuer shall have no right to any such interest, whether in bankruptcy or dissolution of VTB or otherwise. Consequently where interest is cancelled under the Subordinated Loan Agreement, no corresponding payment of interest will be made pursuant to the Notes. Furthermore, Clause 4.5 of the Subordinated Loan Agreement provides that the CBR has the right to require deferral of payments by VTB of interest and/or principal if the making of such payment would give rise to a Deferral Event (as defined in the Subordinated Loan Agreement), and upon such a deferral, no such interest and/or principal will be paid pursuant to the Subordinated Loan Agreement (and consequently the Notes) until the earlier of (i) the cessation of the Deferral Event or upon the occurrence of (ii) any of the events set out in Clause 12.2 of the Subordinated Loan Agreement or repayment pursuant to Clauses 5.2 or 5.3. Finally, to the extent that any principal amount of the Notes is reduced pursuant to Condition 6(c), no interest shall be payable on such principal amount of the Notes that is so reduced.**

The Original Subordinated Loan qualifies, and all or part of the Further Subordinated Loan is intended to qualify, as tier 1 capital (“**Tier 1 Capital**”) of VTB under regulations of the Central Bank of the Russian Federation (the “**CBR**”). The Subordinated Loan Agreement and the Notes provide that VTB may, in the event that as a consequence of any amendment to, clarification of or change in such regulations (including a change in interpretation or application thereof) resulting in the Subordinated Loan ceasing to qualify as Tier 1 Capital, opt to prepay the Subordinated Loan, together with accrued interest and additional amounts, as more fully described in Clause 5.2 of the Subordinated Loan Agreement. Upon the exercise of such option, the Issuer shall, to the extent it has received the relevant funds from VTB in prepayment of the Subordinated Loan, redeem the Notes.

Clause 7 of the Subordinated Loan Agreement provides that, (i) if a Loss Absorption Event has occurred and is continuing and Other Tier 1 Capital has been exhausted to offset losses or (ii) Other Basel Tier 1 Capital (all as defined in the Subordinated Loan Agreement) has been exhausted to offset losses, then the Subordinated Loan shall promptly be used to offset losses. Condition 6(d) of the Terms and Conditions of the Notes provides for a corresponding write down of the principal amount of each Note on a pro rata basis. Clause 7.4 of the Subordinated Loan Agreement and Condition 6(e) of the Terms and Conditions of the Notes also provide for the potential reinstatement of the Subordinated Loan and a corresponding reinstatement of the principal amount of each Note on a pro rata basis in the limited circumstances set out therein.

**AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “*RISK FACTORS*”.**

**THE FURTHER NOTES AND THE SUBORDINATED LOAN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE**

**“SECURITIES ACT”), AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT (“REGULATION S”). THE FURTHER NOTES ARE BEING OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (“QIBs”), IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), THAT ARE ALSO QUALIFIED PURCHASERS (“QPs”), AS DEFINED IN SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE “INVESTMENT COMPANY ACT”) IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE “RULE 144A NOTES”) AND (II) OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATIONS (THE “REGULATION S NOTES”). THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE RULE 144A NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS, SEE “*SUBSCRIPTION AND SALE*” AND “*TRANSFER RESTRICTIONS*”.**

**The Further Notes are not eligible for placement and circulation in the Russian Federation unless and to the extent otherwise permitted by Russian law. The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Further Notes in the Russian Federation or to or for the benefit of any Russian person or entity. This Prospectus and information contained herein does not constitute an advertisement or an offer of any securities in the Russian Federation. It is not intended to be, and must not be, distributed or circulated in the Russian Federation unless and to the extent permitted under Russian law.**

The Prospectus has been approved by the Central Bank of Ireland (the “**Central Bank**”) as competent authority under Directive 2003/71/EC (the “**Prospectus Directive**”). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange Limited (the “**Irish Stock Exchange**”) for the Further Notes to be admitted to the official list of the Irish Stock Exchange (the “**Official List**”) and trading on its regulated market (the “**Main Securities Market**”). Such approval relates only to the Further Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the EEA.

The Issuer has requested the Central Bank to provide the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) with a certificate of approval for the Further Notes to be admitted to the official list of the UK Listing Authority (the “**Official List of the UK Listing Authority**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Further Notes to be admitted to trading on the London Stock Exchange’s regulated market (the “**Regulated Market**”).

References in this Prospectus to the Further Notes being listed (and all related references) shall mean that the Further Notes have been admitted to the Official List of the Irish Stock Exchange and the Official List of the UK Listing Authority and have been admitted to trading on the Main Securities Market and the Regulated Market. Each of the Main Securities Market and the Regulated Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial institutions.

VTB has a long-term issuer default rating of “BBB”, a short-term issuer default rating of “A-3” from Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”), a long-term bank deposit rating of “Baa1”, a short-term bank deposit rating of “Prime-2” from Moody’s Investors Service Ltd. (“**Moody’s**”), and a long-term issuer default rating (“**IDR**”) of “BBB”, a short-term IDR of “F3” from Fitch Ratings CIS Limited (“**Fitch**”).

S&P is established in the European Union and is registered under the Regulation (EC) No. 1060/2009, as amended (the “CRA Regulation”). As such, S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority (“ESMA”) on its website in accordance with the CRA Regulation. Fitch is established in the European Union and is registered under the CRA Regulation. As such, Fitch Ratings Ltd. is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation. Moody’s is established in the European Union and registered under the CRA Regulation and, as such, is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation. For more information on the ratings of the Notes, see “*Overview*”. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation.

The Further Notes will be in registered form and will be offered and sold in the minimum denomination of U.S.\$200,000 or integral multiples of U.S.\$1,000 in excess thereof. The Further Notes which will be sold in an “offshore transaction” within the meaning of Regulation S (the “**Regulation S Further Notes**”) will initially be represented by interests in a temporary global unrestricted Note in registered form (the “**Temporary Regulation S Global Note**”) without interest coupons, which will be deposited with a common depository for, and registered in the name of a nominee of, Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on the Issue Date. Beneficial interests in the Temporary Regulation S Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. Upon the “**Global Note Exchange Date**” (as defined below) interests then existing in the Temporary Regulation S Global Note will be exchanged in whole, but not in part, for interests in a permanent global unrestricted Note (the “**Permanent Regulation S Global Note**”) and upon such exchange the Temporary Regulation S Global Note shall become void. The Permanent Regulation S Global Note will be deposited with a common depository for, and registered in the name of nominee of, Euroclear and Clearstream, Luxembourg on the Issue Date. Beneficial interests in such Permanent Regulation S Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. The Further Notes which are sold to QIBs that are also QPs, as referred to in, and subject to the transfer restrictions described in, “*Subscription and Sale*” and “*Transfer Restrictions*” (the “**Rule 144A Further Notes**”) will initially be represented by interests in a global restricted note in registered form (the “**Permanent Rule 144A Global Note**” and together with the Temporary Regulation S Global Note and the Permanent Regulation S Global Note the “**Global Notes**”), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“**DTC**”) on the Issue Date. Beneficial interests in the Permanent Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See “*Summary of the Provisions Relating to the Notes in Global Form*”. Individual definitive Notes in registered form (“**Definitive Notes**”) will only be available in certain limited circumstances as described herein.

The Further Notes initially represented by the Temporary Regulation S Global Note, will become fungible with the Original Notes: (i) on the first business day following the expiry of 40 days after the Issue Date of the Further Notes (the “**Global Note Exchange Date**”); or (ii) following the transfer to a qualifying U.S. Person in accordance with the transfer restrictions set out in “*Transfer Restrictions*” whereupon such transferred Further Notes will be represented by an interest in the Permanent Rule 144A Global Note (which will be fungible with the Original Notes at the Issue Date of the Further Notes). The Further Notes initially represented by the Permanent Rule 144A Global Note will be fungible with the Original Notes on the Issue Date of the Further Notes.

*Lead Manager*  
**VTB Capital**

*Co-Managers*

**Eurasian Development Bank**

**Russian Agricultural Bank**

The date of this Prospectus is November 6, 2012.

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the “**Prospectus Regulations**”) and for the purpose of giving information with regard to the Issuer, VTB and VTB and its subsidiaries taken as a whole (the “**Group**”), the Subordinated Loan and the Further Notes, which, according to the particular nature of the Issuer, VTB, the Group, the Further Notes and the Subordinated Loan, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, VTB and the Group and of the rights attaching to the Further Notes.

Each of the Issuer and VTB accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Issuer and VTB (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. In addition, VTB, having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to VTB, the Group, the Subordinated Loan and the Further Notes that is material in the context of the issue and offering of the Further Notes; (ii) the statements contained in this Prospectus relating to VTB and the Group are in every material particular true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to VTB and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to VTB, the Group, the Subordinated Loan or the Further Notes the omission of which would, in the context of the issue and offering of the Further Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by VTB to ascertain such facts and to verify the accuracy of all such information and statements. Accordingly, save as set out in the immediately preceding sentence and below, VTB accepts responsibility for the information contained in this Prospectus.

Information under the heading “*Banking Sector in the Russian Federation*” and “*Banking Regulation in the Russian Federation*” includes extracts from information and data publicly released by official and other sources (including, inter alia, the Central Bank of the Russian Federation the CBR). The Issuer and VTB accept responsibility for accurately reproducing such information and data. So far as the Issuer and VTB are able to ascertain from this publicly available information, no facts have been omitted which would render the reproduced information misleading or inaccurate.

VTB’s legal name is VTB Bank (open joint-stock company). VTB is registered in the Russian Federation in the Unified State Register of Legal Entities under number 1027739609391, and the address of its registered office is 29 Bolshaya Morskaya Street, St. Petersburg 190000, Russian Federation. The telephone number of the registered office is +7-812-314-6059. VTB’s head office (the “**Head Office**”) is located at Presnenskaya Emb. 12, Moscow 123100, Russian Federation. The telephone number of the Head Office is +7-495-739-7799.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, VTB, the Group, the Trustee, the Lead Manager (as defined under “*Subscription and Sale*”) or the other Managers (as defined below) to subscribe for or purchase any of the Further Notes.

The distribution of this Prospectus and the offer or sale of the Further Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, VTB, the Group, the Trustee and the Lead Manager and Eurasian Development Bank and Russian Agricultural Bank (together with the Lead Manager the “**Managers**”) to inform themselves about and to observe any such restrictions. Further information with regard to restrictions on offers and sales of the Further Notes and the distribution of this Prospectus is set out under “*Subscription and Sale*”.

No person is authorised to provide any information or make any representation not contained in this Prospectus and any information or representation not contained in this Prospectus must not be relied upon as having been authorised by or on behalf of the Issuer, VTB, the Group, the Trustee, or the Managers. The

delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The websites of VTB and its subsidiaries do not form any part of the contents of this Prospectus.

Neither the delivery of this Prospectus nor the offer, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer, VTB or the Group since the date of this Prospectus.

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

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Further Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Further Notes must be obtained. The Issuer, VTB, the Group and the Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Further Notes under various legal and investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Further Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Further Notes constitute a lawful investment for investors whose investment power is subject to legal restrictions. Such investors should consult their legal advisers regarding such matters.

This Prospectus may only be provided to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer or VTB. Accordingly, this Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). The Further Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Further Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

In connection with the issue of the Further Notes, VTB Capital plc (the “**Stabilising Manager**”), or persons acting on behalf of the Stabilising Manager, may over-allot Further Notes or effect transactions with a view to supporting the market price of the Further Notes at a level higher than that which might otherwise prevail. However, there is no assurance that such Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Further Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Further Notes and 60 days after the date of allotment of such Further Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

The Prospectus will be filed and approved by the Central Bank as required by the Prospectus Regulations. The Prospectus approved by the Central Bank will be filed with the Irish Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Further Notes. Any investment in the Further Notes does not have the status of a bank deposit and is not within the scope of the deposit scheme operated by the Central Bank.

Except as set out in “*Documents Incorporated by Reference*”, the contents of any websites referred to in this Prospectus do not form part of this Prospectus.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE MANAGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS, AND NOTHING CONTAINED IN THIS PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. THE MANAGERS DO NOT ASSUME ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS PROSPECTUS.

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

THE FURTHER NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE FURTHER NOTES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

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

#### **ADDITIONAL INFORMATION**

Neither the Issuer nor VTB is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934 (the “**Exchange Act**”). For so long as either the Issuer or VTB is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or VTB, as the case may be, will, upon request, furnish to each holder or beneficial owner of Further Notes that are “**restricted securities**” (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Notes pursuant to Rule 144A under the Securities Act or otherwise, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

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## OVERVIEW

*The following overview contains basic information about the Further Notes, the Notes (where applicable) and the Subordinated Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms and Conditions of the Notes” and “Subordinated Loan Agreement” appearing elsewhere in this Prospectus.*

The following diagram illustrates the cash flows of the Notes and the Subordinated Loan throughout the life of the transaction:



The Issuer will issue the Further Notes to Noteholders for the sole purpose of funding the Further Subordinated Loan. The Original Subordinated Loan Agreement has been amended by the Amendment Addendum to give effect to the Further Subordinated Loan. The Notes will be constituted by, be subject to, and have the benefit of, the trust deed dated August 6, 2012 as amended by the Supplemental Trust Deed dated November 8, 2012 between the Issuer and the Trustee (the “**Trust Deed**”). Pursuant to the Trust Deed the Issuer (i) has charged (in respect of the Original Notes) and will charge (in respect of the Further Notes) to the Trustee by way of a first fixed charge as security for the Notes (the “**Charge**”) (a) all rights to principal, interest and other amounts payable by VTB under the Subordinated Loan Agreement, (b) the right to receive all sums which may be payable by VTB under any claim, award or judgment relating to the Subordinated Loan Agreement and (c) all rights, title and interest in and to all sums of money now or in the future deposited in an account established for the Notes with the Principal Paying Agent in the name of the Issuer (the “**Account**”) including interest from time to time earned thereon (but excluding any Reserved Rights (as defined in the Trust Deed)) and (ii) has assigned (in respect of the Original Notes) and will assign (in respect of the Further Notes) certain of its rights under the Subordinated Loan Agreement (but excluding any Reserved Rights (as defined in the Trust Deed)), to the Trustee for the benefit of the Noteholders (the “**Assignment**”).

VTB will be obliged to make payments under the Subordinated Loan to the Issuer in accordance with the terms of the Subordinated Loan Agreement and to make payments in respect of principal, interest and additional amounts (if any) due to the Issuer to the Account. The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Loan Agreement unless the Trustee has given its prior written consent (save as otherwise contemplated in the Subordinated Loan Agreement) and the CBR has given its approval. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to the Subordinated Loan Agreement, save as otherwise provided in the Subordinated Loan Agreement or the Trust Deed and except in relation to the Reserved Rights. Any material amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with, and as more fully described in, Condition 14 of the Terms and Conditions of the Notes and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to VTB and the Principal Paying Agent who will each be required to acknowledge the same.

The Notes will be limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to Noteholders for payments of principal, interest and other amounts, if any, received and retained (net of tax) under the Subordinated Loan.

## THE FURTHER NOTES

*The following summary contains basic information about the Further Notes, the Notes (where applicable) and the Further Subordinated Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Form of the Subordinated Loan Agreement” and “Terms and Conditions of the Further Notes” (the “Conditions”) appearing elsewhere in this Prospectus.*

|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Issuer</b> .....                            | VTB Eurasia Limited.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>VTB (as Borrower)</b> .....                 | JSC VTB Bank.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Description</b> .....                       | U.S.\$1,250,000,000 Perpetual Loan Participation Notes to be consolidated and form a single series with the U.S.\$1,000,000,000 Perpetual Loan Participation Notes, on the basis set out herein.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Lead Manager</b> .....                      | VTB Capital plc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Co-Managers</b> .....                       | Eurasian Development Bank and Russian Agricultural Bank.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Trustee</b> .....                           | Citibank, N.A., London Branch.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Principal Paying Agent</b> .....            | Citibank, N.A., London Branch.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Registrar</b> .....                         | Citigroup Global Markets Deutschland AG.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Paying Agents</b> .....                     | Citibank, N.A. London Branch and Citibank, N.A. New York Branch.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Transfer Agents</b> .....                   | Citibank, N.A. London Branch or, in relation to the Rule 144A Notes, Citibank, N.A. New York Branch.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Calculation Agent</b> .....                 | Citibank, N.A. London Branch.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Issue Price of Notes</b> .....              | 100.5% of the principal amount of the Further Notes plus the Accrued Interest.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Issue Date</b> .....                        | November 8, 2012.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Redemption on the Redemption Date</b> ..... | The Notes (including the Further Notes) have no fixed redemption date and may only be redeemed in accordance with the provisions of Condition 6 of the Terms and Conditions of the Notes. On the Repayment Date (as defined in the Subordinated Loan Agreement), if VTB has repaid the outstanding principal amount of the Subordinated Loan (together with any interest that has accrued to such date, if any), the Issuer will use the proceeds of repayment of the Subordinated Loan Agreement to make available to VTB a further loan in a total aggregate amount equal to the outstanding principal amount of the Subordinated Loan immediately before the Repayment Date, on terms (including as to interest) no less favourable to the Issuer and the Noteholders than those in the Subordinated Loan Agreement, in accordance with Clause 5.6 of the Subordinated Loan Agreement (in which case the Notes will not be redeemed or repaid on the Repayment Date) unless VTB has not exercised its option to require such a further loan under Clause 5.6 of the Subordinated Loan Agreement. If, on the Repayment Date (as defined in the Subordinated Loan Agreement) VTB has repaid the outstanding principal amount of the Subordinated Loan (together with any interest that has accrued to such date, if any) and VTB has not exercised its option under Clause 5.6 of the Subordinated Loan Agreement for a further loan to be extended (a “ <b>Loan Substitution</b> ”) then, unless (i) the principal amount of the Subordinated Loan Agreement has been deferred pursuant to Clause 4.5 of the Subordinated Loan Agreement (in which case the redemption of the Notes pursuant to Condition 6 will be deferred until the earlier of (a) cessation of the Deferral Event (as defined in the Subordinated Loan Agreement)) and (b) the occurrence of any of the events set out in Clause 12.2 of the Subordinated Loan Agreement or (ii) the principal of the Subordinated Loan has been fully written down pursuant to Clause 7 of the Subordinated Loan Agreement (see “ <i>Terms and Conditions of the Notes—6. Redemption, Write Down of Principal, Variation for Tier 1 Compliance, Potential Reinstatement and Purchases—(c) Variation for Tier 1</i> ”). |

*Compliance*”) and not subsequently reinstated, all the Notes then remaining outstanding will on the Repayment Date, be redeemed or repaid by the Issuer in U.S. dollars on the Repayment Date at 100% of the principal amount thereof.

To the extent that there has been a Loan Substitution, all references to the “Subordinated Loan Agreement” in the Terms and Conditions of the Notes will be to the loan agreement that shall have been substituted for the Subordinated Loan Agreement, and the Terms and Conditions of the Notes will be construed accordingly. To the extent that the Terms and Conditions of the Notes previously referred to provisions of the Subordinated Loan Agreement prior to the Loan Substitution that no longer have any equivalent provision in the Subordinated Loan Agreement after the Loan Substitution, then such Terms and Conditions of the Notes will cease to apply.

**Interest.....**

The Issuer will account, semi-annually in arrear on June 6 and December 6 in each year, to the Noteholders for an amount equal to the amounts of interest actually received by it pursuant to the Subordinated Loan Agreement. Interest under the Subordinated Loan accrues, subject to (i) the right (or obligation, as the case may be) of VTB to cancel interest pursuant to Clause 4.4 of the Subordinated Loan Agreement or (ii) the right of the CBR to require VTB to defer interest pursuant to Clause 4.5 of the Subordinated Loan Agreement, at the aggregate of (a) the relevant Treasury Rate and (b) the Margin (as each term is defined in the Subordinated Loan Agreement) from (and including) the Original Closing Date (as defined in the Subordinated Loan Agreement) in respect of the Original Loan and the Further Closing Date (as defined in the Subordinated Loan Agreement) in respect of the Further Loan to (but excluding) the First Reset Date and, provided that the Subordinated Loan is not prepaid at or before such time, thereafter, to each following Reset Date (being, in each case, the 10th anniversary of the previous Reset Date) at the then prevailing interest rate under the Subordinated Loan Agreement, all as more fully described under in the Terms and Conditions of the Notes.

For the avoidance of doubt, provided the Accrued Interest has actually been received by or for the account of the Issuer on or before the Issue Date of the Further Notes and paid into the Account (as defined in the Subordinated Loan Agreement) in accordance with the terms of the Trust Deed, holders of the Further Notes will receive, on the Interest Payment Date falling on or about December 6, 2012, an amount representing accrued interest on the Further Notes in respect of the period from and including August 6, 2012, to (but excluding) December 6, 2012.

**Clause 4.4 of the Subordinated Loan Agreement provides that VTB at its discretion may, and in certain circumstances must, cancel all or part of any payment of interest that is scheduled to be paid on any Optional Interest Payment Date under the Subordinated Loan Agreement and, in such circumstances, subject to Clause 4.4.5 of the Subordinated Loan Agreement, the Issuer shall have no right to any such interest, whether in bankruptcy or dissolution of VTB or otherwise. Consequently where interest is cancelled under the Subordinated Loan Agreement, no corresponding payment of interest shall be made pursuant to the Notes, and the Noteholders shall have no right to such interest. Furthermore, Clause 4.5 of the Subordinated Loan Agreement provides that the CBR has the right to require deferral of payments by**

VTB of interest if the making of such payment would give rise to a Deferral Event (as defined in the Subordinated Loan Agreement), and upon such a deferral, no such interest will be paid pursuant to the Subordinated Loan Agreement (and consequently the Notes) until the earlier of (i) the cessation of the Deferral Event or upon the occurrence of (ii) any of the events set out in Clause 12.2 of the Subordinated Loan Agreement or repayment pursuant to Clauses 5.2 and 5.3 of the Subordinated Loan Agreement. Finally, to the extent that any principal amount of the Notes is reduced pursuant to Condition 6(c), no interest shall be payable on such principal amount of the Notes that is so reduced.

|                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Status of the Notes</b> .....  | The Further Notes will constitute secured limited recourse obligations of the Issuer and shall at all times rank <i>pari passu</i> and without preference among themselves. The Further Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Further Notes solely for financing the Further Subordinated Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Subordinated Loan as more fully described in “ <i>Terms and Conditions of the Notes—1. Status</i> ”.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Security</b> .....             | <p>Pursuant to the Trust Deed, the Notes are secured (in respect of the Original Notes) and will be secured (in respect of the Further Notes) by a first fixed charge (the “<b>Charge</b>”) in favour of the Trustee for the benefit of the Noteholders, on::</p> <ul style="list-style-type: none"> <li>• all of the Issuer’s rights to principal, interest and other amounts paid and payable under the Subordinated Loan Agreement and its right to receive all sums paid and payable under any claim, award or judgment relating to such Subordinated Loan Agreement; and</li> <li>• all the rights, title and interest in and to all sums of money held from time to time in the Account, together with the debt represented thereby (including interest from time to time) pursuant to the Trust Deed,</li> </ul> <p>save (in each case) for any Reserved Rights.</p>                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Assignment of Rights</b> ..... | The Issuer has assigned (in respect of the Original Notes) and will assign (in respect of the Further Notes) its rights under the Subordinated Loan Agreement (save for any Reserved Rights and those rights charged above) to the Trustee.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Form</b> .....                 | The Further Notes will be issued in registered form. The Regulation S Further Notes will initially be represented by interests in the Temporary Regulation S Global Note, without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream Luxembourg on the Issue Date of the Further Notes. Beneficial interests in the Temporary Regulation S Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. Upon the Global Note Exchange Date interests then existing in the Temporary Regulation S Global Note will be exchanged in whole, but not in part, for interests in the Permanent Regulation S Global Note and upon such exchange the Temporary Regulation S Global Note shall become void. The Rule 144A Further Notes will initially be represented by interests in the Permanent Rule 144A Global Note, without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC on the Issue Date of the Further Notes. Beneficial interests in the Rule 144A Global Note will be shown on, and transfers thereof will be |

|                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                  | <p>effected only through, records maintained by DTC and its participants. The Global Notes will be exchangeable for Definitive Notes in the limited circumstances specified in the Global Notes.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Clearing Systems .....</b>                    | <p>DTC (in the case of Further Notes sold pursuant to Rule 144A), Euroclear and Clearstream, Luxembourg (in the case of Further Notes sold pursuant to Regulation S).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Initial Delivery of Notes .....</b>           | <p>On or before the Issue Date of the Further Notes, the Permanent Rule 144A Global Note will be deposited with a custodian for DTC and the Temporary Regulation S Global Note and Permanent Regulation S Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The Rule 144A Further Notes will be registered in the name of a nominee of DTC, and the Regulation S Further Notes will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Denomination .....</b>                        | <p>The Notes will be issued in denominations of U.S.\$200,000 or higher integral multiples of U.S.\$1,000 thereafter.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Issuer's Restrictions and Covenants .....</b> | <p>So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, <i>inter alia</i>, incur any other indebtedness for borrowed moneys, or enter into other transactions or engage in any business (other than issuing the Notes, making the advances in connection with the Subordinated Loan, issuing any additional loan participation notes issued by, but with limited recourse to, the Issuer in the future for the sole purpose of financing loans to VTB, and advancing the loans in connection therewith or other financing instruments on a limited recourse basis), declare any dividends or have any subsidiaries. See "<i>Terms and Conditions of the Notes—4. Restrictive Covenants</i>". Furthermore, the Issuer will agree in the Trust Deed not to make or consent to any amendment or modification or waiver of, or authorise any breach or proposed breach of the terms of the Subordinated Loan Agreement and the CBR and (save as provided in the Subordinated Loan Agreement) the Trustee has given prior written consent.</p> |
| <b>Early Redemption of the Notes .....</b>       | <p>If the Subordinated Loan should become repayable in full (and be repaid in full) pursuant to the Clauses 5.2 or 5.3 of the Subordinated Loan Agreement prior to the Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at (i) par together with interest accrued to the date of redemption where the prepayment is as a consequence of a prepayment of the Subordinated Loan Agreement pursuant to Clauses 5.2.3 or 5.3 thereof or, (ii) at par plus a 1% commission for early redemption in circumstances where the prepayment is as a consequence of a prepayment of the Subordinated Loan Agreement pursuant to Clauses 5.2.1 or 5.2.2, and in any such case, the Issuer will endeavour to give not less than 30 days and not more than 60 days prior to the date of prepayment notice thereof to the Trustee and the Noteholders in accordance with Condition 14.</p>                                                                                                                                                   |
| <b>Write Down of the Notes .....</b>             | <p>Pursuant to Clause 7 of the Subordinated Loan Agreement, if (i) a Loss Absorption Event (as defined in the Subordinated Loan Agreement) has occurred and is continuing and all sources of Tier 1 Capital (other than the Subordinated Loan and other Loss Absorbing Instruments, as all such terms are defined in the Subordinated Loan Agreement) ("<b>Other Tier 1 Capital</b>") have been exhausted to offset losses or (ii) all sources of Tier 1 capital as defined in accordance with Basel standards as applied by VTB for the purpose of calculating the Basel Tier 1 capital at such time on a consolidated basis for the Group, other than the Subordinated Loan and the other additional tier 1 capital instruments that comply with the requirements set out in the Basel III Documents and ranking <i>pari passu</i> with the Subordinated Loan) ("<b>Other Basel Tier 1 Capital</b>") as disclosed in the</p>                                                                                                                                                         |

notes to the then latest audited consolidated financial statements prepared under IFRS have been exhausted to offset losses, the Subordinated Loan shall promptly be used by VTB to offset losses. For the avoidance of doubt, prior to exhaustion of Other Tier 1 Capital or Other Basel Tier 1 Capital, only amounts accruing on the Subordinated Loan on an ongoing basis shall be used to offset losses incurred by VTB. Upon the exhaustion of the Other Tier 1 Capital or Other Basel Tier 1 Capital, the value of the Subordinated Loan may be used to offset losses incurred by VTB *pro rata* with other Loss Absorbing Instruments, subject as provided in Clause 7.3 of the Subordinated Loan Agreement. To the extent that, pursuant to Clause 7 of the Subordinated Loan Agreement, the Subordinated Loan is used to offset such losses and the principal amount of the Subordinated Loan (together with any interest thereon) is reduced, then the principal amount of each of the Notes will be reduced on a *pro rata* basis in accordance with Condition 6(d) of the Terms and Conditions of the Notes, upon such reduction of the Subordinated Loan, without (subject to Condition 6(d) of the Terms and Conditions of the Notes) any further payments due on such principal amount of each Note that is written down.

**Potential Reinstatement .....**

Pursuant to Clause 2.4 of the Subordinated Loan Agreement, to the extent that there are changes to (including as to the clarification, interpretation or application of) Russian law that would mean that the use by VTB, upon a Loss Absorption Event ceasing to exist, of its profits (subject to provisions of Russian law on distribution of profits) prior to their distribution for reinstating any principal amount of the Subordinated Loan that has been written down pursuant to Clause 7.3 of the Subordinated Loan Agreement so that any such reinstatement would not contradict Russian law, then VTB has agreed with the Issuer that the Subordinated Loan Agreement will be amended to provide for such a reinstatement of the principal amount of the Subordinated Loan upon a Loss Absorption Event ceasing to exist, provided that (i) such amendments will not be prejudicial to the rights of the Issuer or the Noteholders or to the regulatory capital treatment of the Subordinated Loan for VTB, (ii) such amendments would not trigger any obligation to pay or withhold any Taxes on the amounts so reinstated, (iii) the Issuer is satisfied that such amendments would not contradict Russian law and (iv) such amendments will provide that, following a Loss Absorption Event and if and for so long as all or part of the value of the Subordinated Loan is being used to offset losses incurred by VTB, VTB shall not exercise any right it may otherwise have to prepay the Subordinated Loan under Clauses 5.2 or 5.3 of the Subordinated Loan Agreement. Upon any such reinstatement of any amount of principal of the Subordinated Loan, the Issuer shall simultaneously procure that a corresponding principal amount of each Note on a *pro rata* basis will be reinstated on such date in accordance with Condition 6(e) of the Terms and Conditions of the Notes.

**Variation for Tier 1  
Conditions .....**

If, as a result of any amendment or supplement to, clarification or replacement of, or change in (including a change in interpretation or application of), Regulation No. 215-P (as defined in the Subordinated Loan Agreement) or any other applicable requirements from time to time of the CBR made to implement the regulatory guidelines set out in the Basel III Documents (as defined in the Subordinated Loan Agreement) all or part of the principal amount of the Subordinated Loan outstanding at any such time ceases to qualify as Tier 1 Capital, VTB may without any requirement for the consent or approval of the Issuer elect to vary the terms of the Subordinated Loan Agreement in respect of provisions relating to loss absorption, the term of the Subordinated Loan, subordination of the

Subordinated Loan, cancellation of interest under the Subordinated Loan and other provisions, as more particularly set out in Clause 2.7 of the Subordinated Loan Agreement. Upon any such variation by VTB of the terms of the Subordinated Loan Agreement in accordance with Clause 2.7 of the Subordinated Loan Agreement the terms of the Notes may be varied pursuant to Condition 6(c) of the Terms and Conditions of the Notes, without the consent of the Noteholders to reflect such amendments to the Subordinated Loan Agreement.

|                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Relevant Events .....</b> | In the case of a Relevant Event (as defined in the Trust Deed), the Trustee may, subject to the provisions of the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Withholding Tax.....</b>  | <p>All payments of principal and interest in respect of the Notes will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes, which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Ireland or the Russian Federation, or any taxing authority thereof or therein, except as required by law. If any such taxes, duties and other charges are payable, the sum payable by VTB to the Issuer under the Subordinated Loan Agreement (subject to certain exceptions) will be required to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from VTB.</p> <p>All payments of principal and interest in respect of the Notes will be made subject to any withholding or deduction required pursuant to FATCA, as provided in <i>Terms and Conditions of the Notes—7.3—Payments subject to fiscal and other laws</i>.</p> |
| <b>Use of Proceeds .....</b> | The Issuer will use the proceeds from the offering of the Further Notes for the sole purpose of financing the Further Subordinated Loan to VTB.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Further Issues .....</b>  | The Issuer may from time to time issue further Notes on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes. In the event of such further issuance, the Subordinated Loan will be correspondingly increased.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Listing .....</b>         | Application has been made for the Further Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on the Main Securities Market. Application will also be made for the Further Notes to be admitted to the Official List of the UK Listing Authority and to be admitted to trading on the Regulated Market.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Rating .....</b>          | <p>VTB has a long-term issuer default rating of “BBB”, a short-term issuer default rating of “A-3” from S&amp;P, a long-term bank deposit rating of “Baa1”, a short-term bank deposit rating of “Prime-2” and a bank financial strength rating of “D-” from Moody’s, and a long-term IDR of “BBB”, a short-term IDR of “F3” from Fitch.</p> <p>S&amp;P is established in the European Union and is registered under the CRA Regulation. As such, S&amp;P is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation.</p> <p>Fitch is established in the European Union and is registered under the CRA Regulation. As such, Fitch is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation.</p> <p>Moody’s is established in the European Union and is registered under the</p>                                                                                                                                                                                                                                                                                                                                                                        |

CRA Regulation. As such, Moody's is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation.

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or VTB could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

**Governing Law** ..... The Notes and any non-contractual obligations arising out of or in connection with them will be governed by English law.

**Selling Restrictions** ..... United States, United Kingdom, Russian Federation, Ireland and Italy. See "*Subscription and Sale*".

**ISIN Code (while representing interests in the Temporary Regulation S Global Note)** ..... XS0851694082

**Common Code (while representing interests in the Temporary Regulation S Global Note)** ..... 085169408

**ISIN Code (while representing interests in the Permanent Regulation S Global Note)** ..... XS0810596832

**Common Code (while representing interests in the Permanent Regulation S Global Note)** ..... 081059683

**ISIN Code (Rule 144A Global Note)** ..... US91834KAA43

**Common Code (Rule 144A Global Note)** ..... 081190682

**CUSIP Code** ..... 91834KAA4

**ERISA Considerations** ..... The Notes may be regarded for ERISA (as defined in the section entitled "*Certain ERISA Considerations*") purposes as equity interests in a separate entity whose sole asset(s) are the Subordinated Loan. Accordingly, the Further Notes should not be acquired by any plan, entity or account subject to the prohibited transaction provisions of ERISA or the Code. Each purchaser and/or holder of Further Notes and each transferee therefore will

be deemed to have made certain representations as to its status under ERISA. Potential purchasers should read the sections entitled “*Certain ERISA Considerations*” and “*Transfer Restrictions*”.

## THE SUBORDINATED LOAN

|                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Lender</b> .....                                        | The Issuer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Borrower</b> .....                                      | VTB.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Use of proceeds</b> .....                               | VTB will use the gross proceeds of the Subordinated Loan for general corporate purposes.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Status of the Subordinated<br/>Loan Agreement</b> ..... | The claims of the Issuer against VTB in respect of the principal of, and interest on, the Subordinated Loan will be subordinated upon the occurrence of a Bankruptcy Event (as defined in the Subordinated Loan Agreement) to the claims of all Senior Creditors (as defined in the Subordinated Loan Agreement) in accordance with the Federal Law “On Insolvency (Bankruptcy) of Credit Organisations” No. 40-FZ dated February 25, 1999 (as amended, replaced or superseded from time to time) (the “ <b>Insolvency Law</b> ”) and all Senior Subordinated Creditors (as defined in the Subordinated Loan Agreement) in accordance with the Subordinated Loan Agreement and will rank at least <i>pari passu</i> with the claims of other Junior Subordinated Creditors (as defined in the Subordinated Loan Agreement) and will be senior to the claims of holders of VTB’s Capital Stock (as defined in the Subordinated Loan Agreement) in their capacity as shareholders.                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Security</b> .....                                      | The Subordinated Loan is unsecured.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Repayment Date</b> .....                                | The Subordinated Loan will be repaid on December 6, 2072, save that Clause 5.5 of the Subordinated Loan Agreement provides that VTB may, at its option, provided that it has given at least 30 days prior written notice to the Trustee and Issuer and obtained CBR preapproval as specified in Clause 5.5, elect to extend the Repayment Date of the Subordinated Loan.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Interest Basis Dates</b> .....                          | Interest will be payable semi-annually in arrear at the aggregate of (a) the relevant Treasury Rate and (b) the Margin (as each term is defined in the Subordinated Loan Agreement) as specified more particularly in Clause 4 of the Subordinated Loan Agreement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Cancellation of Interest</b> .....                      | <p>VTB may, at its discretion, elect in respect of any Optional Interest Payment Date to cancel all or part of any payment of interest which is otherwise scheduled to be paid on such Optional Interest Payment Date. In certain circumstances as more particularly described in Clause 2.7 of the Subordinated Loan Agreement, VTB’s discretion to so elect to cancel interest may become applicable in respect of all Interest Payment Dates rather than solely on Optional Interest Payment Dates.</p> <p>“<b>Optional Interest Payment Date</b>” means any Interest Payment Date other than a Compulsory Interest Payment Date.</p> <p>“<b>Compulsory Interest Payment Date</b>” means any Interest Payment Date in respect of which during the immediately preceding 6 months a Compulsory Interest Payment Event has occurred.</p> <p>“<b>Compulsory Interest Payment Event</b>” means:</p> <ul style="list-style-type: none"> <li>(a) any declaration, payment or making of a dividend or distribution by VTB to its Ordinary Shareholders (as defined in the Subordinated Loan Agreement) or otherwise on any Capital Stock (as defined in the Subordinated Loan Agreement); or</li> <li>(b) VTB or the Group, directly or indirectly, redeeming, purchasing or otherwise acquiring any of VTB’s Ordinary Shares (as defined in the Subordinated Loan Agreement) or any of its Capital Stock,</li> </ul> |

other than in relation to (1) transactions in securities effected by or for the account of customers of VTB or any of its Subsidiaries (as defined in the Subordinated Loan Agreement) or in connection with the distribution or trading of, or market making in respect of, Ordinary Shares; or (2) the satisfaction by VTB or any of its Subsidiaries of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants; or (3) a reclassification of the Capital Stock of VTB or any of its Subsidiaries or the exchange or conversion of one class or series of such Capital Stock for another class or series of such Capital Stock; or (4) a restructuring of its loans to borrowers, any takeover or merger agreement or the purchase of fractional interests in shares of the Capital Stock of VTB or any of its majority-owned subsidiaries pursuant to the provisions of any security being converted into or exchanged for such Capital Stock; or (5) mandatory provisions of Russian law and directives applicable to VTB or the Group adopted by the Government other than in its capacity as a shareholder of VTB.

If a Trigger Event (as defined in the Subordinated Loan Agreement) exists on or immediately prior to any Interest Payment Date (as defined in the Subordinated Loan Agreement) or if, after the payment of interest on an Interest Payment Date, there would be a Capital Adequacy Event (as defined in the Subordinated Loan Agreement), VTB shall not pay all or part of the Interest falling due on such Interest Payment Date.

If, on any Interest Payment Date, any payment of interest scheduled to be made on such date is not made in full for the above-mentioned reasons, VTB shall not declare or pay any distribution or dividend or redeem, purchase or otherwise acquire any Ordinary Shares (as defined in the Subordinated Loan Agreement) or any of its Capital Stock, in each case as more particularly set out in Clause 4.4.3 of the Subordinated Loan Agreement.

As more particularly described in Clause 4.4.5 of the Subordinated Loan Agreement, if the shareholders of VTB resolve to make or pay a distribution or dividend in respect of a financial year during which there has arisen any interest scheduled to be made which is not made in full by reason of the election by VTB to cancel an interest payment under Clause 4.4.1 of the Subordinated Loan Agreement, VTB shall, subject to certain conditions, pay to the Lender an amount equal to the aggregate amount of all such interest which has arisen and not been paid during such financial year.

Any interest not paid on any relevant Interest Payment Date shall not accumulate or be payable at any time thereafter, and the Issuer shall have no right thereto.

**Required Deferral of  
Payments .....**

If the making of payments by VTB of principal of, and/or interest on, the Subordinated Loan for the benefit of the Issuer would give rise to a Trigger Event, the CBR has the right to require deferral of such payments by VTB, as more particularly set out in Clause 4.5 of the Subordinated Loan Agreement.

Interest will not accrue on any interest payment so deferred. In addition, the aggregate amount of Deferred Payments (as defined in the Subordinated Loan Agreement) which remains unpaid shall become due and payable in full (subject to any write down made in accordance with Clause 7 of the Subordinated Loan Agreement) upon the occurrence of any of the events set out in Clause 12.2 of the Subordinated Loan Agreement or on a repayment pursuant to Clauses 5.2 or 5.3 of the Subordinated Loan Agreement.

|                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Loss Absorption.....</b>                                 | <p>If (i) a Loss Absorption Event (as defined in the Subordinated Loan Agreement) has occurred and is continuing and all sources of Other Tier 1 Capital (as defined in the Subordinated Loan Agreement) have been exhausted to offset losses; or (ii) all sources of Other Basel Tier 1 Capital (as defined in the Subordinated Loan Agreement) have been exhausted to offset losses, the Subordinated Loan shall be promptly used by VTB to offset losses.</p> <p>For the avoidance of doubt, prior to exhaustion of Other Tier 1 Capital or Other Basel Tier 1 Capital, only amounts accruing on the Subordinated Loan on an ongoing basis shall be used to offset losses incurred by VTB. Upon the exhaustion of the Other Tier 1 Capital or Other Basel Tier 1 Capital, the value of the Subordinated Loan may be used to offset losses incurred by VTB <i>pro rata</i> with other Loss Absorbing Instruments (as defined in the Subordinated Loan Agreement), subject as provided in Clause 7.3 of the Subordinated Loan Agreement.</p> <p>A Loss Absorption Event may occur on more than one occasion (and the Subordinated Loan may be written down in accordance with Clause 7 of the Subordinated Loan Agreement on more than one occasion). Once the principal amount of the Subordinated Loan has been written down in accordance with Clause 7 of the Subordinated Loan Agreement, the relevant amount written down will not be restored in any circumstances, including where the relevant Loss Absorption Event(s) cease(s) to continue, except to the extent of any reinstatement pursuant to Clause 7.4 of the Subordinated Loan Agreement.</p> |
| <b>Variation of the terms of the Subordinated Loan.....</b> | <p>If, as a result of any amendment or supplement to, clarification or replacement of, or change in (including a change in interpretation or application of), Regulation No. 215-P (as defined in the Subordinated Loan Agreement) or any other applicable requirements from time to time of the CBR made to implement the regulatory guidelines set out in the Basel III Documents (as defined in the Subordinated Loan Agreement), all or part of the principal amount of the Loan outstanding at any such time ceases to qualify as Tier 1 Capital, VTB may without any requirement for the consent or approval of the Issuer or the Trustee elect to vary the terms of the Subordinated Loan Agreement in respect of provisions relating to loss absorption, the term of the Subordinated Loan, subordination of the Subordinated Loan, cancellation or interest under the Subordinated Loan and other provisions, as more particularly set out in Clause 2.7 of the Subordinated Loan Agreement.</p> <p>Any variation to the terms of the Subordinated Loan Agreement is subject to VTB having complied with regulatory rules on consent from (in each case, if and to the extent applicable) the CBR and other conditions, as more particularly set out in Clause 2.7 of the Subordinated Loan Agreement.</p>                                                                                                                                                                                                                                                                                                                                              |
| <b>Repayment at the Option of VTB .....</b>                 | <p>Subject to certain conditions as more particularly set out in Clause 5.2 of the Subordinated Loan Agreement, VTB may elect, with the written consent of the CBR, to prepay all, but not part only, of the principal amount of the Subordinated Loan outstanding at such time, on the Interest Payment Date falling 10.5 years from Closing or on any Interest Payment Date thereafter (as more particularly set out in Clause 5.2.3 of the Subordinated Loan Agreement).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Repayment for Regulatory Reasons.....</b>                | <p>Subject to certain conditions as more particularly set out in Clause 5.2 of the Subordinated Loan Agreement, VTB may elect, at any time following the receipt of the Final Conclusion and with the written consent of the CBR, to prepay all or part of the principal amount of the Subordinated Loan outstanding at such time at 100% of the principal amount thereof plus 1%</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

of the principal amount thereof as a commission for early redemption, if, as a result of any amendment to, clarification of, or change in (including a change in interpretation or application of), Regulation No. 215-P or other applicable requirements of the CBR, all or part of the principal amount of the Subordinated Loan outstanding at such time ceases to qualify in whole or in part as Tier 1 Capital other than as a result of exceeding any limit on the amount of total Tier 1 Capital instruments permitted by the CBR and, if VTB cannot avoid all or part of the principal amount of the Subordinated Loan outstanding so ceasing to qualify by taking reasonable measures available to it (including the amendment of certain terms of the Subordinated Loan Agreement under Clause 2.7), as more particularly set out in Clause 5.2.1 of the Subordinated Loan Agreement.

**Repayment for Taxation  
Reasons.....**

If, (i) as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application), in the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or of any political sub-division thereof or any authority therein, VTB would thereby be required to make or increase any payment due pursuant to sub-Clauses 6.3 or 6.4 of the Subordinated Loan Agreement, or if VTB would have to or has been required to pay additional amounts pursuant to Clause 9 of the Subordinated Loan Agreement, and such additional amounts cannot be avoided by VTB taking reasonable measures available to it, or (ii) interest payable on the Loan when paid would not be deductible by VTB for Russian corporate profits tax purposes, in the amount greater than the principal amount of the Loan multiplied by the difference between (a) the Interest Rate and (b) the CBR Refinancing Rate multiplied by 0.8 and adjusted for the Interest Period, then VTB may, with the prior written consent of the CBR, prepay the Loan in whole, but not in part, at 100% of the principal amount thereof, as more particularly set out in Clause 5.3 of the Subordinated Loan Agreement.

**Limited Acceleration  
Events .....**

In the case of an Acceleration Event (as defined in the Subordinated Loan Agreement), the Lender may:

- (a) institute proceedings in the manner and to the extent contemplated by applicable law for the insolvency of VTB and/or to prove for its debt, and claim, in any consequent liquidation of VTB;
- (b) take any actions in the manner and to the extent contemplated by the applicable law of the Russian Federation to prove for its debt and/or, to the extent applicable, commence liquidation or winding up proceedings of VTB; or
- (c) institute such other proceedings against VTB as it may think fit to enforce any obligation, condition or provision binding on VTB under this Agreement (other than any obligation for payment of any principal or interest in respect of the Subordinated Loan),

in each case, as more particularly set out in Clause 12 of the Subordinated Loan Agreement.

**Withholding Tax.....**

All payments of principal and interest under the Subordinated Loan will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Ireland or the Russian Federation, except as required by law. If any such taxes, duties or other charges are payable in respect of the Subordinated Loan the sum payable by VTB under the Subordinated Loan will (subject to certain conditions) be required to be increased to the extent

necessary to ensure that the Issuer receives the net sum which it would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made.

**Governing Law** ..... The Subordinated Loan and any non-contractual obligations arising out of or in connection with them will be governed by English law.

## RISK FACTORS

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

The risks and uncertainties discussed below are those that the Issuer and VTB believe are material, but these risks and uncertainties may not be the only ones that the Issuer and VTB face. Additional risks and uncertainties, including those of which the Issuer and VTB are not currently aware or deem immaterial, may also have an adverse effect on the Issuer and/or VTB's and/or the Group's operating results and financial condition or result in other events that could lead to a decline in the value of the Further Notes.

### **Risks Relating to VTB's and the Group's Business and Industry**

#### ***VTB faces risks in relation to its recently completed acquisitions.***

VTB pursues an active acquisition strategy with the aim of, among other things, diversifying its geographic profile and strengthening its retail business. In line with this strategy, VTB has acquired and may in the future acquire banking and other financial assets both in the Russian Federation and abroad. See “*Business-Organisation and Management of the Group—Acquisition of the Bank of Moscow*” and “*Business-Organisation and Management of the Group—Acquisition of TCB*”.

VTB faces risks in relation to part of the Bank of Moscow's loan portfolio. As a result of an investigation carried out in 2011 by the Accounts Chamber of the Russian Federation and the CBR, numerous violations by the former management of the Bank of Moscow were uncovered relating to lending procedures and the acceptance by the bank of high credit risks. In particular, a substantial portfolio of loans granted by the former management of the Bank of Moscow to its related parties was discovered. A portion of the relevant related party loans was not repaid at maturity and remains outstanding, and was therefore recognised as a potential problem asset.

Bank of Moscow is required by the CBR to have a minimum RAS-based stand alone capital ratio of 10%. In addition, the Basel Committee on Banking Supervision (the “**Basel Committee**”) recommends a minimum risk-based capital ratio of 8%, calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (the “**Basel Accord**”). As of December 31, 2011, the Bank of Moscow's RAS-based stand alone capital ratio was 22.40%.

On July 20, 2011, VTB Debt Centre, VTB Pension Administrator, the Bank of Moscow and the State Corporation Deposit Insurance Agency (the “**DIA**”) signed a general agreement on measures for the financial support of the Bank of Moscow, as recommended by the CBR and based on the Federal Law “On additional measures for the improving the stability of the banking system for the period until December 31, 2011” No. 175-FZ (the “**Bank of Moscow Support Measures**”). In September 2011, DIA granted to the Bank of Moscow a ten-year loan of RUB 294.8 billion at a contractual rate of 0.51% per annum, which was invested by the Bank of Moscow in a specially issued ten-year Russian federal loan bond (“**OFZ**”) of nominal value RUB 295 billion at an annual rate of 8.16%. In December 2011, VTB subscribed for additional shares in Bank of Moscow for RUB 102 billion. See “*Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisition of the Bank of Moscow*”.

VTB believes that the actions taken pursuant to the Bank of Moscow Support Measures will be sufficient to ensure that the Bank of Moscow's capital position will continue to meet the minimum statutory levels of capital adequacy. However, if further problem loans were to be discovered, requiring further provisioning of the Bank of Moscow problem loan portfolio in accordance with RAS, a breach of mandatory

capital normative parameters in the Russian Federation that might follow such provisioning could expose the Bank of Moscow, and the Group, to potential liability and other sanctions, including the suspension or revocation of its general banking licence. This could also lead the Group to incur a higher level of loan impairment charges than otherwise anticipated. In turn, this could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects and/or on the value of the Notes.

In July 2012, VTB became aware that a claim against, amongst others, VTB, had been filed in the Moscow Arbitrazh Court challenging the contribution of 46.48% of the shares in Bank of Moscow to OJSC TsTK and the subsequent acquisition of these shares by VTB from OJSC TsTK. In the hearing on September 4, 2012, the Moscow Arbitrazh Court rejected the claim. On October 17, 2012, an appeal of this decision was filed with the court of higher instance, and the appeal hearing is scheduled for November 20, 2012. VTB intends to continue vigorously defending against the claim.

***The instability of the global and the Russian financial markets and the ongoing European sovereign debt crisis may continue to have an adverse effect on VTB's and the Group's business, liquidity and financial condition.***

#### *Dislocation of global financial credit markets*

The financial markets, both globally and in the Russian Federation, experienced significant volatility, dislocation and liquidity constraints as a result of the global financial crisis that commenced with dramatic declines in the U.S. housing market in the autumn of 2007. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors reduced, and in some cases ceased to provide, funding to borrowers, including other financial institutions, which significantly reduced the liquidity in the global financial system.

In response to the global financial crisis and the threats to the ability of investment banks and other financial institutions to continue as going concerns, many of the largest countries in the world, including the Russian Federation, the United States and several European countries, implemented significant rescue packages, which included, among other things: the recapitalisation of banks through the state purchase of common and preferred equity securities; the state guarantee of certain forms of bank debt; the purchase of distressed assets from banks and other financial institutions by the state; and the provision of guarantees of distressed assets held by banks and other financial institutions by the state.

The volatility and market disruption in the global financial markets and the global banking sector in 2010 and 2011 has continued into 2012. The global financial markets, in particular, have experienced significant volatility. Doubts continue to be raised about the stability of the European monetary system and the stability of certain European economies, such as Greece, Ireland, Portugal, Spain and Italy, which have had a negative impact on global financial markets. As a result of risk aversion by investors following these developments, demand for, and values of, securities of Russian and other issuers have decreased and may continue to further decrease. No assurance can be given that measures to support the banking system, if taken to overcome current market disruptions or a more severe crisis, will be sufficient to restore stability in the global banking sector and financial markets in the short term or beyond. Uncertainty, disruption or volatility may have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects. Furthermore, the large sovereign debts and/or fiscal deficits of a number of European countries and the United States have raised concerns regarding the financial condition of financial institutions that have direct or indirect exposure to those countries and/or whose counterparties, custodians, customers, service providers or sources of funding have direct or indirect exposure to these countries. A restructuring of sovereign debt issued by one or more Eurozone Member States or a significant decline in the credit rating of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the Russian financial markets and the economic condition of VTB and/or its counterparties or creditors in ways which it is difficult to predict.

The Group has direct and indirect exposure to European sovereigns, as well as to financial institutions, governmental entities, counterparties, custodians, customers and service providers within the European Union. These exposures may, in the future, be affected by restructuring of their terms, principal, interest and maturity. As a consequence, this may impact on the ability of VTB to access the funding it needs, or may increase the cost of such funding, which may cause it to suffer liquidity stress.

Furthermore, should the ongoing crisis lead to a deterioration in the global macroeconomic situation and/or impact commodity prices and global trade flows, this could negatively affect the Russian Federation's overall economic and financial position in the medium term, which could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

The global financial crisis at its height in 2008 to 2009 led to reduced liquidity and increased credit risk premia for certain market participants and resulted in a reduction of available financing. Although the situation with liquidity in the Russian banking sector improved slightly in 2010 and the first half of 2011, in the second half of 2011, global market turmoil resulted in limited access of banks and corporations to international markets, creating a liquidity squeeze in Russia, resulting in part from high demand for loans. This increased competition among banks for customer deposits as a source of funding and pushed up deposit and interbank interest rates. Interest rates continued to rise in the first half of 2012, and the liquidity situation remains tight. VTB does not expect the possibility of relief in the short term, and money market interest rates may grow further. Should the economic situation deteriorate further in the Russian Federation or globally, there can be no assurance that the lack of liquidity experienced in the Russian banking system may not be exacerbated. Further turmoil in the global or Russian banking sectors could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects, including as a result of decreases in VTB's net interest income, decreases in the demand for VTB's and the Group's credit products and/or significantly increased loan provision charges, loan losses and write-offs. It may also impact goodwill impairment, result in increases in borrowing costs and reduced, or no, access to capital markets due to unfavourable market conditions, and result in decreases in fee and commission income due to a reduction in capital markets activity, as well as significant declines in the market values of securities held in VTB's and the Group's trading portfolios.

#### *Impact on liquidity*

The disruptions in the global financial markets had a severe impact on the liquidity of banks across the world, as well as the availability of credit and the terms and cost of funding in the Russian Federation. Russian banks, including VTB, VTB24, the Bank of Moscow and TCB, experienced a reduction in available financing both in the interbank and short-term funding market and in the longer-term capital markets and through bank finance instruments. A number of financial institutions suffered severe liquidity problems and, in certain cases, the majority shareholders had to sell their shares to other Russian institutions. The Russian securitisation market has also remained largely inaccessible since the onset of the financial crisis in 2008. In the Russian Federation, the combination of uncertainty in the global markets and corresponding domestic factors in 2008 and early 2009 gave rise to higher than normal interbank lending rates. For example, according to the CBR, in January 2008, the average interbank ruble lending rate was 2.8%, while, in January 2009, it increased to 16.3%. At the end of 2009 and 2010, the average interbank lending rates were 5.1% and 3.1% respectively, while tight liquidity at the end of 2011 pushed the average rate up to 5.8%. In the first half of 2012, the average rate was 5.1%.

Moreover, the Group has historically depended on wholesale funding. Accordingly, any future volatility in interbank lending rates could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects. Should the economic situation worsen in the Russian Federation or in the global markets in which the Group operates, there can be no assurance that the lack of liquidity experienced in the Russian banking system during the height of the financial crisis will not return.

Furthermore, certain Russian banks have experienced financial difficulties. Similar problems facing a large number of Russian banks may cause doubts among investors or depositors about the effectiveness of banking supervision in the Russian Federation and the reliability of the financial statements of Russian banks, even those prepared in accordance with IFRS. This could result in investors or depositors, as the case may be, reducing their exposure to Russian bank equities, debt or deposits, including those of VTB and/or the Group.

***Deteriorating economic conditions in the Russian Federation and the other markets in which the Group operates, together with the continued decline in the growth of the Russian Federation's banking sector, may continue to have an adverse effect on VTB and the Group.***

The majority of VTB's and the Group's profit is generated in the Russian Federation and VTB and the Group are particularly exposed to the deteriorating economic conditions in the Russian Federation. The deterioration of general economic conditions in the Russian Federation and the other markets in which the Group operates, and the declining growth of the Russian banking sector in particular, adversely affected VTB and the Group in 2008 and 2009. While VTB and the Group experienced economic growth and continuing recovery in loan growth in 2010, followed by expansion of lending operations in 2011, in the six months ended June 30, 2012 the Group's loan portfolio increased slightly. Total gross loans amounted to RUB 4,645.2 billion as of June 30, 2012, representing a 1.2% increase from RUB 4,590.1 billion as of December 31, 2011. Any future deterioration of economic conditions or negative growth in the Russian Federation could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

The Russian economy has been adversely affected by market downturns and economic slowdowns elsewhere in the world, which has also dampened foreign investment in the Russian Federation. Investment capital inflows into the Russian Federation have decreased significantly as a result of the global financial crisis, reducing bank liquidity. In 2011 and 2010, the Russian economy experienced a net capital outflow in the private sector of U.S. \$84.2 billion and U.S. \$33.6 billion, respectively. In the six months ended June 30, 2012, net capital outflow in the private sector amounted to U.S. \$45.3 billion.

In 2009, the Russian banking sector's asset growth decelerated to 5.0% year-on-year due to the adverse impact of the global financial crisis on economic growth and lending operations in the Russian Federation, based on CBR data. The first signs of loan growth recovery were seen in March 2010, and through 2010 and 2011 the banking sector saw an upturn stimulated by economic growth, with asset growth rebounding to 14.9% year-on-year in 2010 and 23.1% year on year in 2011, based on CBR data. In the first eight months of 2012, strong growth of the loan portfolio of 27.0% year on-year due to strong demand, primarily in the retail banking segment, supported sector asset expansion of 25% year-on-year, based on CBR data. Despite this, no assurance can be given that the Russian banking sector and/or the Group will not experience limited or negative asset growth in the near-to-medium term, caused, for example, by the global economic crisis and/or a future deceleration of global economic growth. Deceleration of economic growth expected in the second half of 2012 and the possible depreciation of ruble may reduce demand for loans, and thus reduce year-on-year rates of portfolio expansion and limit asset growth. The Russian Federation has also experienced a significant decline in debt and equity prices. There have been periodic suspensions of Russian stock market trading, extreme volatility in the Russian equity markets and sharp declines in the share prices of Russian financial institutions, in particular in 2008 and early 2009, as well as in the second half of 2011. A combination of these factors has resulted, and may continue to result, in a significant deterioration in the financial fundamentals of Russian banks, notably liquidity, asset quality and profitability, including those of VTB, VTB24, TCB and the Bank of Moscow.

As the Russian Federation produces and exports large volumes of oil and gas, dramatic falls in the prices of these commodities in the world market in the second half of 2008 through the first half of 2009 resulted in sharp decreases in Government revenues and the revenues of privately held Russian companies operating in these sectors, which in turn had a severely negative effect on the overall Russian economy. According to data published by Rosstat, real GDP growth slowed from 8.5% in 2007 to 5.2% in 2008,

followed by a real GDP downturn of 7.8% in 2009. Backed by a growth in commodity prices, real GDP growth recovered to 4.3% year-on-year in 2010 and remained stable in 2011. However, there can be no assurance that commodity prices will not experience a similar level of decline in the future, which would adversely affect GDP growth.

The Group was also exposed to deteriorating economic conditions in the CIS countries as well as other markets in which the Group operates. In particular, the economic and political situation in Ukraine has often been unstable in recent years and could be negatively affected by a number of factors. Any deterioration in the economic or political environment in Ukraine could have a material adverse impact on the business, financial condition, results of operations and prospects of VTB's banking subsidiary in Ukraine.

In addition, Belarus has experienced a severe financial crisis since the start of 2011, which led the Central Bank of Belarus to announce in May 2011 a devaluation of its national currency, the Belarusian ruble, against major currencies, such as the U.S. dollar and Euro, in an attempt to reduce pressure on the currency and neutralise the "black market" internal currency market that had developed as a result of the country's severe foreign currency deficit. The ongoing financial crisis in Belarus could have a material adverse impact on the business, financial condition, results of operations and prospects of VTB's banking subsidiaries in Belarus and transactions in or involving Belarus.

***Emerging markets such as the Russian Federation are subject to heightened volatility based on diplomatic and military conflicts.***

Emerging markets such as the Russian Federation are subject to heightened volatility based on diplomatic and military conflicts. For example, tensions between the Russian Federation and Ukraine arose when Ukraine indicated that it might refuse to permit Russian warships participating in a blockade along the Georgian Black Sea coast to return to their home port. The relationship between Ukraine and the Russian Federation has become strained for other reasons, including, among other things, Ukraine's failure to pay or delay in paying arrears relating to the supply of energy resources, as well as Ukraine's possible accession to NATO and the European Union. The Russian Federation's relations with Belarus have also been strained recently over gas supplies. The emergence of new or escalated tensions between the Russian Federation and Ukraine or the Russian Federation and Belarus, including the imposition of trade sanctions or embargoes, could negatively affect the Russian economy and the economies of other CIS countries, which could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

***The stabilisation measures of the Government and the CBR may fail to provide liquidity or support the Russian banking sector or the Group, which may have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.***

In an effort to support the liquidity of the Russian banking sector following the onset of the global and Russian financial crisis, the Government enacted a set of federal laws to facilitate the provision of credit to the Russian banking sector, with the intention of restoring investor confidence and supporting the medium-term growth of the Russian economy. The Government provided RUB 910 billion for financing through long-term subordinated loans, issued by the CBR and Vnesheconombank (State Corporation Bank for Development and Foreign Economic Affairs) ("VEB"), to state controlled and private banks that met certain financial and rating criteria. Under these laws, in the fourth quarter of 2008, VTB received two subordinated loans of RUB 100 billion each from VEB, which mature at the end of 2019 and initially carried an annual interest rate of 8%, which was subsequently reduced to 6.5% in August 2010 in accordance with the requirements of federal law. There can be no assurance that such stabilisation measures will continue to provide sufficient liquidity in the long term or continue to be available on acceptable terms. If these stabilisation measures fail to provide sufficient liquidity or VTB becomes ineligible to access further funding from VEB or the CBR at commercially acceptable terms, or at all, it could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

In addition, the Government has pledged additional funds to stabilise the financial markets, from which VEB, through the National Welfare Fund, has already received up to RUB 170 billion to implement measures to support the Russian financial markets. See *“Banking Regulation in the Russian Federation—Measures to support the liquidity of the Russian banking system”*. Notwithstanding the implementation of such anti-crisis measures, some Russian financial institutions have continued to demonstrate liquidity problems, and while some improvement of the situation in the financial markets is reported, no assurance can be given that similar liquidity problems will not occur in the future, or that the Government will continue to implement state support measures to support the Russian banking sector. Accordingly, any deterioration in the liquidity of Russian companies or of the Russian and international capital, syndicated loan, interbank and trade finance markets, significant withdrawals of corporate and retail deposits and maturity mismatches between VTB’s and the Group’s assets and liabilities may, together or individually, have a material adverse effect on VTB’s and/or the Group’s business, financial condition, results of operations and prospects.

***VTB and the Group could be negatively affected by the deterioration of the commercial soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties.***

VTB and the Group routinely execute a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in significant counterparty credit exposure. This counterparty risk has been heightened as a result of ongoing volatility and other developments, such as market disruptions and liquidity constraints, in international financial markets. VTB and the Group will continue to be exposed to the risk of financial loss if any counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the stability of, one or more financial institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on VTB’s and/or the Group’s business, financial condition, results of operations and prospects.

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

The Group meets a significant portion of its funding requirements using customer deposits. Russian companies have significant liquidity requirements, which have been further increased by the lack of liquidity available from financial markets as a result of the global financial crisis. Accordingly, they often withdraw their deposits and are not in a position to place significant funds with the Group on a long-term basis. The Russian Civil Code (the **“Civil Code”**) entitles retail depositors to withdraw deposits, including term deposits, at any time. As a result, unanticipated decreases in corporate customer deposits and/or unexpected withdrawals of retail deposits may result in liquidity gaps that the Group may not be able to cover.

The remainder of the Group’s funding is raised in the domestic and international capital, syndicated loan and interbank markets. Adverse market conditions in 2008 and 2009 significantly reduced the Group’s access to funding from these markets at commercially justifiable costs. Although the Group issued both ruble-and foreign currency denominated bonds in 2010, 2011 and 2012, the Group’s ability to raise funding from domestic and international markets in amounts sufficient to meet its liquidity needs could be further adversely affected by a number of factors, including in particular any further deterioration in Russian and international economic conditions and the state of the Russian financial and market systems.

If the sources of short-and, in particular, long-term funding, including from the Government, the international capital markets or inter-bank lending markets, are not available, this could lead to a material adverse effect. See *“Risk Management—Credit Risk Management—Liquidity Risk Management”* and *“Banking Regulation in the Russian Federation”*.

***The Group may not be able to achieve its strategic objectives in a timely manner or at all.***

The Group's overall strategic goal is to leverage its existing scale in corporate, retail and investment banking services in the Russian Federation to focus on profitable growth and to convert its unique strategic position into a consistent return on capital. In connection with this goal, the Group has set certain financial and operational targets, which it expects its businesses to achieve by the end of 2013. See "Business—Strategy". There are numerous assumptions that underpin the Group's strategic objectives. Although many of these assumptions are within the Group's control, many are not, including in particular the impact of the political and economic environment in which the Group's businesses operate. If any of the beliefs and assumptions underlying the Group's strategic development proves to be incorrect, the Group's ability to achieve its strategic objectives could be compromised, and it may fail to meet its financial and operational targets on a timely basis or at all. Any of these outcomes could have a material adverse affect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

***The Group may fail to integrate acquired businesses properly, which could have an impact on reaching market and financial targets set out in the Group's strategy.***

The Group's banking operations have experienced significant growth in recent years as the Russian banking market has continued to expand. For the period from December 31, 2010 to June 30, 2012, the Group's total assets grew from RUB 4,290.9 billion to RUB 6,858.0 billion. The Group has made a number of significant acquisitions, including the acquisition of the Bank of Moscow in 2011 (see "*—VTB faces risks in relation to its recently completed acquisitions*"), as well as acquisitions and/or the establishment of banking operations in the CIS and Europe. In addition, the Group acquired a controlling interest in TCB with effect from December 31, 2010, further increasing its interest since that date. In September 2012, the Group acquired substantially all of the remaining interest in TCB from JSC Russian Railways ("**RZD**"), increasing its share to 99.7%. See "*Business—Acquisition of TCB*". On September 30, 2011, the Group obtained control over the Bank of Moscow, one of the leading Russian commercial banks and a former competitor of VTB, after increasing its share to 80.57% as at September 30, 2011. The Group subsequently increased its interest in the Bank of Moscow to 95.52% by June 30, 2012. See "*Business—Acquisition of Bank of Moscow*".

The Group's continuing expansion has required and will continue to require a significant allocation of capital and management resources, further development of the Group's financial, internal controls and information technology systems, continued upgrading and streamlining of its risk management systems and additional training and recruitment of management and other key personnel. At the same time, the Group must maintain a consistent level of client services and current operations to avoid loss of business or damage to its reputation. In particular, pursuant to an agreement between VTB and the transferor of the TCB shares, RZD, VTB and RZD are to jointly manage TCB in accordance with the Group's management principals and standards for the period from July 2012 until VTB acquires the remaining interest in TCB. There is a risk that this joint management arrangement will not result in the successful integration of TCB into the Group, leading to further consumption of VTB management resources and capital.

There can be no assurance that the Group will be able to sustain its current levels of growth in the future. In addition, there can be no assurance that the Group will be able to integrate its acquired or newly established subsidiaries, or to achieve anticipated synergies, fully in line with its strategy. Future acquisitions could also give rise to similar integration risks, as well as financial risks. Finally, if the Group continues to increase its retail and small business lending volume in connection with the acquisition of retail operations, this will require a significant increase in its capital base and funding. Should such funding not be available from third party sources, including the Government, at terms that are acceptable to the Group, this may result in a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

***The size of the Group's loan portfolio has increased its credit exposure, which may result in increased non-performing loans despite risk management strategies as a result of the unpredictability of the economic conditions in the Russian Federation and abroad.***

The Group's total gross customer loan portfolio increased from RUB 3,059.6 billion as of December 31, 2010 to RUB 4,645.2 billion as of June 30, 2012, which requires continued and improved monitoring by management of credit quality and the adequacy of the Group's provisioning levels. See "Risk Management". The Group is subject to risks regarding the credit quality of, and the recovery on loans to and amounts due from, customers and market counterparties. Changes in the credit quality of the Group's Russian and/or international customers and counterparties, or in their behaviour, or arising from systemic risks in the Russian and global financial system, have reduced and may continue to reduce the value of the Group's assets, and have increased and may continue to increase the Group's loan losses and allowances for loan impairment.

The Group may not be able to assess default risk on loans provided to corporate customers accurately due to the unpredictability of economic conditions in the Russian Federation and abroad. While the Group requires the periodic disclosure of its corporate customers' financial statements, such financial statements may not always present a meaningful indication of each customer's consolidated financial condition due to the disclosure and accounting regulations in the relevant countries, including the Russian Federation. Furthermore, the Group's corporate customers typically do not have extensive or externally verified credit histories. Therefore, notwithstanding the Group's credit risk evaluation procedures, the Group may be unable to evaluate the current financial condition of each prospective corporate borrower correctly or to determine accurately the ability of such corporate borrower to repay.

In addition, the availability of accurate and comprehensive financial and general credit information on individuals and small businesses in the Russian Federation is even more limited than in the case of larger corporate customers, which makes it more difficult for the Group accurately to assess the credit risk associated with such lending.

Although the Group has invested substantial time and effort in its risk management strategies when creating its existing portfolio, and has sought to enhance those strategies in light of the recent economic conditions, there can be no guarantee that such risk management strategies will protect the Group from increased levels of non-performing loans ("NPLs"), particularly when confronted with risks that the Group did not identify or anticipate from its existing portfolio.

***The lack of reliable information about borrowers in the Russian Federation could result in VTB not becoming aware of events of default of its borrowers in a timely manner.***

Due to a lack of frequent and reliable information on borrowers in the Russian Federation VTB historically has had to rely, to a large extent, on statutory financial statements of its borrowers to evaluate their financial performance and monitor credit quality. The limited scope of the assessment and monitoring procedures based on such statutory financial statements, together with insufficient internal coordination of the collection of information from borrowers and the analysis of such information by the relevant departments within VTB, have in the past resulted in VTB not being aware, in some cases, of events of default or potential events of default on a timely basis. VTB has taken, and continues to take, steps to coordinate and accelerate data collection and analysis to prevent such deficiencies in its internal procedures. However, the general limitations of frequent and reliable information about borrowers in the Russian Federation may result in VTB failing to become aware of events of default of its borrowers, which could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

***The Group could face increased loan losses and decreased demand for its services from both corporate customers and individuals who have been affected by the global economic crisis.***

The recent turmoil in the global and Russian credit markets, the decrease in the world market prices in the Russian Federation's key export commodities and declining GDP in the Russian Federation have had a significant negative impact on the Russian economy. Factors including increased unemployment in the Russian Federation, rising inflation, reduced corporate liquidity and profitability, increased corporate and personal insolvencies and/or increased interest rates have reduced the Group's customers' and market counterparties' ability to repay loans. In addition, changes in economic conditions have resulted in deterioration in the value of security held by the Group against loans and other obligations. If the Russian economy were to deteriorate further, there would be a significant risk that the Group's existing loan portfolio would also deteriorate.

Many of the Group's large corporate customers engage in the production and/or export of oil, gas, iron ore, metals and other raw materials, which experienced dramatic falls in prices during the global financial crisis, in particular in 2008 and 2009. While commodity prices have partially recovered in subsequent years, there is no assurance that they will not decline again in the future. The decreases in the prices of these commodities may negatively affect the financial condition of such customers. Similarly, many of the Group's corporate customers are engaged in industries, such as building and construction, consumer products and services, financial institutions and trade and commerce, which were directly affected by the deterioration in economic conditions in the Russian Federation and the other countries in which the Group operates. This may continue to result in, among other things, decreased corporate deposits from these customers, a reduction in the volume of foreign currency and/or foreign trade operations by these customers, decreases in the value of the collateral (including immovable property, land, equipment, intangibles and machinery) underlying their obligations and the need to increase such collateral, defaults on their obligations and, ultimately, increased loan losses to the Group.

The Group significantly increased its lending to individuals and small businesses before the onset of the global financial crisis, and the Group is developing a new retail business project focusing on average or below average income customers. The challenging economic conditions in the Russian Federation have resulted in reduced income levels and increased unemployment, which has adversely affected the quality of the Group's retail portfolio and resulted in increased loan losses. Many small businesses in the Russian Federation have limited experience operating in competitive market conditions as compared to their Western counterparts and have been adversely affected by the challenging economic conditions in the Russian Federation. These customers generally have less capital and liability management experience than larger customers and are more sensitive to economic downturns.

The Group's total NPLs as a percentage of total gross loans (including financial assets classified as customer loans pledged under repurchase agreements) decreased to 5.4% as of December 31, 2011 compared to 8.6% as of December 31, 2010. During the six months ended June 30, 2012, the Group's loan book quality deteriorated slightly with total NPLs amounting to 5.6% of total gross loans. The NPL coverage ratio as at June 30, 2012 increased to 117.0% from 111.3% as of December 31, 2011 and 103.7% as of December 31, 2010. Future increases in impairment losses could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

***VTB does not monitor and control certain procedures relating to the loan and securities portfolios of the Group on a daily basis because the loan and securities portfolios cannot be accurately consolidated on a daily basis due to limitations in the Group's operational reporting systems.***

VTB monitors and controls certain procedures relating to the loan and securities portfolios of the Group on a monthly basis rather than a daily basis. Decisions regarding the extension of significant credit by the Group's banking subsidiaries are made with the knowledge of VTB and information from the Group's subsidiaries through the Group Credit Committee. However, the Group's operational reporting IT systems do not enable VTB to prepare consolidated management accounts to enable the Group's management to monitor

the Group's performance on a weekly or monthly basis, in line with the best practice of Western banks, or to monitor the loan and securities portfolios of its subsidiaries in the aggregate on a daily basis. A number of projects, including the recently created Corporate Reporting System (the "CRS"), which enables the collection of data that can be used to draw-up risk-related reports on loan portfolios, loans to individuals and various other reports, have been launched to automate and centralise the Group's operational processes and to develop a variety of IT solutions to support the Group's investment business and treasury operations. See "*—The Group's IT systems may be insufficient to support its operations*". However, the process of IT system integration and automation remains unfinished, and there is therefore a risk of an incorrect assessment of credit exposure and concentration limits, which may result in credit being extended to a single borrower or a group of related borrowers without the Group entity that extends the credit or VTB knowing the extent to which the Group is already exposed to such borrower or group of related borrowers. This could result in the Group being unable to monitor its loan portfolio at a time when the rate of customers and counterparty failure may be increasing and, therefore, have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

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

The Group's loan portfolio has greater exposure to certain industries. As of June 30, 2012, the finance (including loans issued to holding companies of industrial groups, merger and acquisition financing and loans to leasing, insurance and other non-bank financial companies), building construction and manufacturing sectors accounted for 13%, 12% and 10%, respectively, of the Group's gross loan portfolio (excluding loans to banks and off-balance sheet credit-related commitments). As of June 30, 2012, total gross loans extended to the Group's ten largest groups of interrelated borrowers amounted to RUB 990.2 billion, representing 20.4% of the Group's gross loan portfolio (excluding loans to banks and off-balance sheet credit-related commitments such as undrawn customer credit facilities).

The Group's financial condition is sensitive to the downturns in the sectors in which it has high industry concentrations or its largest borrowers operate, as well as to adverse changes in such borrowers' business and financial condition. Although the Group continues to take measures to diversify its loan portfolio, there can be no assurance that it will be able to achieve or maintain a greater level of diversification in its loan portfolio. The Group's failure to do so may have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

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

A substantial portion of the Group's loans to corporate customers and individuals is secured by collateral such as real property, land leasing rights, production equipment, vehicles, aeroplanes, ships, securities, precious metals, raw materials and inventory. The recent downturns in many of these industries and the general deterioration of economic conditions in the Russian Federation have resulted, and may continue to result, in declines in the value of collateral securing a number of loans to levels below the amounts of the outstanding principal and accrued interest on those loans. The reduced collateral values may not be sufficient to cover uncollectible amounts on the Group's secured loans, which may result in the Group being required to reclassify the relevant loans, establish additional allowances for loan impairment and/or increase reserve requirements. A failure to recover the expected value of collateral may expose the Group to loan losses, which may materially adversely affect the Group's financial condition and results of operations.

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

VTB and the Group enter into security arrangements for loans made to its corporate and retail customers. See "*Risk Management—Risk Management and Internal Control System—Credit Policies and Procedures*". Under Russian law, collateral (which includes, among others, pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the secured or guaranteed obligation becomes void. Furthermore, the enforcement of security under

Russian law generally requires either an agreement of the parties for an out of court enforcement procedure (which is subject to certain specific requirements and is relatively new) or, in certain cases, a court order followed by a public sale of the collateral. A court may in certain circumstances delay such public sale for a period of up to one year upon a pledgor's application. A mortgage under Russian law is a pledge over real property, such as land and buildings, which requires state registration to be valid. Russian law has no pledge perfection system for collateral other than mortgages and shares in Russian joint-stock companies, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. Therefore, VTB and the Group may have difficulty foreclosing on collateral or enforcing other security when clients default on their loans, which may adversely affect VTB's and the Group's financial condition and results of operations.

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

***It may be difficult for VTB and the Group to manage a significant increase in the number of defaulting loans to its corporate and retail customers and to realise the full value of the collateral securing these loans.***

The recent volatility in the global and Russian credit markets along with several other factors, including rising inflation, reduced corporate liquidity and profitability, increased interest rates and increased personal and corporate insolvency have reduced VTB's and the Group's customers' and market counterparties' ability to repay loans. As a result, many of the Group's clients, including one of its biggest clients in terms of single credit exposures, defaulted on their loan obligations in 2009. A substantial portion of the Group's loans to corporate and retail customers are secured by collateral such as real property, land leasing rights, production equipment, vehicles, aeroplanes, ships, securities, precious metals, raw materials, inventory and the rights to equity ownership in certain businesses. As events of default have occurred, VTB and the Group have acquired, and in case of future events of default will likely acquire, controlling or minority stakes in defaulting companies which operate in sectors that are not core to VTB's and the Group's business, and in respect of which VTB and the Group have limited operational or management expertise. VTB and the Group may not have an adequate number of personnel with sufficient experience to assume control of and manage these companies. VTB and the Group may also fail to manage these businesses efficiently once they have assumed control. For instance, in April 2009, VTB became the owner of a 19.5% interest in Hals-Development (previously Sistema-Hals), which was further increased to 51.24% in December 2009 following the exercise by VTB of a call option on the additional share interest. As the number of corporate and retail clients who default on their loans increases, VTB and the Group may acquire additional minority and controlling stakes in such businesses as well as certain assets of such businesses, which may need to be impaired or written down, and the impact of this could be material for the Group's results. The recent downturns in many of the industries in which VTB's and the Group's clients operate, the general deterioration of economic conditions in the Russian Federation and VTB's and the Group's inability to divest its ownership in these companies may result in declines in the value of these businesses to levels below the amounts of the outstanding principal and accrued interest on the loans secured by this collateral, thereby resulting in further losses and possible write-offs or impairments to VTB and the Group.

***The Group's financial condition and operating results may continue to be affected by market risks.***

The Group's financial condition and operating results were adversely affected, most notably in 2008 and 2009, by market risks that are outside the Group's control, including, without limitation, volatility in interest rates, prices of securities and currency exchange rates.

Movements in interest rates adversely affected the Group's operations and financial condition in a number of different ways. In 2008 and 2009, increased inflation and competition for customers increased interest rates payable on new customer deposits for banks operating in the Russian market, which had a negative impact on the Group's net interest margins as competitive pressures, concerns regarding customer defaults, fixed rates in existing loan commitments or facilities and regulatory concerns restricted the Group's ability to increase interest rates on loans to customers in a corresponding manner.

An increase in interest rates generally may raise the Group's funding costs. Such an increase could also generally decrease the market value of fixed rate debt securities, as it did in 2008 and 2009, when the Group experienced significant decreases in the value of its fixed rate debt securities portfolio when ruble interest rates increased. In addition, an increase in interest rates may reduce overall demand for new loans and increase the risk of customer default. General volatility in interest rates may result in a gap between the Group's interest-rate sensitive assets and liabilities. In 2008 and the first half of 2009, there was a period of high and volatile interbank lending rates which, together with the shortening maturity of deposits, exacerbated the risk of such gaps. As a result, the Group has incurred, and may continue to incur, additional costs and has exposed, and may continue to expose itself to other risks by adjusting such asset and liability positions through the use of derivative instruments. Interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, including the CBR, adverse domestic and international economic conditions and political factors. There can be no assurance that the Group will be able to protect itself from the adverse effects of future interest rate fluctuations. Any fluctuations in market interest rates could lead to a reduction in associated net interest income and adversely affect the Group's financial condition and results of operations.

The Group's financial condition and operating results are also affected by changes in market values in the Group's securities portfolio. The Group engages in significant proprietary trading operations, primarily consisting of transactions in equity and debt securities, and the Group has in the past derived a significant portion of its operating income from such operations. The Group's results from such operations in 2008 and 2009 were negatively affected by unprecedented market volatility and the disruption of historical pricing relationships in the Russian Federation and the global financial markets, which resulted in an 83.9% decrease in gains less losses from financial assets in 2008 and a RUB 20.2 billion net loss from financial assets in 2009. As of June 30, 2012, the carrying value of the Group's securities portfolio was RUB 1,029.7 billion, which represented 15.0% of the Group's total assets at that date. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*". The Group's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility. Although the Group has put in place limits for its trading securities portfolio, market price fluctuations, particularly affecting the Group's Russian corporate and government debt securities and Russian equity securities, may adversely affect the value of the Group's securities portfolio. See "*Risk Management—Management Policies for the Russian Group Banks—Market Risk Management*".

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

***VTB may experience increased competition, additional risks and high costs associated with its recently expanded investment banking business.***

In April 2008, VTB expanded its presence in the investment banking market and launched its investment banking business operating under VTB Capital (formerly VTB Europe). Today, VTB Capital offers a range of investment banking services to both local and international clients, and the Group's investment banking business generated 7.2% of the Group's profit before taxation before intersegment eliminations in the six months ended June 30, 2012 and 35.0% in the six months ended June 30, 2011. Although VTB has expanded its investment banking business, investment banking both in the Russian

Federation and internationally is highly competitive and can be highly volatile. There can be no assurance that VTB's investment banking business will be successful or that VTB Capital will be able to execute VTB's strategy for investment banking successfully. Additionally, there are high costs associated with operating an investment banking business, such as salary expenditures, which may not be offset by the revenues generated. VTB Capital displays significant risk appetite in its investment banking operations, including principal positions, which may potentially lead to significant losses. If the Group's strategy for its investment banking business is not executed successfully and it fails to generate sufficient revenues, it would adversely affect VTB Capital's profitability and could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

***The Group will require a significant amount of cash to meet its debt obligations.***

The Group's ability to make principal or interest payments when due on its indebtedness will depend on its future performance and ability to generate cash, which to a certain extent are subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, many of which are beyond the Group's control. On the maturity of this indebtedness, if the Group does not have sufficient cash flow sources from operations and other capital resources to pay its debt obligations, or to fund other liquidity needs, it may be required to refinance such debt. If the Group is unable to refinance its indebtedness or obtain refinancing on terms acceptable to the Group, it may be forced to sell assets, or issue equity in amounts that could be substantial. The type, timing and terms of any future financing will depend on the Group's cash needs and the prevailing conditions in the financial markets. There can be no assurance that the Group would be able to accomplish any of these measures in a timely manner or on commercially reasonable terms, if at all.

***Devaluation of the ruble against the U.S. dollar and other currencies may continue to have a material adverse effect on the Group's business, financial condition, results of operations and prospects.***

While the ruble appreciated against the U.S. dollar in real terms each year between 2000 and 2007, it experienced significant depreciation against the U.S. dollar in real terms in 2008 and in the beginning of 2009, largely as a result of the global financial crisis and the significant fall in prices in oil and commodities that are the principal generators of the Russian Federation's export earnings. Between August 1, 2008 and March 1, 2009, the ruble depreciated by 53% in nominal terms against the U.S. dollar (from RUB 23.42 per U.S.\$1.00 to RUB 35.72), according to the CBR. This process of depreciation was significantly influenced by the CBR as part of its policy to maintain low volatility. Although the ruble steadily appreciated during 2010 and the first half of 2011, it depreciated again in the second half of 2011, by 14.7% from RUB 28.08 at June 30, 2011 to RUB 32.20 at December 31, 2011. In the first nine months of 2012, the exchange rate was volatile, but overall depreciated (down 4% from RUB 32.20 at January 1, 2012 to RUB 30.92 at September 30, 2012).

In addition to possible foreign exchange transaction losses, further depreciation of the ruble against the U.S. dollar could negatively affect the Group in a number of ways. These include, among other things, increasing the actual cost to the Group of financing its U.S. dollar-based liabilities and making it more difficult for Russian borrowers to service their U.S. dollar loans. Accordingly, any further depreciation of the ruble against the U.S. dollar may have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

***The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions and the accuracy of these estimates and assumptions could have a material impact on the Group's consolidated financial statements.***

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses during the relevant reporting period. The Group's management believes that accounting for allowance for loan impairment, impairment of goodwill, impairment of investments in associates, taxation,

existence of significant influence in other entities, consolidation of funds and fair value estimation of unquoted shares includes judgments, estimates and assumptions inherent in the application thereof that are critical to an understanding of the Group's financial statements. Actual results may differ from estimates, and such differences may be material. See Note 6 to the Annual IFRS Financial Statements for a discussion of these estimates and assumptions.

The judgments, estimates and assumptions that the Group's management makes are based on information available at the time. Should circumstances change, the outcome may be materially different from what was envisaged at the time such judgments, estimates and assumptions were made. Should this occur, it could have a material adverse effect on the Group's consolidated financial statements, including its reported net income and balance sheet.

***The interests of the Russian Federation may conflict with those of other shareholders.***

As of the date of this Prospectus, the Russian Federation owns approximately 75.5% of VTB's issued and outstanding ordinary shares. The Supervisory Council comprises representatives of various government ministries and agencies, as well as representatives of the CBR.

As the Group's largest shareholder, the Russian Federation is able to exercise significant control over the Group's activities and may from time to time take actions in relation to the business of the Group, including with regard to the nature of proprietary investments and the acquisition and disposal of businesses, that may not be in the best interest of the Group or its minority shareholders and may adversely affect the value of the Notes.

In addition, certain members of the Supervisory Council are also members of the supervisory council of Sberbank. See "*Management—Other Interests*". Since Sberbank is one of the Group's principal competitors, this could give rise to conflicts of interests. However, VTB does not expect that any such conflict of interest could have a material impact on VTB, since the relevant members of the Supervisory Council are Government officials, who hold similar positions in a number of state owned companies.

***The Group's IT systems may be insufficient to support its operations.***

Although the Group has been upgrading its IT systems for a number of years, these systems are currently less developed in certain respects than those of some banks in more developed countries. The Group has implemented a new IT system designed to enable communication across the Group's network of subsidiaries (the Group Portal). However, the banking subsidiaries of the Group continue to each have separate IT systems, which are managed largely on an independent basis. See "*Business—Information Technology*".

The Group's IT system does not allow for real-time Group-wide financial reporting, but only on a T+2 basis. See "*—VTB does not monitor and control procedures relating to the loan and securities portfolios of the Group on a daily basis because the loan and securities portfolios cannot be accurately consolidated on a daily basis due to limitations in the Group's operational reporting systems*". The lack of immediately available complete consolidated financial and operating data may hinder the ability of the Group's management to make decisions, to react promptly to changes in market conditions and to detect fraud and non-compliance with internal procedures. See "*—The Group's banking business entails operational risks*".

Deficiencies in the existing financial reporting system prevent the Group from generating certain information pursuant to Industry Guide 3 under the Securities Act (Statistical Disclosure by Bank Holding Companies). Furthermore, a number of the Group's operations, such as retail transactions and trade finance operations, are not sufficiently automated, and information with respect to such transactions is not readily available and is often difficult to interpret. While a number of projects (including the CRS, which deals with regulatory, finance and management reports) have been launched to automate and centralise the Group's operational processes and to develop a variety of IT solutions to support the Group's investment business,

treasury operations and retail business, the currently unfinished process of IT system integration and automation increases the Group's operational risks, including the risk of credit being extended to a single borrower or a group of related borrowers without the Group entity that extends the credit or VTB knowing the extent to which the Group is already exposed to such borrower or group of related borrowers, and the costs of further business development. The inability of the Group's current IT systems to fully support certain of the Group's operations may adversely impair its ability to monitor and manage its operations and financial performance.

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

In order to implement the Group's 2010 to 2013 development strategy successfully and achieve the goals outlined therein, the Group will need to upgrade its IT systems and integrate the various IT systems that currently exist at each Group company. See "*Business—Information Technology*" and "*Business—Strategy—Centralise and upgrade the Group's IT systems and infrastructure to support its growing business operations*". It is uncertain whether the implementation of the Group's IT strategy in general, and the harmonisation (partly IT centralisation) of the IT platforms of VTB's North-West Center and VTB in particular, will be successful, and whether, if implemented, the new systems will significantly increase the ability of the Group to achieve its goals laid out in the 2010 to 2013 development strategy. Any failure by the Group to implement the new IT systems successfully could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

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

As part of its business, the Group issues guarantees and letters of credit. As of June 30, 2012, the Group had issued guarantees amounting to RUB 574.7 billion and import letters of credit amounting to RUB 42.8 billion. In particular, as of June 30, 2012, guarantees issued included guarantees issued for a Russian company, of RUB 26.7 billion or 4.6% of the guarantees issued by the Group. As of that date, the Group also had undrawn credit lines and commitments to extend credit amounting to RUB 72.9 billion. All such credit-related commitments are classified as off-balance sheet items in the Group's consolidated IFRS financial statements. Although the Group has established allowances for its off-balance sheet credit-related commitments which it believes are sufficient to cover actual losses on credit-related commitments that may be incurred by VTB, there can be no assurance that these allowances will be sufficient to cover such losses that may be incurred by the Group as a whole. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Contingencies, Commitments and Derivative Financial Instruments*" and "*Risk Management—Credit Risk Management—Credit Policies and Procedures*".

***The Group faces significant competition in the Russian Federation and other markets where it operates.***

The Russian market for financial services is highly competitive. The Group faces competition from both domestic and, to a lesser degree, foreign banks. According to the CBR, as of June 1, 2012, 1,101 bank and non-bank credit organisations were registered in the Russian Federation and the 30 largest banks held 75% of total banking assets. In the Russian corporate banking market, the Group principally competes with Sberbank, Gazprombank, and Alfa-Bank, Russian subsidiaries of foreign banks, as well as a number of other national and regional banks and certain of the world's largest international banks. In the Russian retail banking market, the Group's principal competitors are Sberbank, which is by far the largest retail bank in the Russian Federation measured by retail deposits and branches, Alfa-Bank and Rosbank Group, as well as other Russian subsidiaries of foreign banks. In the investment banking business the Group competes with Renaissance Capital, Troika Dialog (part of the Sberbank group), Gazprombank and Alfa-bank as well as subsidiaries of global financial institutions such as J.P. Morgan, Morgan Stanley, Deutsche Bank, Citibank, and Goldman Sachs. In addition to facing competition in the Russian Federation, the Group's subsidiaries, branches and representative offices in the CIS, Europe and elsewhere compete with national and/or international banks and non-banking credit organisations in the jurisdictions in which they operate.

Many of the banks with which the Group competes in the Russian Federation including in particular Sberbank and, with respect to the Group's corporate lending activities, international universal banks, are larger and have greater capital resources available to them. In many of the jurisdictions in which the Group operates outside the Russian Federation the Group faces competition from larger, more established and better-capitalised local financial institutions. The Group's inability to continue to compete successfully in the markets in which it operates would have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

The competitive landscape in the Russian banking sector has changed since the onset of the global financial crisis. Since the autumn of 2007, growth in the Russian banking sector has decreased. A number of international banks have had to scale down their operations in an environment of growing liquidity constraints in the global and Russian credit markets. On the other hand, banks that are directly or indirectly owned by or affiliated with the Russian Federation, such as VTB, Sberbank, Russian Agricultural Bank and Gazprombank, have received significantly larger amounts of funding from the Russian Federation in connection with the measures to support the Russian banking sector, have continued to add branches to their respective networks through the acquisition of defaulting banks and, as a result, have enhanced their dominance of the Russian banking sector. According to VTB's estimates, based on CBR and Interfax data, as of June 30, 2012, Sberbank, the Group, Gazprombank and Russian Agricultural Bank held 53.6% of the Russian banking market's total assets, compared with 40.6% as of December 31, 2007. The Group could lose access to such levels of Government funding and credit support or other state-owned or affiliated banks may benefit from greater levels of Government funding and credit support than the Group in the future, which could result in lower margins and loan rates and increased marketing and branch network expansion costs and adversely affect the profitability and financial condition of the Group.

***The Group's banking business entails operational risks.***

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

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

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

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

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

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

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

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

Russian law requires a joint-stock company that enters into transactions with certain related persons that are referred to as "interested party transactions" to comply with special approval procedures. Under Russian law, an "interested party" includes:

- (a) any member of the board of directors or the collegiate executive body of a company;
- (b) its chief executive officer (including managing organisation or hired manager);
- (c) any person who, together with its affiliates, owns at least 20% of a company's voting shares; or
- (d) a person who has the legal right to give mandatory instructions to a company, if any of the above listed persons, or a close relative or affiliate of any such person, is, in each case:
  - (i) a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
  - (ii) the owner of at least 20% of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
  - (iii) a member of a governing body of a company that is a party to a transaction with the company, whether directly or as a representative, intermediary, or a beneficiary of the transaction or an officer of the managing organisation of such company; or
  - (iv) in other cases, stipulated by law or the company's charter.

Under applicable Russian law, interested party transactions require approval by a majority of the disinterested directors or disinterested shareholders of the company. A majority vote of the disinterested shareholders of the company is required if (a) the number of disinterested directors is less than the required

quorum for board of directors (supervisory council) meetings, (b) the value of the transaction (or of a number of interrelated transactions) is equal to or exceeds 2% of the balance sheet value of the company's assets (determined under RAS according to its latest balance sheet) or (c) the transaction (or a number of interrelated transactions) involves the issuance or sale by the company of ordinary shares or securities convertible into such shares, in an amount exceeding 2% of the company's issued ordinary shares. A failure to obtain the appropriate approval for a transaction may result in it being declared invalid upon a claim by the company or any of its shareholders.

Transactions between VTB and its subsidiaries and affiliates may be considered interested party transactions. In addition, transactions between VTB, VTB24, TCB and the Bank of Moscow and state-owned companies, including large clients of VTB to whom VTB has material exposures, may be viewed as interested party transactions for VTB, VTB24, TCB or the Bank of Moscow, as the case may be. VTB's shareholder meetings approve general limits for transactions with VTB's subsidiaries and affiliates as well as state-owned companies on an annual basis, and all transactions with such companies are made only within such limits, without any additional corporate approval requirements. However, no assurance can be given that the above manner of approval would be upheld by Russian courts as constituting the statutorily required approval of disinterested shareholders. If they did not, a significant portion of VTB's, VTB24's, TCB's and the Bank of Moscow's loan and security arrangements could be declared invalid upon a claim by the company or any of its shareholders, and VTB, VTB24, TCB and the Bank of Moscow would be unable to recover interest on such loans in excess of statutory interest or enforce the security.

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

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

Russian banks which are part of the Group (VTB, VTB24, Bank of Moscow and TCB) are required by the CBR to have a minimum RAS-based stand-alone capital ratio of 10%. In addition, the Basel Committee recommends a minimum risk-based capital ratio of 8.0%, calculated in accordance with the Basel Accord. VTB's RAS based stand alone capital ratio as of September 30, 2012 was 12.1%, which exceeded the minimum required by the CBR. The Group's risk-based capital ratio, calculated in accordance with the Basel Accord, as described in Note 32 of the Interim Condensed Consolidated IFRS Financial Statements, was 12.8% and 13.0% as of June 30, 2012 and December 31, 2011, respectively. Over the same period, the Group's Tier I capital ratio decreased from 9.0% to 8.9%. Both capital ratios exceed the minimum risk based capital ratio recommended by the Basel Accord. However, these ratios are likely to decrease as the Group expands its operations and the quality of the Group's loan portfolio deteriorates in the current challenging general economic conditions, requiring further provisioning. The Group's ability to obtain additional capital to improve its capital ratios may be restricted by a number of factors, including:

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

If the Group is unable to raise further capital to support its growth or if its capital position otherwise declines, its ability to implement its business strategy may be materially adversely affected.

In addition, the risk-adjusted capital guidelines promulgated by the Basel Accord, which forms the basis for the capital adequacy guidelines of the National Research Centre (together, “**Basel II**”), are being implemented in certain jurisdictions including member states of the EU, and in December 2010 the Basel Committee published a revised set of guidelines (“**Basel III**”), the implementation of which will begin on January 1, 2013. Although the minimum risk-based capital ratio under Basel III remains at 8%, the minimum common equity ratio will increase from 2% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments) and the total Tier 1 capital requirement, which includes common equity and other qualifying financial instruments, will increase from 4% to 6%. In addition, banks will be required to maintain, in the form of common equity (after the application of deductions), a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity requirements to 7%, and, if there is excess credit growth in any given country resulting in a system-wide build-up of risk, a countercyclical buffer within a range of 0% to 2.5% of common equity (or possibly other fully loss-absorbing capital) is to be applied as an extension of the conservation buffer. The implementation of Basel II or Basel III in the Russian Federation has not occurred to date, and the effect that these revised guidelines will have on the Group’s capital requirements and capital position is uncertain. See “*Banking Regulation in the Russian Federation—Capital Requirements—Basel Implementation in Russia*” and “*Banking Regulation in the Russian Federation—Banking Sector Development Strategy*”. In September 2012, the CBR published draft regulations to introduce new capital adequacy requirements for Russian banks as part of the implementation of Basel III in Russia. According to the draft CBR regulations, reporting of these Basel III capital adequacy ratios is to be required from April 1, 2013, with enforcement by the CBR from October 1, 2013. Future alterations to the capital adequacy standards under Basel II or Basel III (or CBR regulations implementing Basel II or Basel III in the Russian Federation) with regard to limits on the deployment and use of capital may require the Group to maintain higher capital levels or limit the use of significant portions of its capital, which could have a material adverse effect on VTB’s and/or the Group’s business, financial condition, results of operations and prospects.

Requirements imposed by regulators, including capital adequacy requirements, are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom the Group deals. These requirements are not designed to protect the holders of the Notes. Consequently, these regulations may limit the Group’s activities, including its lending, and may increase the Group’s costs of doing business, or require the Group to seek additional capital in order to maintain CBR capital adequacy requirements or different varieties of funding to satisfy the CBR’s liquidity requirements. In addition, a regulatory breach of guidelines in the Russian Federation could expose the Group to potential liability and other sanctions, including the loss of its general banking licence.

***The Group may fail to comply with applicable legal requirements.***

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

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

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, and the regulatory structure governing the Group's operations is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted. Additionally, as a result of the global financial crisis, certain regulations have been relaxed in order to moderate the effects of the crisis on Russian banks. There can be no assurance that there will not be a strengthening of regulation as a preventative measure against the reoccurrence of a similar crisis in the future. If the enforcement or interpretation of existing regulations were to change or if future regulations were imposed, this could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

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

***Credit Ratings of the Group, the Russian Federation or the Notes could adversely affect the market price of the Notes.***

VTB has been given a long-term rating of "BBB" and short-term rating of "A-3" with stable outlook by S&P. Moody's has assigned VTB an outlook of "Negative" on bank financial strength rating of "D-", "Baa1" long-term local and foreign currency deposits ratings and Baa1/(p)Baa2 senior/subordinated debt ratings. Fitch has assigned VTB a long-term IDR of "BBB" with "Stable" outlook and a viability rating of "bb-".

Since the Russian Federation is the controlling shareholder of the Group, the credit ratings of VTB are supported by those of the Russian Federation. Accordingly, any downgrades of the credit ratings of the Russian Federation could result in a downgrade of VTB's credit ratings. The Russian Federation has been assigned a "BBB/A-2" foreign currency long and short-term sovereign credit rating and a "BBB+/A-2" local currency long and short-term sovereign credit ratings with a stable outlook by S&P. Fitch has assigned the Russian Federation a long term foreign and local currency IDR of "BBB" "Stable". In March 2012, Fitch expressed concerns about the development of Russian economy and public finances, stating that in the absence of fiscal tightening that significantly cuts the non-oil and gas fiscal deficit, a severe and sustained drop in the oil price would have a damaging impact on the Russian economy and public finances and would likely lead to a downgrade.

A security rating is not the recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. Ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. Ratings also do not address the marketability of the Notes at any market price. The significance of each rating should be analysed independently from any other rating. Any negative change in the Group's, the Russian Federation's or the Notes' credit rating could materially adversely affect the market price of the Notes.

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

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

Any discussion of matters relating to the Russian Federation in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

### **Risks Relating to the Russian Federation**

***Changes in government policy, other government actions or political tensions within the Russian Federation could adversely affect the value of investments in the Russian Federation.***

Emerging markets such as the Russian Federation are subject to heightened volatility based on political and economic conflicts. Any disruption or reversal of reform policies or any recurrence of political or governmental instability or significant and recurring terrorist attacks may lead to a deterioration in the Russian Federation's investment climate and trading volatility, which could materially adversely affect the Group's ability to raise equity or debt capital in the international markets, as well as its business, financial position, results of operations and prospects. See also “—Domestic and regional political conflicts could create an uncertain operating environment that could adversely affect the Group's business and hinder its long-term planning ability”, “—Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity” and “—Russian tax law and practice are not fully developed and are subject to frequent changes”.

Although the political situation in the Russian Federation has stabilised since 2000, future political instability could result in deterioration of economic conditions, including capital flight and a slowdown of investment and business activity. Following Russian parliamentary elections in December 2011 and controversy concerning alleged voting fraud in favour of the current ruling party, United Russia, as well as the presidential elections in March 2012, there have been organised protests in several Russian cities, including several sizeable protests in the Russian capital. Future shifts in governmental policy and regulation in the Russian Federation could also lead to political instability and disrupt or reverse political, economic and regulatory reforms, which could have a material adverse impact on the value of investments relating to the Russian Federation, and the Notes in particular, as well as on VTB and/or the Group's business, its ability to obtain financing in the international markets and its financial position or prospects.

***The actions of Russian legislative, executive and judicial authorities can affect the Russian securities market and consequently the Group's business, financial condition, operating results and prospects.***

The actions of Russian legislative, executive and judicial authorities can affect the Russian securities market as well as banks and other businesses operating in the Russian Federation. In particular, the events surrounding claims brought by the Russian authorities against several major Russian companies, have led to questions being raised regarding the progress of market and political reforms in the Russian Federation and have resulted in significant fluctuations in the market price of Russian securities and a negative impact on foreign direct and portfolio investment in the Russian economy, over and above the general market turmoil recently. Any similar actions by the Russian authorities that result in a further negative effect on investor confidence in the Russian Federation's business and legal environment could have a further material adverse impact on the Russian securities market and the price of Russian securities or securities issued or backed by Russian entities, including the Notes.

***Domestic and regional political conflicts could create an uncertain operating environment that could adversely affect the Group's business and hinder its long-term planning ability.***

The Russian Federation consists of 83 regions (known as **subjects**) of the federation, some of which exercise considerable autonomy in their internal affairs. In certain areas, the division of authority between federal and regional governmental authorities remains uncertain. The lack of consensus between local and regional authorities and Government authorities may result in political instability and may have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects and impair the Group's ability to fulfil its financial obligations. However, the recent amendments to Russian legislation whereby heads of regions are nominated by the President of the Russian Federation and appointed by regional legislatures (instead of direct election by the population) are designed to minimise conflict between federal and regional authorities and secure stability across the Russian Federation.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, both internally and with other countries. Russian military and paramilitary forces have been engaged in the Chechen Republic in the recent past and continue to maintain a presence there. In addition, various acts of terrorism have been committed in population centres within the Russian Federation. Moreover, in August 2008, the Russian Federation and Georgia were involved in an armed conflict. The conflict ended with Russian recognition of the independence of South Ossetia and Abkhazia. Russian stock exchanges experienced heightened volatility, significant overall price declines and capital outflow following these events. The risks associated with these events or potential future events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects. Furthermore, differing views on the Georgia conflict have had an impact on the relationship between the Russian Federation, the EU, the United States and certain former Soviet Union countries and, if prolonged, could adversely affect business relationships among these countries and adversely affect the Russian economy, and thereby also the Group's operating environment.

***Lack of investor confidence in the Russian Federation or the other markets in which the Group operates may have an adverse effect on the Group's ability to attract future capital, as well as on its financial condition and prospects.***

The availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole. Any factors that affect market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could adversely affect the price or availability of funding for entities within any of these markets, including the Group.

In addition, future acts of terrorism or armed conflicts in the Russian Federation or internationally could have a material adverse impact on the financial and commodities markets and the global economy. As the Russian Federation produces and exports large amounts of crude oil and gas, any acts of terrorism or

armed conflicts causing disruptions of Russian oil and gas exports could negatively affect the Russian economy and also lead to a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

***If the Russian Federation were to return to heavy and sustained inflation, the Group's results of operations could be adversely affected.***

The inflation rate ("CPI") in the Russian Federation measured by Rosstat was approximately 9% in 2006, 12% in 2007 and 13% in 2008. As a result of the overall reduction of business activity, rising unemployment and a fall in consumption and investment during the global financial crises, the inflation rate in both 2009 and 2010 was 8.8%. In 2011, inflation in the Russian Federation was 6.1%, according to Rosstat data.

Despite this recent reduction, a short-term return to high and sustained inflation is possible. Any return to high and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and an erosion of consumer confidence. Any one of these events could lead to decreased demand for the Group's products and services and result in a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

***Exchange rates, exchange controls and repatriation restrictions could adversely affect the value of investments in the Russian Federation.***

The ruble remains largely non-convertible outside the Russian Federation. A market exists within the Russian Federation for the conversion of rubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. From August 1, 2008 to January 1, 2012, the Russian Federation's foreign currency and gold reserves decreased from U.S.\$596.6 billion to U.S.\$498.6 billion. Although the Russian Federation's current foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not further deteriorate in the medium or long term due to the lack of foreign currency funding available in the global markets. The lack of growth of the Russian currency market in the medium or long term may result in a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

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

The Russian legal framework applicable to a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code, by other federal laws and by decrees, orders and regulations issued by the President, the Government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap with or contradict one another. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian law and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian law often leaves substantial gaps in the regulatory infrastructure.

Among the risks of the current Russian legal system are: inconsistencies among federal laws, decrees, orders and regulations issued by the President, the Government, federal ministries and regulatory authorities and regional and local laws, rules and regulations; the limited judicial and administrative guidance on interpretations of Russian law; substantial gaps in the regulatory structure due to delay or absence of implementing legislation; the relative inexperience of certain judges in interpreting new principles of Russian law, particularly business and corporate law; the possibility that certain judges may be susceptible to economic, political or nationalistic influences; a high degree of discretion on the part of governmental authorities; and bankruptcy procedures that are not well developed.

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

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

The Civil Code, the Russian Federal Law “On Joint Stock Companies” No. 208-FZ dated December 26, 1995, as amended (the “**Joint Stock—Companies Law**”), and the Russian Federal Law “On Limited Liability Companies” No. 14-FZ dated February 8, 1998, as amended, provide that shareholders in a Russian joint stock company or members of a Russian limited liability company generally are not liable for the company’s obligations and bear only the risk of loss of their investment. Shareholder liability may arise, however, if one person (the “**Effective Parent**”) can give binding instructions to another person (the “**Effective Subsidiary**”). In addition, the Effective Parent bears secondary liability for the obligations of an Effective Subsidiary that becomes insolvent or bankrupt due to the Effective Parent’s actions or inactions. In addition, in accordance with the recent amendments to the Federal Law “On Insolvency (Bankruptcy) of Credit Organisations” No. 40 FZ dated February 25, 1999 (as amended, replaced or superseded from time to time) (the “**Insolvency Law**”) a bank’s shareholders in certain defined circumstances could be liable for the bank’s debt incurred after the occurrence of any indications of bankruptcy. Accordingly, VTB could be liable for the debts of subsidiaries owned more than 50%, or otherwise controlled, by VTB, which could adversely affect its operating results and financial condition.

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

VTB and the Russian subsidiaries of the Group are subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to, corporate income tax, value added tax (“**VAT**”), property tax, compulsory insurance payments and other taxes.

Laws related to these taxes, such as the Tax Code of the Russian Federation (the “**Tax Code**”), have been in force for a short period of time relative to tax laws in more developed market economies. Historically, the system of tax collection in the Russian Federation has been relatively ineffective, resulting in continual changes in the interpretation of the existing laws by various authorities.

Although the Russian Federation’s tax climate and the quality of tax legislation have generally improved with the introduction of the Tax Code, the possibility exists that the Government may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the business of VTB and the Russian subsidiaries of the Group.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to inconsistent enforcement of these regulations in practice. Furthermore, taxpayers, the Ministry of Finance of the Russian Federation and the Russian tax authorities often interpret tax laws differently. Private clarifications to specific taxpayers’ queries with respect to particular situations issued by the Ministry of Finance of the Russian Federation are not binding on the Russian tax authorities and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private responses issued by the Ministry of Finance of the Russian Federation. During the past several years the tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of companies operating in various industries, including the financial industry.

In practice, taxpayers often have to resort to court proceedings to defend their position against the tax authorities. Court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

The Russian tax system is, therefore, impeded by the fact that, at times, it still relies heavily on the inconsistent judgments of local tax officials and fails to address many of the existing problems. It is, therefore, possible that transactions and activities of VTB and the Russian subsidiaries of the Group that have not been challenged in the past may be challenged in the future.

In its decision of July 25, 2001, the Russian Constitutional Court introduced the concept of “a taxpayer acting in a bad faith” without clearly stipulating the criteria for its application. Similarly, this concept is not defined in the Russian tax law or other Russian laws. Based on the available practice the tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

On October 12, 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53, formulating a concept of “unjustified tax benefit”, which is defined in the Ruling by reference to specific examples of such tax benefits (*eg*, tax benefits obtained as a result of a transaction that has no reasonable business purpose), which may lead to the disallowance of their application. To date, there is little practice on the interpretation and application of this concept by the tax authorities or the courts, but it is apparent that the tax authorities actively seek to apply it when challenging tax positions taken by taxpayers. Although the intention of this Ruling was to combat the abuse of the tax law, based on court cases relating to Ruling No. 53 that have been brought to date, it can be concluded that the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been initially intended by the Supreme Arbitration Court. Importantly, VTB is aware of cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date, however, in many cases where this concept has been applied, the courts have ruled in favour of taxpayers, but there is no assurance that the courts will follow these precedents in the future.

Tax declarations together with related documentation are subject to review and investigation by a number of authorities, which are empowered under Russian law to impose fines and penalties on taxpayers. Generally, tax declarations remain subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that the tax authorities have reviewed a year does not prevent any tax declarations relating to that year from being further reviewed by the tax authorities during the three-year limitation period. In particular, a tax authority higher than the authority that carried out the initial tax audit may re-audit the same period. Therefore, previous tax audits do not preclude subsequent claims relating to the audited period.

In addition, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitation for tax liabilities to be extended beyond the three year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax inspection. The Tax Code provides for the extension of the three-year statute of limitations if the taxpayer actively obstructed the conduct of a tax audit, which created insurmountable obstacles for the tax audit. Because the terms “obstructed”, “hindered” and “insurmountable obstacles” are not specifically defined in Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer, and use that as a basis to seek tax adjustments and penalties beyond the three-year period.

The Group operates in various jurisdictions and includes companies incorporated outside of the Russian Federation. Russian tax laws currently in effect do not provide detailed rules on taxation of foreign companies in the Russian Federation. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities and/or the courts to their interpretation and application, the Group could become subject to additional taxation in the Russian Federation.

These facts create tax risks in the Russian Federation that may be substantially more significant than typically found in countries with more developed tax systems.

Historically, the main Russian entities of the Group have been paying significant amounts of tax due to the scale of their operations. Consequently, the introduction of new taxes or introduction of amendments to the currently effective taxation rules may have a substantial impact on the overall amount of tax liabilities of the respective entities. Although each of the entities concerned undertakes internal procedures aimed at minimising the potential tax risks, while the approach to the management of tax liabilities and tax risks within the Group has been conservative, there is no assurance that the Russian entities of the Group will not be required to make substantially larger tax payments in the future, which may affect the financial results of the Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant additional taxes, fines and penalties and enforcement measures, and could adversely affect the Group's business, financial condition and results of operations.

***New Russian transfer pricing rules may subject the Group's transfer prices to challenge by the Russian tax authorities.***

Transfer pricing legislation became effective in Russia on January 1, 1999. This legislation allowed the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of certain types of transactions ("**controlled transactions**"). There were also special transfer pricing rules for transactions with securities and derivatives. However, Russian transfer pricing rules were not well-developed and there was little guidance and court practice, which left wide room for interpretation by the Russian tax authorities and courts.

Following adoption of Federal Law No 227-FZ dated July 18, 2011, the new Russian transfer pricing rules became effective from January 1, 2012. The new rules are more technically elaborated, detailed and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. According to the new rules, lending transactions of the companies of the Group may fall into the scope of "controlled transactions" if they are performed with Russian related companies (under certain thresholds and conditions), non-Russian related companies (with no thresholds) or non-Russian companies that are resident in certain offshore zones (under certain thresholds). With respect to "controlled transactions", the tax authority may adjust the tax base for corporate profit tax based on the interest rate charged on comparable loans granted between independent parties in comparable circumstances.

The amendments have toughened considerably the previous transfer pricing rules, by, among other things, effectively shifting the burden of proving market prices from the tax authorities to the taxpayer and obliging the taxpayer to keep specific documentation.

The introduction of the new transfer pricing rules may increase the risk of transfer pricing adjustments being made by the tax authorities and, therefore, may have a material impact on VTB's business and the results of operations. It will also require VTB to ensure compliance with the new transfer pricing documentation requirements proposed in such rules.

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

Emerging markets such as the Russian Federation are subject to greater risk than more developed markets, including potentially increased political, economic and legal risks, including that of organised criminal activity and corruption. For example, press reports have described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. Generally, investment in emerging markets is only suitable for sophisticated investors who fully

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

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

Like most of the Russian Federation's legislation on business activities, the Russian Federation's laws on banks and banking activity were adopted in the early 2000s. In addition to Federal Law of July 10, 2002, No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)", as amended (the "**Central Bank Law**") and Federal Law of December 2, 1990 No. 395-I "On Banks and Banking Activity", as amended (the "**Banking Law**"), the Russian Federation has adopted and continues to develop new banking legislation. As a result, current Russian banking regulation remains untested and subject to differing interpretations.

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

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

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

***The Russian corporate governance, public reporting requirements and accounting regulations to which the Group is subject differ significantly from those applicable to comparable companies in other jurisdictions.***

The Group's corporate affairs are governed by the charters of its respective members, their internal regulations and by the laws governing Russian banks and companies incorporated in the Russian Federation. See "*The Banking Sector in the Russian Federation*" and "*Banking Regulation in the Russian Federation*". The rights of shareholders and the responsibilities of members of the supervisory council and management board under Russian law are different from, and may be subject to certain requirements not generally applicable to, companies organised in the United Kingdom, the United States or other jurisdictions. See "*Management*".

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

In addition, despite recent initiatives to improve corporate transparency in the Russian Federation there is less publicly available information about the Group than there is available for comparable banks in, for example, the United Kingdom or the United States. The relatively less transparent nature of corporate governance in the Russian Federation could have a material adverse effect on VTB's and/or the Group's business, financial condition, results of operations and prospects.

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

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

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

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

### **Russian Tax Risks Relating to the Notes**

*Defined terms in this section of the risk factors, entitled "Russian Tax Risks Relating to the Notes", have the meanings given them in the Subordinated Loan Agreement.*

***VTB's payments under the Subordinated Loan and the Issuer's payments under the Notes may be subject to withholding tax.***

In general, interest payments on borrowed funds made by a Russian legal entity or organisation to a non-resident legal entity or organisation are subject to Russian withholding tax at a rate of 20%, unless such withholding is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

VTB believes, based on either (i) arguments supporting the application of benefits under the Agreement between the Russian Federation and Ireland for the Avoidance of Double Taxation with respect to Taxes on Income and on Capital dated April 29, 1994 (the "**Russia Ireland Tax Convention**") or (ii) subject to conditions established by the recent changes to the Tax Code for release from the obligation to withhold Russian withholding tax, that payments of interest to the Issuer on the Subordinated Loan should not be subject to withholding tax.

However, in relation to (i) above, there is a risk that application of the Russia Ireland Tax Convention may be affected by the change in the position of the Russian tax authorities to look beyond the mere legal form of the transaction and through intermediary entities when assessing the availability of treaty

benefits. Such position was reflected in the letter of the Ministry of Finance of the Russian Federation No.03-08<sup>13</sup>/<sub>1</sub> dated December 30, 2011 (the “**Ministry of Finance Letter**”), which is addressed to the Federal Tax Service of the Russian Federation. The Ministry of Finance Letter considers a Eurobond structure and concludes that the issuer of Eurobonds cannot be regarded as the beneficial owner of the interest income because such issuer does not determine “the economic fate of the income received”. Although the Ministry of Finance Letter refers to a deal structure which is different to the structure of the transaction described in this Prospectus, VTB cannot exclude the risk that conclusions made in the Ministry of Finance Letter may be applied by the Russian tax authorities to the payments of interest in respect of the Subordinated Loan which will not allow the application of treaty protection with respect to interest payments made to the Issuer.

However, according to the Tax Code there is a special exemption from the general withholding tax obligation for a Russian organisation or a foreign organisation that operates in Russia through a permanent establishment that pays interest income to a foreign organisation having no permanent establishment in Russia on debt obligations arising in connection with issuance by such foreign organisation of traded bonds, provided that such foreign organisation is tax resident in a jurisdiction having a double tax treaty with Russia and has duly confirmed its tax residency at the date of the relevant payment of interest income. This exemption was introduced by the Law No. 97-FZ of June 29, 2012 and applied with respect to interest income paid on traded bonds issued until January 1, 2014.

The debt obligation is treated as connected with the issuance of traded bonds if it is explicitly stated in the agreement governing the relevant debt obligation, and/or terms and conditions, and/or prospectus of issuance of quoted bonds or if this fact is confirmed by the actual transfer of funds upon the issuance of traded bonds.

For the purpose of the above exemption, the term “traded bonds” means bonds and other debt obligations listed and/or traded on one or several foreign stock exchanges and/or rights to which are recorded by recognised depository clearing organizations, provided such foreign stock exchanges and depository clearing organizations are specified in a list approved by the Federal Authority for Securities Markets in consultation with the Ministry of Finance of Russia. Until such list is announced, the term “traded bonds” means bonds and other debt obligations listed and/or traded on one or several foreign stock exchanges and/or rights to which are recorded by recognised depository clearing organizations. Confirmation that the bonds are traded can be obtained from information provided by foreign stock exchanges, depository clearing organisations, offering memoranda or other documents related to the issue of the bonds or publicly available information.

VTB believes, based on the professional advice it has received, that the Subordinated Loan and the Notes should be treated as debt obligations within the meaning of the Tax Code. However, given that the Notes have no fixed redemption date and may only be redeemed in specific situations as outlined under “Terms and Conditions of the Notes”, there is some risk that the Russian tax authorities may seek to challenge the treatment of the Notes as “traded bonds” for purposes of the above exemption and deny application of the exemption on that basis.

However, if the Notes are simultaneously (i) delisted from the Irish Stock Exchange and (ii) exchanged for duly executed and authenticated registered Notes in definitive form in the limited circumstances specified in the Global Notes, the above exemption will not apply and VTB will be required to withhold Russian withholding income tax from interest payments made by VTB to the Issuer.

It should be noted that Law No. 97-FZ of June 29, 2012, does not provide an exemption from Russian withholding tax for foreign recipients of interest income. Although currently there is no requirement in the Russian tax legislation for foreign income recipients which are legal entities to self-assess and pay tax to the Russian tax authorities, there can be no assurance that such rules will not be introduced in the future.

Upon any enforcement by the Trustee of the security granted to it by the Issuer by way of the security interests in the Trust Deed, payments under the Subordinated Loan Agreement (other than in respect of Reserved Rights (as defined in the Terms and Conditions of the Notes)) would be required to be made to, or to the order of, the Trustee.

There is uncertainty if the Borrower will be released from an obligation to withhold the Russian withholding tax from interest payments made to the Trustee. In such a case under Russian tax law, payments of interest and other payments made by VTB to the Trustee may in general be subject to Russian withholding tax at a rate of 20% (or, potentially, at a rate of 30% with respect to Noteholders that are individuals).

It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. In this case, VTB may be required to gross-up the amount of interest in such circumstances. While in theory it may be possible for some Noteholders who are eligible for an exemption from Russian withholding tax (or reduction of the tax rate) under double tax treaties to claim a refund of tax withheld, there would be considerable practical difficulties in obtaining such a refund.

If payments under the Subordinated Loan Agreement are subject to any withholding taxes (as a result of which payments under the Notes would be reduced in the amount of such withholding taxes), VTB is obliged (subject to certain conditions) to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding for on-payment to Noteholders. However, it is currently unclear whether the provisions of the Subordinated Loan Agreement obliging VTB to gross-up payments will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that payments made by VTB under the Subordinated Loan Agreement will be reduced by Russian withholding tax withheld by VTB at a rate of 20% (or, potentially, at a rate of 30% in respect of non-resident Noteholders that are individuals), or such other rate as may be in force at the time of payment. See “*Taxation*”.

Interest on the Subordinated Loan is deductible by VTB for Russian corporate profits tax purposes subject to the general deductibility rules and criteria established by the Tax Code. See “*Taxation—Russian Taxation—Taxation of Interest on the Subordinated Loan*”.

The Subordinated Loan Agreement provides that if, (i) as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application), in the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in the Trust Deed, VTB would thereby be required to make or increase any payment due under the Subordinated Loan Agreement or if (for whatever reason) VTB would have to or has been required to pay additional amounts pursuant to Clause 9 of the Subordinated Loan Agreement, and such additional amounts cannot be avoided by VTB taking reasonable measures available to it, or (ii) Interest payable on the Subordinated Loan when paid would not be deductible by VTB for Russian corporate profits tax purposes, in an amount greater than the product of the principal amount of the Subordinated Loan multiplied by the difference between (a) the Interest Rate and (b) the CBR Refinancing Rate, multiplied by 0.8 and adjusted for the Interest Period, then VTB may (without penalty), if it obtains the prior written consent of the CBR, upon not less than 10 days’ written notice to the Lender (which notice shall be irrevocable) and the Trustee, prepay the Subordinated Loan in whole (but not in part) at 100% of the principal amount thereof (resulting in the early redemption of the Notes at par pursuant to the Terms and Conditions of the Notes).

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

Where proceeds from a disposal of the Notes are received from a source within the Russian Federation by an individual non-resident Noteholder, withholding tax would be charged at a rate of 30% on gross proceeds from such disposal of the Notes, less any available documented cost deductions (including the acquisition cost of the Notes). There is no assurance that advance double tax treaty relief would be

granted to non-resident Noteholders who are individuals, and obtaining a refund can involve considerable practical difficulties.

The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “Taxation”.

### **Risks Relating to the Further Notes**

*Defined terms in this section of the risk factors, entitled “Risks Relating to the Notes”, have the meanings given them in the Subordinated Loan Agreement.*

#### ***The Further Notes are a novel form of security and may not be a suitable investment for all investors***

The Further Notes are a novel form of security. As a result, an investment in the Further Notes will involve certain increased risks. Each potential investor in the Further Notes must determine the suitability of such investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Further Notes, the merits and risks of investing in the Further Notes and the information contained or incorporated by reference in this Prospectus;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Further Notes and the impact the Further Notes will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Further Notes, including where the currency for principal or interest payments is different from the potential investor’s currency;
- (d) understand thoroughly the terms of the Further Notes, such as the provisions governing a write down, calculation of the N1 Ratio, under what circumstances a Trigger Event, Capital Adequacy Event or a Loss Absorption Event will or may be deemed to occur, and be familiar with the behaviour of any relevant financial markets and their potential impact on the likelihood of certain events under the Further Notes occurring; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Further Notes are novel and complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Further Notes unless it has the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Further Notes will perform under changing conditions, the resulting effects on the likelihood of a write-down and the value of the Further Notes, and the impact this investment will have on the potential investor’s overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus or incorporated by reference herein.

#### ***VTB’s obligations under the Subordinated Loan Agreement are subordinated***

The claims of the Issuer in respect of principal of, and interest on, the Subordinated Loan will:

- (a) be subordinated upon the occurrence of a Bankruptcy Event to the claims of (i) all Senior Creditors in accordance with the Federal Law “On Insolvency (Bankruptcy) of Credit Organisations” No. 40-

FZ dated February 25, 1999 (as amended, replaced or superseded from time to time) (the “Insolvency Law”) and (ii) all Senior Subordinated Creditors in accordance with the terms of the Subordinated Loan Agreement;

- (b) rank at least *pari passu* with the claims of other Junior Subordinated Creditors; and
- (c) be senior to the claims of holders of VTB’s Capital Stock in their capacity as shareholders.

By virtue of this subordination, payments to the Issuer in respect of the Subordinated Loan will, in the case of a Bankruptcy Event, only be made after all payment obligations of VTB ranking senior to the Subordinated Loan have been satisfied. Consequently, VTB’s assets will be available to satisfy its obligations under the Subordinated Loan Agreement only after the claims of all senior ranking creditors have been satisfied in full. Such remaining assets may not be sufficient to satisfy VTB’s obligations under the Subordinated Loan. There is a significant risk that an investor in Further Notes will lose all or some of its investment in the case of a bankruptcy or insolvent liquidation of VTB.

In addition, by virtue of its execution of the Subordinated Loan Agreement, the Issuer shall be deemed to have waived any right of set-off, compensation or retention in respect of any amount owed to it by VTB under or in connection with the Subordinated Loan Agreement.

The Subordinated Loan Agreement does not limit VTB’s ability, or the ability of any other entity in the Group, to incur additional indebtedness, including indebtedness that ranks senior to, or *pari passu* with, the Subordinated Loan in priority of payment.

As provided in the Trust Deed, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any indebtedness for borrowed moneys other than the Notes, except that it may issue additional loan participation notes (with limited recourse to the Issuer) in the future for the sole purpose of financing loans to VTB.

In each case, the incurrence of any such additional indebtedness may reduce the amount recoverable by Noteholders in the case of a bankruptcy or liquidation of VTB.

As of June 30, 2012, VTB had RUB 795.7 billion of senior long-term debt, in addition to indebtedness incurred in the ordinary course of its banking business, such as deposits. VTB anticipates that, from time to time, it will incur additional indebtedness, including unsubordinated indebtedness.

### ***The Subordinated Loan may be subject to loss absorption measures***

The Subordinated Loan Agreement provides that, if:

(1) (i) a Loss Absorption Event has occurred and is continuing; and (ii) all sources of Tier 1 Capital (other than the Loan and other Loss Absorbing Instruments) (“**Other Tier 1 Capital**”) have been exhausted to offset losses or (2) all sources of tier 1 capital as defined in accordance with Basel standards as applied by VTB for the purpose of calculating the Basel tier 1 capital at such time on a consolidated basis for the Group (other than the Subordinated Loan and the other additional tier 1 capital instruments that comply with the requirements of Basel standards as applied by VTB for the purpose of calculating the Basel tier 1 capital at such time and ranking *pari passu* with the Loan) (“**Other Basel Tier 1 Capital**”), as disclosed in the notes to the then latest audited consolidated financial statements prepared under IFRS have been exhausted to offset losses, the Loan shall be promptly used by VTB to offset losses.

Such loss absorption measures may be implemented on more than one occasion and the Subordinated Loan may be written down in whole or in part on more than one occasion. Once the principal amount of the Subordinated Loan has been written down, except as contemplated in Clause 7.4 of the Subordinated Loan Agreement (“**Potential Reinstatement**”), the relevant amount written down will not be

restored in any circumstances including where the relevant event(s) giving rise to the write down cease to continue. Consequently, investors may lose all or part of their investment following the occurrence of a Loss Absorption Event. Clause 7.4 of the Subordinated Loan Agreement provides for the ability to introduce reinstatement provisions into the Subordinated Loan Agreement following changes to Russian law, and such Potential Reinstatement would be subject, *inter alia*, to compliance with Russian law and regulatory approval.

To the extent that part of the principal amount of the Subordinated Loan has been written down, interest will continue to accrue only on the then outstanding principal amount (as so written down) of the Subordinated Loan. Consequently, the amount of interest payable (if any) on the Notes will be correspondingly smaller following implementation of the loss absorption measures.

***Interest may be cancelled and is non-cumulative***

Subject to a Compulsory Interest Payment Event not having occurred within the six month period immediately preceding an Interest Payment Date, payment of interest under the Subordinated Loan on any such Interest Payment Date is at the sole discretion of VTB. VTB may (subject to the requirements set out in Clause 4.4.1 of the Subordinated Loan Agreement) elect to cancel all or any part of any payment of interest which is otherwise scheduled to be paid on such an Interest Payment Date. VTB may make such election at its sole discretion and for any reason.

In addition, VTB shall not pay all or any part of the interest under the Subordinated Loan falling due on any Interest Payment Date in circumstances where (a) a Trigger Event exists on or immediately prior to such Interest Payment Date or (b) after the payment of interest on such Interest Payment Date, a Capital Adequacy Event would occur.

Any interest under the Subordinated Loan which is not paid on any Interest Payment Date as a result of the foregoing events is cancelled and shall not accumulate or be payable at any time thereafter. None of the Issuer, the Trustee or any Noteholder shall have any right to such cancelled interest amounts whether in a bankruptcy or dissolution of VTB or otherwise, and such non-payment shall not constitute an event entitling the Issuer to accelerate the Subordinated Loan.

Furthermore, if interest under the Subordinated Loan is not paid on any Interest Payment Date (at VTB's election or otherwise), this will not give rise to any restriction on VTB or any other entity in the Group with respect to payments to the holders of any obligations ranking *pari passu* with the Subordinated Loan.

***Payments of principal or interest may be deferred***

The CBR has the right to require deferral of payments of principal of, and/or interest on, the Subordinated Loan by VTB (whereupon VTB shall be obliged to defer such payments) if the making of payments would give rise to a Trigger Event (a "**Deferral Event**"). The amount of any deferred payment shall not become due and payable in respect of the Subordinated Loan until the earliest of (i) the seventh day after notice of the cessation of the Deferral Event has been given by VTB to the Issuer and the Trustee. Neither VTB nor the Issuer will have any obligation to pay interest on any payment so deferred, (ii) the occurrence of any event as described in Clauses 12.1 or 12.2 of the Subordinated Loan Agreement and (iii) repayment in accordance with Clauses 5.2 or 5.3.

***Trigger Events***

The term "Trigger Event" underlies the features described under "*The Subordinated Loan may be subject to loss absorption measures*", "*Interest may be cancelled and is non-cumulative*" and "*Payments of principal or interest may be deferred*". It is defined in the Subordinated Loan Agreement to refer to any of the grounds for the implementation of measures for prevention of bankruptcy of credit organisations as provided by the Insolvency Law. See "*Banking Regulation in the Russian Federation*".

It is possible that any future change in, or replacement of, the Insolvency Law could mean that the grounds that constitute Trigger Events may change (including that additional grounds are introduced). Accordingly, the operation of any such future legislation may have an adverse effect on the position of holders of the Further Notes.

***The Subordinated Loan Agreement may become subject to variation without consent for Tier 1 compliance***

As more fully described in Clause 2.7 of the Subordinated Loan Agreement, if, as a result of any amendment or supplement to, clarification or replacement of, or change in (including a change in interpretation or application of), CBR Regulation No.215-P dated February 10, 2003 “*On the method of determination of own funds (capital) of credit organisations*” (as amended, supplemented or replaced from time to time) or any other applicable requirements from time to time of the CBR made to implement the Basel III Documents, all or part of the principal amount of the Subordinated Loan outstanding at such time would cease to qualify as Tier 1 Capital, VTB may (at its discretion) elect to vary the terms of the Subordinated Loan Agreement, without any requirement for the consent or approval of the Issuer, the Trustee or any Noteholder, so that:

- (a) **Non-viability loss absorption:** the Subordinated Loan contains a provision implementing requirements applicable for non-viability loss absorption of instruments qualifying as Tier 1 Capital issued by banks through a full or partial write-down of the then outstanding amount of the Subordinated Loan;
- (b) **N1 Ratio loss absorption:** the existing loss absorption measures in Clause 7 of the Subordinated Loan Agreement are amended to provide for a full or partial write down (by the minimum amount required to comply with the CBR regulations in relation to the amount to be written down which are applicable at the time of the amendment) of the then outstanding amount of the Subordinated Loan when the N1 Ratio of VTB at such time is below the lower of (i) 75% of the minimum required N1 Ratio and (ii) such other lower value of the N1 Ratio applicable to Loss Absorbing Instruments in accordance with rules and regulations applicable to VTB at such time, calculated under rules and regulations then applicable to VTB (see “*Noteholders will bear the risk of deterioration of the capital ratios of VTB*”);
- (c) **Undated term:** the Subordinated Loan becomes perpetual;
- (d) **Ranking:** the existing subordination provisions in Clause 3 of the Subordinated Loan Agreement reflect any changes to the required status of Tier 1 Capital, provided that the claims of the Issuer against VTB in respect of the Subordinated Loan shall continue to be senior to the claims of holders of VTB’s Capital Stock in their capacity as shareholders; and/or
- (e) **Discretionary coupons:** VTB’s discretion to elect to cancel interest is applicable in respect of all Interest Payment Dates (and not only in respect of Optional Interest Payment Dates),

in each case, once and only if, and to the extent that, such changes are required by the CBR so that the Subordinated Loan Agreement becomes or (as appropriate) remains a loan agreement that complies with the then current requirements of the CBR in relation to Tier 1 Capital and, in respect of (b) above, only if the N1 Ratio of VTB at the time of the variation of the terms of this Agreement is at least 1% above the minimum requirement for the N1 Ratio applicable to VTB.

Changes to the loss absorption measures under the Subordinated Loan Agreement of a kind described in (a) or (b) above may increase the risk to investors that they may lose all or part of their investment in the Further Notes.

In the case of an amendment of the kind described in (d) above, the claims of the Issuer in respect of principal of, and interest on, the Subordinated Loan could, on the occurrence of a Bankruptcy Event, rank

more junior than they do as at the original date of the Subordinated Loan Agreement if such a change in priority of payment is required to be made in order to comply with the rules and regulations then applicable to VTB. In such circumstances, it is possible that other creditors of VTB that are Junior Subordinated Creditors prior to the amendment may then rank senior to the Subordinated Loan in priority of payments following such amendment.

In the case of an amendment of the kind described in (e) above, VTB would be able to elect to cancel interest payments under the Subordinated Loan on Interest Payment Dates that otherwise would have been Compulsory Interest Payment Dates. This would mean that the occurrence of a Compulsory Interest Payment Event during the six months immediately preceding the Interest Payment Date would not, of itself, oblige VTB to pay interest scheduled to be paid under the Subordinated Loan on that Interest Payment Date.

***Perpetual Securities, limited acceleration events and prepayment (redemption) rights***

The Further Notes are perpetual securities that have no scheduled repayment date. Holders of Further Notes have no ability to require VTB to prepay the Subordinated Loan or the Issuer to redeem the Notes.

Acceleration of VTB's obligation to repay principal of, and any accrued interest on, the Subordinated Loan will only occur in the limited circumstances set out in Clause 12.2 of the Subordinated Loan Agreement (see also "Restricted remedies" below).

VTB has the option to prepay the Subordinated Loan in certain circumstances and, in each case, subject to certain conditions having been satisfied, as more particularly set out in Clauses 5.2 and 5.3 of the Subordinated Loan Agreement.

This means that Noteholders have no ability to cash in their investment in any Notes, except:

- (a) if VTB exercises its right to prepay the Subordinated Loan, in which circumstances such Notes will be redeemed prior to their scheduled maturity date, or purchases such Notes;
- (b) if permitted following an Acceleration Event by proving for such debt, and claim, in respect of such Notes in any liquidation of VTB;
- (c) by selling such Notes; or
- (d) at the scheduled maturity date for such Notes (but subject to such maturity date of the Subordinated Loan not having been extended in accordance with Clause 5.5 of the Subordinated Loan Agreement and/or the Subordinated Loan not having been amended to become perpetual—see the risk factor entitled "Variation without consent for Tier 1 compliance").

There can be no assurance that Noteholders will be able to reinvest the amount received upon any redemption of the Notes at a rate that will provide the same rate of return as their investment in the Further Notes.

***Restricted remedies***

The only remedies against VTB available to the Issuer will be:

- (a) for recovery of amounts of principal or interest owing in respect of the Subordinated Loan, the institution of proceedings for the insolvency (bankruptcy) of VTB and/or proving for such debt, and claim, in any consequent liquidation of VTB;
- (b) upon the bankruptcy or liquidation of VTB or the revocation of VTB's general banking licence, to take any actions in the manner and to the extent contemplated by the applicable law of the Russian

Federation to prove for its debt and/or, to the extent applicable, commence liquidation or winding up proceedings of VTB; or

- (c) to enforce any obligation, condition or provision binding on VTB under this Agreement (other than any obligation for payment of any principal or interest in respect of the Subordinated Loan), to institute such other proceedings against VTB as it may think fit,

in each case, as more particularly set out in Clause 12 of the Subordinated Loan Agreement. In a bankruptcy of VTB, however, the Issuer's claim in respect of the Subordinated Loan would be subordinated to the claims of Senior Creditors and Senior Subordinated Creditors (see "*VTB's obligations under the Subordinated Loan Agreement are subordinated*").

***Prepayment and variation of the Subordinated Loan may require the consent of the CBR***

Certain provisions of the Subordinated Loan Agreement providing for the prepayment of the Subordinated Loan or variation of its terms is subject to the prior written consent of the CBR which is in line with the requirements of Regulation No. 215-P. There can be no guarantee that the consent of the CBR will be received on time and that VTB will be able to prepay the Subordinated Loan in accordance with relevant provisions of the Subordinated Loan Agreement or that VTB will be able to amend the terms of the Subordinated Loan as envisaged by the Subordinated Loan Agreement.

***Noteholders will bear the risk of deterioration of in the capital ratios of VTB***

The market price of the Notes is expected to be affected by fluctuations in the total capital adequacy ratio of VTB since the proportions and types of capital instruments issued directly or indirectly by VTB may vary from time to time, as may the amount and basis of calculation of the Group's risk weighted assets and capital adequacy. Any indication that the total capital adequacy ratio of VTB is trending towards a Capital Adequacy Event may have an adverse effect on the market price of the Notes. The level of the total capital adequacy ratio may significantly affect the trading price of the Notes.

In addition, it should be expected that the market price of the Notes will be similarly affected by other regulatory capital ratios applicable to VTB, such as the N1 Ratio, and the Group if the Subordinated Loan Agreement has been amended pursuant to Clause 2.7 (see "*The Subordinated Loan Agreement may become subject to variation without consent for Tier 1 compliance*") such that the loss absorption measures in Clause 2.7.2 of the Subordinated Loan Agreement refer to a capital ratio trigger described in Clause 2.7.2 of the Subordinated Loan Agreement, which provision would rely on the N1 Ratio of VTB. In particular, any indication that the N1 Ratio is trending towards the thresholds described in Clause 2.7.2 may have an adverse effect on the market price of the Notes. The N1 Ratio is calculated on the basis of tier 2 capital as well as Tier 1 Capital and will therefore decrease to the extent tier 2 capital is not re-financed, when called, matures or amortises. As of October 1, 2012, the N1 ratio was 12.1%, which exceeded the minimum capital ratio required at that date of 10%. One of the possible loss absorption triggers contemplated by Clause 2.7.2 of the Subordinated Loan Agreement is when VTB's N1 Ratio is below 75% of the minimum required N1 Ratio at the time of an amendment to the Subordinated Loan Agreement under Clause 2.7.2. Since no tier 2 capital in excess of Tier 1 Capital is permitted to be counted towards the calculation of the N1 Ratio, losses sustained by VTB will decrease not only the Tier 1 Capital component of the N1 Ratio but also the tier 2 capital component of the N1 Ratio on a proportionate basis. Therefore, the existing margin at the issue date may be subject to significant deterioration after the issue date if VTB incurs losses and any decrease in such margin will result in a corresponding increase in the likelihood of Noteholders losing all or part of their investment in the Further Notes.

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

The Issuer is only obliged to make payments under the Notes to Noteholders in an amount equal to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or

for the account of the Issuer from VTB pursuant to the Subordinated Loan Agreement less any amounts in respect of the Reserved Rights. Consequently, if VTB fails to meet its payment obligations under the Subordinated Loan Agreement in full or any such payment obligations are determined to be unenforceable in the Russian Federation, this will result in the Noteholders receiving less than the scheduled amount of principal, interest and additional amounts (if any) on the relevant due date.

***There is no direct recourse of Noteholders to VTB.***

Except as otherwise expressly provided in the “Terms and Conditions of the Notes” and in the Trust Deed, the Noteholders will not have any proprietary or other direct interest in the Issuer’s rights under or in respect of the Subordinated Loan Agreement. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Subordinated Loan Agreement, or have direct recourse to VTB except through action by the Trustee under the Charge (as defined in the “*Terms and Conditions of the Notes*”) or any assignment of rights, including any rights under the Assignment.

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

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

The Original Notes have been and the Further Notes are expected to be admitted to the Official List of the Irish Stock Exchange and the Official List of the UK Listing Authority and admitted to trading on the Main Securities Market and the Regulated Market. However, there can be no assurance that a liquid market will develop for the Further Notes, that the holders of the Further Notes will be able to sell their Further Notes, or that such holders will be able to sell their Further Notes for a price that reflects their value.

***Examiners, Preferred Creditors under Irish Law and Floating Charges May Impose Additional Risks on an Investment in the Notes.***

***COMI***

The Issuer has its registered office in Ireland. As a result there is a rebuttable presumption that its centre of main interest (“**COMI**”) is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (“ECJ”) in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of May 29, 2000 on Insolvency Proceedings, that the place of a company’s registered office is presumed to be the company’s COMI and stated that the presumption can only be rebutted if “*factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect*”. As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision. If the Issuer’s COMI is not located in Ireland, and is held to be in a different jurisdiction within the European Union, Irish insolvency proceedings would not be applicable to the Issuer.

***Examinership***

Examinership is a court procedure available under the Irish Companies (Amendment) Act 1990, as amended (the “**1990 Act**”), to facilitate the survival of Irish companies in financial difficulties.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner.

The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, negative pledges given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the Irish High Court when a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals and the Irish High Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

The fact that the Issuer is a special purpose entity and that all its liabilities are of a limited recourse nature means that it is unlikely that an examiner would be appointed to the Issuer.

If however, for any reason, an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- (i) the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and
- (ii) a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

### ***Preferred Creditors***

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

- (i) under the terms of the Trust Deed, the Issuer will charge to the Trustee on behalf of Noteholders by way of first fixed charge (the “**Charge**”) as security for its payment obligations in respect of the Notes certain rights under the Subordinated Loan Agreement and to the Account. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE and VAT;
- (ii) under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and
- (iii) in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

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

Based on the present nature of its activities, including the planned offering, and the present composition of its assets and sources of income, the Issuer expects to become a passive foreign investment company (a “**PFIC**”) for the current year and the foreseeable future. Although not free from doubt, VTB does not expect to be treated as a PFIC for its current taxable year or the foreseeable future. However, the determination of whether VTB is a PFIC is a factual determination made annually after the end of each taxable year, and it is possible that VTB may be treated as a PFIC in any taxable year. The Issuer’s status as a PFIC for any taxable year during which a United States investor holds a Note may result in certain adverse United States federal income tax consequences for the United States investor. If VTB were a PFIC in any taxable year, similar adverse US federal income tax consequences could result for such investors with respect to their attributed interest in VTB. See “Taxation—Certain United States Federal Income Tax Considerations—Passive foreign investment company rules.”

***U.S. Foreign Account Tax Compliance withholding may affect payments on the Notes***

Sections 1471 through 1474 of the U.S. Internal Revenue Code (“**FATCA**”) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to any non-U.S. financial institution (a foreign financial institution, or “**FFI**” (as defined by FATCA)) that does not become a “**Participating FFI**” by entering into an agreement with the U.S. Internal Revenue Service (“**IRS**”) to provide certain information on its account holders or is otherwise exempt. The new withholding regime will be phased in beginning in 2014.

The Issuer expects to be treated as an FFI, and no assurance can be provided that the Issuer will enter into such an agreement with the IRS. If the Issuer does not enter into such an agreement, the Issuer may be subject to a 30% withholding tax on all, or a portion of all, payments received from U.S. sources and from Participating FFIs (which may include payments on the Subordinated Loan).

In the alternative, if the Issuer becomes Participating FFI, holders may be required to provide certain information or otherwise comply with FATCA to avoid withholding on amounts paid on the Notes to such holders. The Issuer or other Participating FFIs or U.S. intermediaries through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30% on all, or a portion of, payments made after December 31, 2016. Such withholding would apply if the Issuer has a positive “passthru payment percentage” (as determined under FATCA) and (a) an investor does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States Account” of such Participating FFI, or (b) any FFI that is an investor, or through which payment on the Notes is made, is not a Participating FFI. If an amount in respect of FATCA withholding tax is deducted or withheld from interest, principal or other payments on the Notes, the terms of the Notes will not require any person to pay additional amounts as a result of the deduction or withholding of such tax.

As a result of either withholding against the Issuer or withholding on the Notes, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations and official guidance that is subject to change. Noteholders should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

The Group's financial information set forth herein has, unless otherwise indicated, been extracted without material adjustment from its unaudited interim condensed consolidated financial statements as of June 30, 2012 and for the six months then ended (the "**Interim Condensed Consolidated IFRS Financial Statements**") and from its audited consolidated financial statements as of and for the years ended December 31, 2011, 2010 and 2009 (the "**Annual IFRS Financial Statements**" and, together with the Interim Condensed Consolidated IFRS Financial Statements, the "**IFRS Financial Statements**"), as incorporated by reference into this Prospectus (see "*Documents Incorporated by Reference*"), prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board. The Group's financial information that has been extracted from the IFRS Financial Statements is presented in this Prospectus in rubles.

### Auditors

The Annual IFRS Financial Statements have been audited in accordance with International Standards on Auditing by CJSC Ernst & Young Vneshaudit ("**Ernst & Young**"), who have expressed an unqualified opinion on each of those financial statements, as stated in their reports incorporated by reference herein. The Group's Interim Condensed Consolidated IFRS Financial Statements have been reviewed but not audited by Ernst & Young, who have expressed an unqualified conclusion on those financial statements, as stated in their report appearing herein. The address of Ernst & Young is Sadovnicheskaya Naberezhnaya 77, Building 1, Moscow 115035, Russian Federation. Ernst & Young are independent auditors. Ernst & Young is a member of the Non-profit Partnership "Audit Chamber of Russia".

## FORWARD-LOOKING STATEMENTS

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

- statements of VTB’s or the Group’s plans, objectives or goals, including those related to its strategy, products or services;
- statements of future economic performance;
- statements of general economic developments in the Russian Federation or the other countries in which the Group operates; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by VTB or the Group from time to time (but that are not included in this Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward- looking statements. These factors include:

- the global financial crisis and European sovereign debt crisis and its impact on the global and Russian economies and financial markets;
- the challenging conditions in the Russian economy, including the Russian banking sector;
- declines and increased volatility in global and Russian securities markets;
- fluctuations in prices for securities issued by Russian entities and for oil, gas, precious metals and other commodities;
- the impact, or lack thereof, of the measures which the Russian Federation has enacted or may enact in the future to support the Russian banking sector;
- inflation, interest rate and exchange rate fluctuations in the Russian Federation;
- the effects of, and changes in, the policies of the Government and regulations promulgated by the CBR;
- the effects of competition in the geographic and business areas in which the Group conducts its operations;

- the effects of changes in laws, regulations, taxation or accounting standards or practices in the jurisdictions where the Group conducts its operations;
- the ability of VTB or the Group to increase market share for its products and services and control expenses;
- acquisitions or divestitures;
- the effect of the Group's restructuring and re-branding of its Russian and European banking operations;
- the Group's expansion in various geographic and business areas;
- technological changes; and
- the success of VTB or the Group at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward- looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which VTB and the Group operate. Such forward-looking statements speak only as of the date on which they are made, and are not subject to any continuing obligations under the listing rules of the Irish Stock Exchange, the UK Listing Authority or the London Stock Exchange. Accordingly, VTB and the Group do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. VTB and the Group do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the Annual IFRS Financial Statements, in each case with the audit report thereon, which have been previously published and which have been filed with the United Kingdom Listing Authority (the “UKLA”), and with the Interim Condensed Consolidated Financial Statements, which have previously been published and which have been filed with the UKLA. Copies of the Annual IFRS Financial Statements and the Interim Condensed Consolidated Financial Statements may be obtained from the website of VTB. Other than the Annual IFRS Financial Statements and the Interim Condensed Consolidated Financial Statements, no part of VTB’s website is incorporated by reference. Such documents shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Each document incorporated herein by reference is current only as of the date of such document, and the incorporation by reference herein of such documents shall not create any implication that there has been no change in the Group’s or the Issuer’s affairs since the date thereof or that information contained therein is current as of any time subsequent to its date.

For ease of reference, the table below sets out the relevant page references for the documents incorporated by reference.

|                                                                                                                                                                                                                                                                                              |   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| <b>IFRS interim condensed consolidated financial statements for VTB Bank as of and for the six months ended June 30, 2012 (available at <a href="http://www.vtb.com/upload/iblock/ee8/6M_2012_VTB_IFRS_Report.pdf">http://www.vtb.com/upload/iblock/ee8/6M_2012_VTB_IFRS_Report.pdf</a>)</b> |   |
| Independent auditors’ report on review of interim condensed consolidated financial statements .....                                                                                                                                                                                          | i |
| Interim condensed consolidated statement of financial position as of June 30, 2012 .....                                                                                                                                                                                                     | 1 |
| Interim condensed consolidated income statement for the three months and the six months ended June 30, 2012 .....                                                                                                                                                                            | 2 |
| Interim condensed consolidated statement of comprehensive income for the six months ended June 30, 2012 .....                                                                                                                                                                                | 3 |
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| Interim condensed consolidated statement of changes in shareholders’ equity for the six months ended June 30, 2012 .....                                                                                                                                                                     | 6 |
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| <b>IFRS consolidated financial statements for VTB Bank as of and for the years ended December 31, 2011 and 2010 (available at <a href="http://www.vtb.com/upload/iblock/99c/VTB_2011_IFRS_Report.pdf">http://www.vtb.com/upload/iblock/99c/VTB_2011_IFRS_Report.pdf</a>)</b>                 |   |
| Independent auditors’ report .....                                                                                                                                                                                                                                                           | i |
| Consolidated statements of financial position as of December 31, 2011 and December 31, 2010 .....                                                                                                                                                                                            | 1 |
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| <b>IFRS consolidated financial statements for VTB Bank as of and for the years ended December 31, 2010 and 2009 (available at <a href="http://www.vtb.com/upload/iblock/b74/2010_VTB_IFRS_Report.pdf">http://www.vtb.com/upload/iblock/b74/2010_VTB_IFRS_Report.pdf</a>)</b>                 |   |
| Independent auditors’ report .....                                                                                                                                                                                                                                                           | i |
| Consolidated balance sheets as of December 31, 2010 and December 31, 2009 .....                                                                                                                                                                                                              | 1 |
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|                                                                                                                    |   |
|--------------------------------------------------------------------------------------------------------------------|---|
| Consolidated statements of changes in shareholders' equity for the years ended December 31, 2010<br>and 2009 ..... | 6 |
| Notes to the consolidated financial statements.....                                                                | 7 |

## CERTAIN DEFINITIONS

In this Prospectus, all references to:

“**Bank of Moscow**” are to JSC Bank of Moscow;

“**CBR**” are to the Central Bank of the Russian Federation;

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

“**CIB**” are to corporate and investment banking;

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

“**EEA**” are to the European Economic Area;

“**EU**” are to the European Union;

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

“**GDP**” are to gross domestic product;

“**Government**” are to the federal government of the Russian Federation;

“**Group**” are to VTB and its subsidiaries collectively;

“**Hals Development**” are to OJSC Hals Development (formerly OJSC Sistema-Hals);

“**IPO**” are to the initial public offering of VTB completed in May 2007;

“**Leto Bank**” are to OJSC “Leto Bank” (formerly OJSC “Bezhitsa-Bank ”);

“**North-West Center**” are to VTB’s North-West Regional Center;

“**RAS**” are to Russian Accounting Standards;

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

“**TCB**” are to JSC TransCreditBank;

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

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

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

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

“**VTB Azerbaijan**” are to JSC VTB Bank (Azerbaijan);

“**VTB Belarus**” are to CJSC VTB Bank (Belarus) (formerly CJSC “Slavneftebank”, or “**Slavneftebank**”);

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

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

“**VTB Debt Centre**” are to LLC VTB Debt Centre (a former CJSC VTB Debt Centre);

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

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

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

“**VTB Kazakhstan**” are to JSC VTB Bank (Kazakhstan);

“**VTB North-West**” are to OJSC VTB Bank North-West (formerly OJSC Industry & Construction Bank, or “**ICB**”);

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

“**VTB24**” are to VTB 24 (JSC).

### **Certain Currencies**

In this Prospectus, all references to:

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

“**RUB**”, “**ruble**” and “**kopecks**” are to the lawful currency of the Russian Federation; and

“**EUR**”, “**Euro**” or “**€**” are to the single currency of the Eurozone Member States.

### **Rounding**

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

### **Exchange Rate Information**

The table below sets forth, for the periods and dates indicated, the high, low, period end and period average exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the CBR for the relevant period. Fluctuations in the exchange rate between the ruble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the IFRS Financial Statements and other financial information presented in this Prospectus.

|                                         | Rubles per U.S.\$1.00 |       |            |                               |
|-----------------------------------------|-----------------------|-------|------------|-------------------------------|
|                                         | High                  | Low   | Period end | Period average <sup>(1)</sup> |
| <b>Year</b>                             |                       |       |            |                               |
| 2007 .....                              | 26.58                 | 24.26 | 24.55      | 25.57                         |
| 2008 .....                              | 29.39                 | 23.13 | 29.38      | 24.98                         |
| 2009 .....                              | 36.43                 | 28.67 | 30.24      | 31.72                         |
| 2010 .....                              | 31.78                 | 28.93 | 30.48      | 30.37                         |
| 2011 .....                              | 32.68                 | 27.26 | 32.20      | 29.35                         |
| <b>Month</b>                            |                       |       |            |                               |
| January 2012 .....                      | 32.20                 | 30.36 | 30.36      | 31.52                         |
| February 2012 .....                     | 30.41                 | 28.95 | 28.95      | 29.89                         |
| March 2012 .....                        | 29.66                 | 28.95 | 29.33      | 29.36                         |
| April 2012 .....                        | 29.80                 | 29.28 | 29.36      | 29.47                         |
| May 2012 .....                          | 32.45                 | 29.36 | 32.45      | 30.68                         |
| June 2012 .....                         | 34.04                 | 32.13 | 32.82      | 32.92                         |
| July 2012 .....                         | 32.99                 | 31.95 | 32.19      | 32.50                         |
| August 2012 .....                       | 32.54                 | 31.48 | 32.29      | 31.98                         |
| September 2012 .....                    | 32.57                 | 30.59 | 30.92      | 31.53                         |
| October 2012 (through October 30, 2012) | 31.48                 | 30.72 | 31.44      | 31.10                         |

Source: CBR

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

No representation is made that the ruble or U.S. dollar amounts referred to herein could have been or could be converted into rubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all. **The exchange rate between the ruble and the U.S. dollar has fluctuated significantly during the periods covered by the IFRS Financial Statements. The CBR rate on October 30, 2012 was RUB 31.44 = \$1.00.**

## Industry and Market Data

In this Prospectus, VTB and the Issuer refer to information regarding the Group's business, the business of its competitors and the market in which the Group operates and competes. VTB and the Issuer obtained this information in part from various third party sources and in part from VTB's own internal estimates. VTB and the Issuer have obtained market and industry data relating to VTB's business from providers of industry and market data, namely the CBR, the Federal State Statistics Service ("**Rosstat**"), Cbonds, Interfax Information Services ("**Interfax**") and the World Bank.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. Each of VTB and the Issuer has relied on the accuracy of the information from industry publications, surveys and forecasts without carrying out an independent verification thereof and cannot guarantee their accuracy or completeness. Each of VTB and the Issuer confirms that such third party information has been accurately reproduced, and as far as each of VTB and the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted from the information in this Prospectus that would render it inaccurate or misleading. See "*Risk Factors—Risks Relating to VTB's and the Group's Business and Industry—The Group has not independently verified information regarding its competitors and official data from Government agencies and the CBR*".

In addition, in many cases, VTB has made statements in this Prospectus regarding the Russian banking industry and the Group's position in this industry based on the Group's own experience and investigation of market conditions. VTB cannot assure you that any of its assumptions are accurate or correctly reflect its position in the industry, and its statements have not been verified by any independent sources. See "*Risk Factors—Risks Relating to the Russian Federation—The lack of availability and*

*reliability of statistical information in the Russian Federation makes business planning inherently uncertain and may impair the ability of the Group to plan effective strategies” and “Risk Factors—Risks Relating to VTB’s and the Group’s Business and Industry—The Group has not independently verified information regarding its competitors and official data from Government agencies and the CBR”.*

This Prospectus includes statistical information on the Group’s branch network. For purposes of compiling and presenting the data in this Prospectus, the definition of a “**branch**” includes all branches, sub-branches and outlets.

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

## ENFORCEABILITY OF JUDGMENTS

VTB is a joint stock company incorporated under the laws of the Russian Federation. All VTB's directors and executive officers named in this Prospectus reside outside the United Kingdom and the United States. Moreover, the majority of the assets of VTB and substantially all of the assets of its directors and officers are located in the Russian Federation. As a result, it may not be possible for the Noteholders to:

- effect service of process within the United Kingdom or the United States upon any of VTB's directors or executive officers named in this Prospectus; or
- enforce, in the English or U.S. courts, judgments obtained outside English or U.S. courts against VTB or any of its directors and executive officers named in this Prospectus in any action.

In addition, it may be difficult for the Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom and the United States, liabilities predicated upon English laws or U.S. federal securities laws. Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered or a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions (including the United Kingdom and the United States), and no relevant deferral law on enforcement of foreign court judgments has been adopted in the Russian Federation. As a result of which new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against VTB or its officers or directors. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgment or deprive the Issuer and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes or under the Subordinated Loans.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognised and enforced English court judgments on these grounds, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

The Subordinated Loan Agreement and any non-contractual obligations arising out of or in connection with the Subordinated Loan Agreement will be governed by English law and will provide for disputes, controversies and causes of action brought by any party thereto against VTB to be settled by arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the “**LCIA Rules**”). The place of such arbitration shall be London, England. The Russian Federation and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

The Arbitrazh Procedural Code of the Russian Federation (the “**Arbitrazh Procedural Code**”) sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedural Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

The Arbitrazh Procedural Code and other Russian procedural legislation could change, and other grounds for Russian courts to refuse the recognition and enforcement of foreign courts’ judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

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

## **USE OF PROCEEDS**

The gross proceeds from the offering of the Further Notes will be used by the Issuer for the sole purpose of financing the Further Subordinated Loan to VTB pursuant to the terms of the Subordinated Loan Agreement and paying certain expenses in connection with the issue of the Further Notes. The gross proceeds of the Further Subordinated Loan will be used by VTB for general corporate purposes.

## CAPITALISATION

The following table sets forth the Group's consolidated capitalisation as of June 30, 2012. For further information regarding the Group's financial condition, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the IFRS Financial Statements included elsewhere in this Prospectus.

|                                                                                 | As of June 30,<br>2012<br>(unaudited)<br>(RUB bln) |
|---------------------------------------------------------------------------------|----------------------------------------------------|
| <b>Long-term debt<sup>(1)</sup></b>                                             |                                                    |
| Senior long-term debt.....                                                      | 795.7                                              |
| Subordinated long-term debt.....                                                | 243.5                                              |
| <b>Total long-term debt.....</b>                                                | <b>1,039.2</b>                                     |
| <b>Shareholders' equity</b>                                                     |                                                    |
| Share capital.....                                                              | 113.1                                              |
| Share premium.....                                                              | 358.5                                              |
| Treasury shares.....                                                            | (13.9)                                             |
| Unrealised gain on financial assets available-for-sale and cash flow hedge..... | 3.2                                                |
| Premises revaluation reserve.....                                               | 9.8                                                |
| Currency translation difference.....                                            | 11.3                                               |
| Retained earnings.....                                                          | 127.2                                              |
| <b>Equity attributable to shareholders of the parent.....</b>                   | <b>609.2</b>                                       |
| Non-controlling interest.....                                                   | 20.2                                               |
| <b>Total equity.....</b>                                                        | <b>629.4</b>                                       |
| <b>Total capitalisation.....</b>                                                | <b>1,668.6</b>                                     |

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

Except as described below, there have been no material changes in the Group's capitalisation since June 30, 2012.

- In July 2012, VTB issued SGD 400 million Series 17 Eurobonds under the EMTN Programme, maturing in July 2015 with a fixed coupon rate of 4% per annum, payable semi-annually;
- In July 2012, VTB24 placed RUB 3.1 billion in stock exchange bonds that had previously been repurchased pursuant to a put option, maturing in 2014 with a fixed coupon of 6.9%, payable semi-annually;
- In July 2012, VTB entered into a syndicated credit agreement with a syndicate of banks in the aggregate principal amount of EUR506 million, maturing in 2018, for financing VTB Arena Park;
- In August 2012, VTB issued U.S.\$1.0 billion Perpetual Loan Participation Notes with an initial fixed coupon of 9.5% per annum (subject to reset on December 6, 2022 and every ten years thereafter), payable semi-annually;
- In August 2012, VTB Capital issued RUB 1.0 billion in stock exchange bonds maturing in December 2015 with a fixed coupon 0.1% per annum plus a floating rate linked to appreciation in the MICEX index, payable semi-annually;

- In August 2012, VTB24 arranged a structured transaction related to its car loan portfolio in the amount of RUB 14.0 billion through a sale to a special purpose entity, which further attracted funds through a secured loan deal in the amount of U.S. \$275 million with expected maturity in August 2014. The USD loan bears a floating interest rate of monthly LIBOR plus 1.5% per annum, payable monthly;
- In August 2012, VTB issued an additional U.S. \$500 million in Series 15 Eurobonds under its EMTN Programme maturing April 12, 2017 with a fixed coupon rate of 6.0% per annum payable semi-annually, resulting in an aggregate principal amount of U.S. \$2.0 billion in Series 15 Eurobonds;
- In September 2012, VTB placed RUB 10 billion in stock exchange bonds maturing in September 2015 with a coupon of 7.95% per annum for the first year, payable quarterly and with a put option in one year;
- In September 2012, VTB 24 issued RUB 4.0 billion and RUB 2.0 billion in mortgage backed bonds with fixed coupon rates of 9.0% and 3.0%, respectively, payable quarterly, and secured by a portfolio of mortgage loans;
- In September 2012, VTB issued CHF 600 million in Series 19 Eurobonds under its EMTN Programme maturing in September 2016 with a fixed coupon of 3.15% per annum payable semi-annually;
- On October 4, 2012, VTB placed two series of stock exchange bonds totalling RUB 30 billion maturing in October 2015 with a fixed coupon rate of 8.41% per annum payable quarterly;
- On October 17, 2012, VTB issued U.S.\$1.5 billion in Series 21 Subordinated Loan Participation Notes under its EMTN Programme maturing in October 2022 with a fixed coupon of 6.95% per annum payable semi-annually; and
- On October 30, 2012, VTB issued CNY 1.0 billion in Series 22 Loan Participation Notes under its EMTN Programme maturing in October 2015 with a fixed coupon of 4.50% per annum payable semi-annually.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected financial information set forth below as of and for the years ended December 31, 2011, 2010 and 2009 has been extracted without material adjustment from the Annual IFRS Financial Statements. The financial information set forth below as of and for the six months ended June 30, 2012 and 2011 has been extracted without material adjustment from the Interim Condensed Consolidated IFRS Financial Statements. The financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the IFRS Financial Statements and related notes thereto incorporated by reference into this Prospectus and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

|                                                                                                                          | For the six months<br>ended June 30, |              | For the year ended December 31, |              |               |
|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------|---------------------------------|--------------|---------------|
|                                                                                                                          | 2012                                 | 2011         | 2011                            | 2010         | 2009          |
|                                                                                                                          | (unaudited)                          |              |                                 | (audited)    |               |
|                                                                                                                          | (RUB bln)                            |              |                                 |              |               |
| <b>Selected Income Statement Data</b>                                                                                    |                                      |              |                                 |              |               |
| Net interest income .....                                                                                                | 112.4                                | 95.1         | 227.0                           | 171.1        | 152.2         |
| Provision charge for impairment of debt financial assets .....                                                           | (32.3)                               | (17.3)       | (31.6)                          | (51.6)       | (154.7)       |
| <b>Net interest income/(expense) after provision for Impairment</b>                                                      | <b>80.1</b>                          | <b>77.8</b>  | <b>195.4</b>                    | <b>119.5</b> | <b>(2.5)</b>  |
| Net fee and commission income .....                                                                                      | 21.8                                 | 17.9         | 39.2                            | 24.7         | 21.0          |
| Gains less losses/(Losses net of gains) arising from financial<br>instruments at fair value through profit or loss ..... | (4.0)                                | 9.1          | (30.8)                          | 14.8         | (21.3)        |
| Gains less losses/(losses net of gains) from available-for-sale<br>financial assets .....                                | 2.8                                  | 0.4          | 4.1                             | (0.1)        | 1.1           |
| (Losses net of gains)/gains less losses arising from<br>extinguishment of liability .....                                | (0.9)                                | —            | (0.7)                           | —            | 14.7          |
| Gains/(losses) on initial recognition of financial instruments and<br>loans restructuring .....                          | 9.4                                  | 9.9          | 20.2                            | (0.2)        | (19.7)        |
| Gains less losses/(losses net of gains) arising from dealing in<br>foreign currencies .....                              | 25.0                                 | 26.0         | 6.1                             | (7.5)        | (12.4)        |
| Foreign exchange translation (losses net of gains)/gains less<br>losses .....                                            | (17.9)                               | (14.6)       | (6.5)                           | 12.1         | 26.6          |
| Income arising from non-banking activities .....                                                                         | 20.4                                 | 8.8          | 20.4                            | 11.0         | 2.8           |
| Expenses arising from non-banking activities .....                                                                       | (11.7)                               | (4.5)        | (9.1)                           | (7.2)        | (1.1)         |
| <b>Other<sup>(1)</sup></b> .....                                                                                         | <b>4.9</b>                           | <b>3.4</b>   | <b>15.3</b>                     | <b>0.2</b>   | <b>1.6</b>    |
| <b>Operating Income</b> .....                                                                                            | <b>129.9</b>                         | <b>134.2</b> | <b>253.6</b>                    | <b>167.3</b> | <b>10.8</b>   |
| Staff costs and administrative expenses .....                                                                            | (87.1)                               | (67.3)       | (141.5)                         | (95.1)       | (76.4)        |
| <b>Other<sup>(2)</sup></b> .....                                                                                         | <b>1.0</b>                           | <b>1.5</b>   | <b>3.4</b>                      | <b>(1.1)</b> | <b>(2.7)</b>  |
| <b>Profit/(loss) before taxation</b> .....                                                                               | <b>43.8</b>                          | <b>68.4</b>  | <b>115.5</b>                    | <b>71.1</b>  | <b>(68.3)</b> |
| <b>Net profit/(loss)</b> .....                                                                                           | <b>33.6</b>                          | <b>53.6</b>  | <b>90.5</b>                     | <b>54.8</b>  | <b>(59.6)</b> |
| Including net profit attributable to non-controlling interests ...                                                       | 0.8                                  | 0.2          | 1.1                             | (3.4)        | 3.8           |

(1) Comprises share in income/(loss) of associates, (provision charge for)/recovery of impairment of other assets, credit related commitments and legal claims and other operating income.

(2) Represents gain from disposal of subsidiaries and associates and, for the years ended December 31, 2009 and 2010, loss from impairment of goodwill.

|                                                         | As of June 30 |         | As of December 31, |         |
|---------------------------------------------------------|---------------|---------|--------------------|---------|
|                                                         | 2012          | 2011    | 2010               | 2009    |
|                                                         | (unaudited)   |         | (audited)          |         |
|                                                         | (RUB bln)     |         |                    |         |
| <b>Selected Balance Sheet Data</b>                      |               |         |                    |         |
| Loans and advances to customers, net .....              | 4,327.8       | 4,301.6 | 2,785.4            | 2,309.9 |
| Securities portfolio <sup>(1)</sup> .....               | 1,029.7       | 970.2   | 451.6              | 400.7   |
| Cash and short-term funds, mandatory cash balances with | 416.5         | 478.9   | 301.9              | 284.1   |

|                                                         | As of June 30  |                | As of December 31, |                |
|---------------------------------------------------------|----------------|----------------|--------------------|----------------|
|                                                         | 2012           | 2011           | 2010               | 2009           |
|                                                         | (unaudited)    |                | (audited)          |                |
|                                                         | (RUB bln)      |                |                    |                |
| central banks.....                                      |                |                |                    |                |
| Due from other banks, net .....                         | 411.2          | 424.6          | 349.9              | 345.6          |
| Other .....                                             | 672.8          | 614.3          | 402.1              | 270.5          |
| <b>Total assets .....</b>                               | <b>6,858.0</b> | <b>6,789.6</b> | <b>4,290.9</b>     | <b>3,610.8</b> |
| Customer deposits.....                                  | 3,438.3        | 3,596.7        | 2,212.9            | 1,568.8        |
| Debt securities issued .....                            | 892.8          | 664.5          | 593.1              | 485.7          |
| Due to other banks.....                                 | 630.7          | 699.7          | 397.3              | 287.0          |
| Other borrowed funds.....                               | 781.2          | 734.6          | 185.7              | 470.9          |
| Subordinated debt.....                                  | 243.5          | 241.1          | 205.5              | 195.3          |
| Other .....                                             | 242.1          | 227.9          | 118.2              | 98.2           |
| <b>Total liabilities .....</b>                          | <b>6,228.6</b> | <b>6,164.5</b> | <b>3,712.7</b>     | <b>3,105.9</b> |
| Equity attributable to shareholders of the parent ..... | 609.2          | 603.5          | 554.3              | 502.3          |
| Non-controlling interest.....                           | 20.2           | 21.6           | 23.9               | 2.6            |
| <b>Total equity .....</b>                               | <b>629.4</b>   | <b>625.1</b>   | <b>578.2</b>       | <b>504.9</b>   |
| <b>Total liabilities and equity.....</b>                | <b>6,858.0</b> | <b>6,789.6</b> | <b>4,290.9</b>     | <b>3,610.8</b> |

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

|                                                                  | As at or for the six months ended June 30, |        | As at or for the year ended December 31, |        |         |
|------------------------------------------------------------------|--------------------------------------------|--------|------------------------------------------|--------|---------|
|                                                                  | 2012                                       | 2011   | 2011                                     | 2010   | 2009    |
| <b>Selected Financial Ratios Profitability Indicators</b>        |                                            |        |                                          |        |         |
| Net interest margin <sup>(1)(2)</sup> .....                      | 4.0%                                       | 4.8%   | 5.0%                                     | 5.1%   | 4.6%    |
| Net fee and commission income to operating income .....          | 16.8%                                      | 13.3%  | 15.5%                                    | 14.8%  | 194.4%  |
| Cost to operating income before provision.....                   | 53.7%                                      | 44.0%  | 49.4%                                    | 43.0%  | 45.7%   |
| Return on average equity <sup>(2)(3)</sup> .....                 | 10.7%                                      | 18.1%  | 15.0%                                    | 10.3%  | (13.7)% |
| Return on average assets <sup>(2)(3)</sup> .....                 | 1.0%                                       | 2.4%   | 1.7%                                     | 1.5%   | (1.6)%  |
| <b>Asset quality</b>                                             |                                            |        |                                          |        |         |
| Allowance for loan impairment as % of non-performing loans ..... | 117.0%                                     | 111.8% | 111.3%                                   | 113.7% | 94.5%   |

- (1) Represents the ratio of net interest income before provision for loan impairment expressed as a percentage of average interest earning assets.
- (2) Average balances represent quarterly averages for each of 2009, 2010, 2011 and 2012, except that TCB has been excluded from the calculation of 2010 average balances, and average balances for 2011 are calculated including the Bank of Moscow as of December 31, 2011, an average of the amounts including and excluding the Bank of Moscow as at September 30, 2011, and excluding the Bank of Moscow for all prior dates.
- (3) Represents ratio of net profit expressed as a percentage of average equity (including minorities) or assets, respectively.

### Selected Capital Adequacy Data

|                                                        | As of period end              |                     |                     |                           |                           |                            |                        |                        |                           |                           |                         |
|--------------------------------------------------------|-------------------------------|---------------------|---------------------|---------------------------|---------------------------|----------------------------|------------------------|------------------------|---------------------------|---------------------------|-------------------------|
|                                                        | 2008 <sup>(1)</sup>           | 2009 <sup>(1)</sup> | 2010 <sup>(1)</sup> | 2011                      |                           |                            |                        |                        | 2012                      |                           |                         |
|                                                        |                               |                     |                     | Mar.<br>31 <sup>(2)</sup> | June<br>30 <sup>(2)</sup> | Sept.<br>30 <sup>(2)</sup> | Dec. 31 <sup>(2)</sup> | Dec. 31 <sup>(1)</sup> | Mar.<br>31 <sup>(2)</sup> | June<br>30 <sup>(2)</sup> | Sept. 30 <sup>(2)</sup> |
|                                                        | (RUB bln, except percentages) |                     |                     |                           |                           |                            |                        |                        |                           |                           |                         |
| Reported N1 (Total Capital) Ratio <sup>(3)</sup> ..... | 16.1%                         | 23.8%               | 22.6%               | 18.0%                     | 18.1%                     | 13.5%                      | 11.2%                  | 11.0%                  | 12.7%                     | 11.9%                     | 12.1%                   |

| VTB Group Consolidated<br>Basel Capital Ratios | As of period end |         |          |         |         |         |          |         |         |         |          |         |         |         |
|------------------------------------------------|------------------|---------|----------|---------|---------|---------|----------|---------|---------|---------|----------|---------|---------|---------|
|                                                | 2009             |         |          |         | 2010    |         |          |         | 2011    |         |          |         | 2012    |         |
|                                                | Mar. 31          | June 30 | Sept. 30 | Dec. 31 | Mar. 31 | June 30 | Sept. 30 | Dec. 31 | Mar. 31 | June 30 | Sept. 30 | Dec. 31 | Mar. 31 | June 30 |
| Tier 1 Capital Ratio <sup>(4)</sup> .....      | 9.9%             | 10.3%   | 14.0%    | 14.7%   | 16.2%   | 14.1%   | 13.9%    | 12.4%   | 13.2%   | 12.0%   | 9.2%     | 9.0%    | 9.6%    | 8.9%    |
| Capital Adequacy Ratio <sup>(4)</sup> ...      | 15.5%            | 16.5%   | 19.5%    | 20.9%   | 22.2%   | 19.3%   | 18.8%    | 16.8%   | 15.5%   | 14.1%   | 13.2%    | 13.0%   | 13.7%   | 12.8%   |

- (1) Calculated taking into account events after the reporting date affecting capital.
- (2) Calculated without taking into account events after the reporting date affecting capital.
- (3) Calculated according to CBR requirements for VTB as a standalone entity, in accordance with Instruction No. 110-I, based on VTB's standalone RAS financial statements.
- (4) Calculated in accordance with the BIS methodology prior to introduction of Basel II, as described in Note 43 to the 2011 Annual IFRS Financial Statements.

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

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

### Overview

The Group is a leading Russian universal banking group offering a wide range of banking and other financial services and products across the Russian Federation and certain CIS countries. The Group also has operations in selected countries in Europe and, to a limited degree, in Asia and Africa. According to VTB's estimates based on data published by the CBR, as of June 30, 2012, the Group was the second largest banking group in the Russian Federation by total corporate deposits, corporate loans, total retail deposits, total retail lending and total assets. See "*Business—Competitive Strengths*".

The Group's financial position and results of operations in 2011 (with effect from September 30, 2011) and as at and for the six months ended June 30, 2012 were significantly affected by the acquisition of a controlling interest in the Bank of Moscow. The Group initially acquired a 46.48% stake in the Bank of Moscow and a 25% interest plus one share of Metropolitan Insurance Group (which itself owned a 17.32% stake in the Bank of Moscow at the time of the acquisition) from the Moscow city administration in February 2011, and increased this interest to 80.57% on September 30, 2011, and to 95.52% by June 30, 2012. Accordingly, the Bank of Moscow has been consolidated into the Annual Financial Statements with effect from September 30, 2011. The acquisition of the Bank of Moscow is part of the Group's strategy of increasing its retail and corporate market share. See "*—Acquisition of the Bank of Moscow*".

### Key Factors Affecting Results of Operations and Capital Structure

#### *Economic Conditions in the Russian Federation*

The majority of the Group's assets and customers are located in, or have businesses related to, the Russian Federation. As a result, the Group's results of operations and financial condition are substantially affected by Russian economic conditions, including such factors as economic growth, inflation and exchange rates. The following table sets forth certain Russian economic indicators for the indicated periods.

|                                                                                                                | As of or for the<br>six months<br>ended June 30, | As of or for the years ended<br>December 31, |           |           |
|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------|-----------|-----------|
|                                                                                                                | 2012                                             | 2011                                         | 2010      | 2009      |
| Nominal GDP (in RUB billion).....                                                                              | 28,061.7                                         | 54,585.6                                     | 45,172.7  | 38,807.2  |
| Real GDP growth (in %).....                                                                                    | 4.5                                              | 4.3                                          | 4.3       | (7.8)     |
| Surplus (Deficit) of the federal budget of the Russian Federation<br>(in RUB billion).....                     | 270.7                                            | 430.8                                        | (1,811.8) | (2,300.1) |
| Official reserves (in billions of U.S. dollars).....                                                           | 514.3                                            | 498.6                                        | 479.4     | 439.5     |
| Inflation <sup>(1)</sup> (in %).....                                                                           | 4.3                                              | 6.1                                          | 8.8       | 8.8       |
| Nominal appreciation/(depreciation) of the Russian ruble against<br>the U.S. dollar <sup>(2)</sup> (in %)..... | (6.5)                                            | 3.4                                          | 4.3       | (21.7)    |
| Real (depreciation)/appreciation of the Russian ruble against the<br>U.S. dollar <sup>(2)(3)</sup> (in %)..... | (5.1)                                            | 8.8                                          | 9.7       | (12.2)    |

Sources: CBR, Russian Federal State Statistics Service, Russian Federal Treasury

- (1) Inflation is measured as change in the consumer price index.
- (2) Nominal and real (depreciation)/appreciation of the Russian ruble against the U.S. dollar are measured by comparing the change in the reporting period with the change in the same period of the previous year.
- (3) Real (depreciation)/appreciation is distinguished from nominal (depreciation)/appreciation because the former also takes into account inflation in Russia and the United States, as well as certain other macroeconomic parameters that are calculated by the CBR.

The economy of the Russian Federation was severely impacted by weakening global economic conditions and turmoil in global financial markets caused by the global financial crisis in the second half of 2008 and first half of 2009. The Russian Federation's economy is to a significant degree dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. Dramatic decreases in the prices of these commodities in the world market in the second half of 2008 and first half of 2009 resulted in sharp decreases in Government revenues and the revenues of privately held Russian companies operating in these sectors, which, in turn, had an adverse effect on overall levels of economic activity in Russia. Commodity prices partially recovered starting in the second half of 2009, though the trend reversed starting from 2011. During the first half of 2012, Russia's economy grew strongly, attributable primarily to increased consumption and investment demand. Growth subsequently slowed in the third quarter of 2012, characterized by reduced growth in capital investments and retail sales. Inflation in 2012 has been moderated by the deferral of scheduled increases in regulated tariffs from January 1 to July 1 and September 1.

During periods of deteriorating economic activity, such as 2009, the ability of the Group's borrowers to repay amounts due to the Group, and the value of securities some borrowers pledge as collateral against loans extended by the Group, may decrease. Accordingly, the Group's provision charge for loan impairment increases during such periods, sometimes significantly, resulting in a decrease in the Group's net interest income.

### ***Interest Rate Environment and Funding***

Changes in interest rates affect the Group's operations. Movements in short- and long-term interest rates have affected both the Group's interest income and interest expense, as well as the Group's level of gains and losses on its securities portfolio. As the Group operates primarily in the Russian Federation, it is particularly influenced by the interest rate environment in the Russian Federation and, to a lesser extent, elsewhere in the CIS. The interest rate environment in the Russian Federation in turn reflects factors such as expectations regarding inflation, changes in interest rates set by the CBR, and conditions in international financial markets. Increased inflation and competition for customers—particularly during periods when banks operating in Russia may have reduced access to wholesale funding markets—tend to raise interest rates payable on new customer deposits for banks operating in the Russian market, while competitive pressures, concerns about customer defaults and fixed rates on existing loan commitments and facilities may restrict the Group's ability to increase interest rates on loans to customers. Average lending rates on the Russian interbank market may also fluctuate significantly. For example, the average ruble interbank lending rate was 15.3% in 2009, 10.8% in 2010, 8.5% in 2011, and 9.7% in the first six months of 2012. Higher average interest rates put pressure on the Group's net interest margins. Higher funding costs, as for example on wholesale markets, also tend to result in lower net interest spread reflecting the relatively greater cost of funding.

### ***International Financial Markets***

The Group's business is significantly affected by conditions in the global and Russian financial markets, including the ongoing European sovereign debt crisis (see "*Risk Factors—The instability of the global and the Russian financial markets and the ongoing European sovereign debt crisis may continue to have an adverse effect on VTB's and the Group's business, liquidity and financial condition*"). While the Group's business focuses on the Russian and CIS markets, the Group historically has obtained significant financing from wholesale funding markets, including term loans and deposits from other banks, issuance of debt securities, and loans and other borrowings. Investors' lack of confidence in the banking industry globally has caused volatility in wholesale funding markets, leading to higher borrowing costs and restricting access to liquidity for banks, including members of the Group. From time to time, the Group has been unable

to access international capital markets on commercially justifiable terms and relied primarily on customer deposits, domestic capital markets and direct and indirect Government funding to finance its operations. See also “—*Government Stabilisation Measures*”.

### ***Government Stabilisation Measures***

Since 2008, the Group has received significant support from the CBR and other government authorities and agencies, particularly in the Russian Federation. Pursuant to Federal Law No. 173-FZ, “On Additional Measures for Supporting the Financial System of the Russian Federation”, in October 2008 VTB received two subordinated loans of RUB 100 billion each from VEB, which mature at the end of 2019 and initially carried an annual interest rate of 8%, subsequently reduced to 6.5% in August 2010 in accordance with the requirements of federal law. The Group discounted these loans using appropriate market rates adjusted for the premium of the loans in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”. As a result, the Group booked deferred income of RUB 23.6 billion as of December 31, 2008, with the carrying amount of the loans being RUB 175.1 billion as of the same date. The deferred income was accounted for within subordinated debt and could be offset against any losses on initial recognition of loans that the Group extends at preferential interest rates to support the operations of Russian companies in industries that the Government identified as priority industries in its anti-crisis programme for 2009 and 2010. This deferred income was utilised in full during 2009.

The Group has also been eligible to receive, and has received, funding support from local central banks in the form of loans and short-term funding, beginning in late 2008. The total amount of such funding amounted to RUB 314.8 billion as of December 31, 2009, decreasing to RUB 1.4 billion as of December 31, 2010. Funds from the CBR and local central banks increased in 2011 to RUB 365.9 billion as of December 31, 2011, and increased to RUB 402.0 billion as of June 30, 2012. In September 2011, the Bank of Moscow received a RUB 294.8 billion loan from the related party DIA under the plan of support for the Bank of Moscow, entered into between the CBR and DIA. As at December 31, 2011 the carrying amount of the loan was RUB 144.4 billion, and as at June 30, 2012 the carrying amount of the loan was RUB 148.5 billion.

### ***Fluctuations in the Value of Financial Assets***

The Group invests significantly in securities. As of June 30, 2012 and December 31, 2011, 2010 and 2009, the Group had RUB 1,029.7 billion, RUB 970.2 billion, RUB 382.6 billion (RUB 451.6 billion including TCB) and RUB 400.7 billion, or 15.0% and 14.3%, 9.8% (10.5% including TCB) and 11.1%, respectively, of its assets invested in its securities portfolio, defined as the sum of financial assets held for trading, financial assets available for sale, investment securities held to maturity and financial assets pledged under repurchase agreements and loaned financial assets. The Group’s portfolio of securities consists primarily of ruble-denominated debt securities, principally debt securities issued by Russian oil and gas companies, banks and other financial companies, manufacturing, metals, transportation aircraft and telecommunications companies, and equity securities, principally issued by Russian banks, oil and gas companies and metal companies. The majority of this portfolio is categorized as financial assets as “fair value through profit or loss” or “available for sale”. The fair value of certain securities has been based on models that utilise market prices, or, if no market prices are readily available or identifiable, the Group has relied on its own assumptions and models to estimate fair value.

The Group classifies as loans and advances to customers certain financial assets pledged under repurchase agreements. These amounted to RUB 203.8 billion and RUB 188.3 billion as of June 30, 2012 and December 31, 2011, respectively. These consisted primarily of amortizing federal loan bonds (OFZ-AD) purchased by the Bank of Moscow in September 2011 using the proceeds of the loan from DIA.

Historically, the Group reclassified certain financial assets initially booked as “held for trading” and “available for sale” to “loans and advances to customers”, “due from other banks” and “investment securities held-to-maturity”, pursuant to IFRS 7 “Financial Instruments Disclosures—Reclassification of Financial

Assets” and IAS 39 “Financial Instruments—Recognition and Management”, on the occurrence of “rare circumstances” due to the crisis in international financial markets that commenced in 2008. These reclassifications reduced the amount of securities that the Group was required to recognize at fair value in future periods. While the Group has not made any such reclassifications since 2008, should conditions warrant it may do so in the future.

### ***Acquisition of the Bank of Moscow***

In February 2011, the Group acquired a 46.48% interest in the Bank of Moscow and an interest of 25% plus one share in Metropolitan Insurance Group (which itself owned a 17.32% interest in the Bank of Moscow) from the Moscow city administration. In July 2011, the Group, the Bank of Moscow and the DIA signed a “General Agreement on Financial Support of the Bank of Moscow”, under which the Group assumed a commitment to increase the share capital of the Bank of Moscow and provide a detailed plan for the Bank of Moscow’s financial recovery. On September 30, 2011 the Group increased its interest to 80.57%, resulting in consolidation of the Bank of Moscow into the Group’s financial statements with effect from that date. In December 2011, the Group acquired additional shares in the Bank of Moscow from related parties for RUB 17.3 billion, and the Bank of Moscow also conducted an additional share issuance. As a result of these transactions, the completion of a voluntary offer to shareholders of the Bank of Moscow in April 2012 and the purchase of an additional interest from non-controlling shareholders, the Group’s aggregate interest in the Bank of Moscow increased to 95.52% by June 30, 2012.

In accordance with the acquisition method of accounting under IFRS 3 “Business Combinations”, the identifiable assets and liabilities of the Bank of Moscow at the acquisition date were assessed at fair value based on an independent appraisal and management considerations. The excess of the aggregate of i) purchase consideration paid, ii) the amount of non-controlling interests in the acquiree, and iii) fair value of the acquirer’s previously held equity interest in the Bank of Moscow, over the fair value of the Bank of Moscow’s identifiable net assets as of September 30, 2011 (the effective date of the acquisition), amounting to RUB 84.7 billion, was recorded as goodwill.

Revenue in the consolidated statement of comprehensive income for the year ended December 31, 2011 attributable to the Bank of Moscow from the date of the Group’s acquisition of a controlling interest until the end of the year amounted to RUB 41.7 billion, and net profit attributable to the Bank of Moscow for the period was RUB 7.5 billion. In addition, RUB 6.4 billion in share in income of associates and joint ventures resulted from the Group’s interest in the Bank of Moscow prior to the Group’s acquisition of control over the Bank of Moscow on September 30, 2011. The consolidation of the Bank of Moscow with effect from September 30, 2011 has increased the volume of the Group’s business.

As part of the plan for the support of the Bank of Moscow, in September 2011 the Bank of Moscow received a RUB 294.8 billion loan from the related party DIA bearing interest at 0.51% per annum and maturing in ten years. This loan was used by the Bank of Moscow to purchase amortizing federal loan bonds (OFZ-AD) with a nominal value of RUB 295.0 billion, which were accounted for as RUB 175.5 billion of loans and advances to customers pledged under repurchase agreements, RUB 115.4 billion in loans and advances to customers and RUB 10.2 billion in available for sale securities as of December 31, 2011 and RUB 192.7 billion of loans and advances to customers pledged under repurchase agreements, RUB 101.3 billion in loans and advances to customers; and RUB 10.1 billion in available for sale securities as of June 30, 2012. The loan was classified as other borrowings within other borrowed funds and initially recognized at fair value. As of June 30, 2012 and December 31, 2011 the carrying amount of this loan was RUB 148.5 billion and RUB 144.4 billion, respectively.

The Bank of Moscow’s interim condensed consolidated financial statements as at and for the six months ended June 30, 2012, and the Bank of Moscow’s financial statements as at and for the year ended December 31, 2011 and as at and for the year ended December 31, 2010 are publicly available on the Bank of Moscow’s website. The Bank of Moscow’s interim condensed consolidated financial statements as at and for the six months ended June 30, 2012 contained a qualified review report, and the Bank of Moscow’s

financial statements as at and for the year ended December 31, 2011 and as at and for the year ended December 31, 2010 contained qualified audit opinions. Notwithstanding these qualifications, the review report delivered in connection with the Group's Interim Condensed Consolidated IFRS Financial Statements, and the audit opinion delivered in connection with the Group's 2011 Annual IFRS Financial Statements, respectively, were unqualified. See "*Risk Factors—VTB faces risks in relation to its recently completed acquisitions*".

### ***Other acquisitions***

The Group has made a number of acquisitions to expand its geographical presence, increase market penetration (particularly in the Russian Federation), and diversify its product offering. In particular, with effect from December 31, 2010 the Group acquired a controlling interest in TCB, which had a significant effect on the Group's results of operations in 2011. See "*Business—History*", Note 42 to the 2011 Annual Consolidated IFRS Financial Statements and Note 40 to the 2010 Annual Consolidated IFRS Financial Statements.

### **Critical Accounting Policies**

The Group's accounting policies are integral to the understanding of the operational results and financial condition presented in the consolidated financial statements and related notes thereto. The Group's principal accounting policies are described in Note 5 to the 2011 Annual IFRS Financial Statements. New standards and interpretations that may affect the presentation of the Group's financial statements in future periods are described in Note 4 to the 2011 Annual IFRS Financial Statements.

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses during the relevant reporting period. The Group's management believes that accounting for allowance for loan impairment, impairment of goodwill, impairment of investments in associates, existence of significant influence in other entities and taxation are the most significant areas that involve judgments, estimates and assumptions inherent in the application thereof that are critical to an understanding of the Group's financial statements. See Note 6 to the 2011 Annual IFRS Financial Statements and Note 6 to the 2010 Annual IFRS Financial Statements.

In addition, the Group uses valuation techniques to determine the fair value of certain financial instruments classified as "financial assets at fair value through profit or loss", "available for sale" and derivative financial instruments. The Group estimates fair value using quoted market prices when available. When quoted market prices are not available, the Group uses a variety of models, including those with both observable (whether directly or indirectly) or non-observable inputs. The assessment of the significance of these inputs requires management judgment. See Note 39 to the 2011 Annual IFRS Financial Statements and Note 38 to the 2010 Annual IFRS Financial Statements.

### **Segmentation**

The Group identifies its major operating segments on the basis of its business lines. Segment information is presented on the basis of IFRS compliant data of the global business lines and entities adjusted, where necessary, for intersegment reallocation. Qualitative and quantitative information about operating segments is reported to the appropriate operating decision makers for the purposes of making operating decisions on allocation of resources to the segment and assessment of its performance. The Group established a united Corporate-Investment Banking function in the Group in the first quarter of 2011, resulting in the combination of the Corporate business and Investment business reportable segments previously presented in the 2010 Annual IFRS Consolidated Financial Statements into the Corporate-Investment Banking (CIB) segment, further subdivided as set forth below. In the 2011 Annual IFRS Financial Statements and the Interim Financial Statements the Group identified the following reportable segments: CIB, subdivided into Investment Banking, Loans and Deposits and Transaction

Banking subsegments; Retail banking; CIS and Georgia and Other. Following the further integration of the activities of TCB, Bank of Moscow and the CIS and Georgia and European operations into the Group's global business lines, these operations are presented within the CIB, Retail and Other segments in the Interim Condensed Consolidated IFRS Financial Statements, and the Group no longer reports a CIS and Georgia segment. Comparative information has been amended on the same basis. Previously, in the 2010 Annual Financial Statements, the Group identified the following reportable segments: Corporate business, Retail business, Investment business, Ukraine, and Other, as well as TransCreditBank. As TransCreditBank was consolidated with effect from December 31, 2010, as of that date the Group did not yet allocate its transactions and data to other reportable segments. See also “—*Analysis by Segment*”.

## Recent Developments

The following developments have occurred between June 30, 2012, the end of the last financial period for which interim financial information has been published, and the date of this Prospectus.

- In July 2012, VTB issued SGD 400 million Series 17 Eurobonds under its EMTN Programme, maturing in July 2015 with a fixed coupon rate of 4.00% per annum, payable semi-annually;
- In July 2012, VTB24 placed RUB 3.1 billion in stock exchange bonds that had previously been repurchased pursuant to a put option, maturing in 2014 with a fixed coupon of 6.90%, payable semi-annually;
- In July 2012, VTB entered into a syndicated credit agreement with a syndicate of banks in the aggregate principal amount of EUR506 million, maturing in 2018, for financing VTB Arena Park;
- In August 2012, VTB issued U.S.\$1.0 billion Perpetual Loan Participation Notes with an initial fixed coupon of 9.50% per annum (subject to reset on December 6, 2022 and every ten years thereafter), payable semi-annually;
- In August 2012, VTB Capital issued RUB 1.0 billion in stock exchange bonds maturing in December 2015 with a fixed coupon 0.10% per annum plus a floating rate linked to appreciation in the MICEX index, payable semi-annually;
- In August 2012, VTB24 arranged a structured transaction related to its car loan portfolio in the amount of RUB 14.0 billion through a sale to a special purpose entity, which further attracted funds through a secured loan deal in the amount of U.S. \$275 million with expected maturity in August 2014. The USD loan bears a floating interest rate of monthly LIBOR plus 1.50% per annum, payable monthly;
- In August 2012, VTB issued an additional U.S. \$500 million in Series 15 Eurobonds under its EMTN Programme maturing April 12, 2017 with a fixed coupon rate of 6.00% per annum payable semi-annually, resulting in an aggregate principal amount of U.S. \$2.0 billion in Series 15 Eurobonds;
- In September 2012, VTB placed RUB 10 billion in stock exchange bonds maturing in September 2015 with a coupon of 7.95% per annum for the first year, payable quarterly and with a put option in one year;
- In September 2012, VTB 24 issued RUB 4.0 billion and RUB 2.0 billion in mortgage backed bonds with fixed coupon rates of 9.00% and 3.00%, respectively, payable quarterly, and secured by a portfolio of mortgage loans;

- In September 2012, VTB issued CHF 600 million in Series 19 Eurobonds under its EMTN Programme maturing in September 2016 with a fixed coupon of 3.15% per annum payable semi-annually;
- On October 4, 2012, VTB placed two series of stock exchange bonds totalling RUB 30 billion maturing in October 2015 with a fixed coupon rate of 8.41% per annum payable quarterly;
- On October 17, 2012, VTB issued U.S. \$1.5 billion in Series 21 Subordinated Loan Participation Notes under its EMTN Programme maturing in October 2022 with a fixed coupon of 6.95% per annum payable semi-annually; and
- On October 30, 2012, VTB issued CNY 1.0 billion in Series 22 Loan Participation Notes under its EMTN Programme maturing in October 2015 with a fixed coupon of 4.50% per annum payable semi-annually.

## Results of Operations

As discussed in “Business—Acquisition of TCB”, on December 31, 2010 the Group acquired control over TCB. Assets and liabilities of TCB were included in the Group’s consolidated statement of financial position as of December 31, 2010. The acquisition had no impact on the Group’s consolidated income statement for 2010. To improve the comparability of 2010 numbers, TCB balances were included as tabular data as of December 31, 2010, but have been excluded for the purpose of the discussion of financial position as of December 31, 2010, unless noted otherwise. Average balances and rates for 2010 have also been calculated excluding TCB.

As discussed under “—Key Factors Affecting Results of Operations and Capital Structure—Acquisition of the Bank of Moscow”, on September 30, 2011 the Group acquired control over the Bank of Moscow. The assets and liabilities of the Bank of Moscow were included in the Group’s consolidated statement of financial position as of September 30, 2011. Accordingly, average balances and rates for 2011 have been calculated on the basis including the Bank of Moscow as at December 31, 2011, an average of the amounts including and excluding the Bank of Moscow as of September 30, 2011, and excluding the Bank of Moscow for all prior dates.

The following table sets forth the components of the Group’s net profit for the periods indicated.

|                                                                                                                                       | For the<br>six months ended June<br>30, |             | For the year ended December 31, |                   |              |
|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|---------------------------------|-------------------|--------------|
|                                                                                                                                       | 2012                                    | 2011        | 2011                            | 2010<br>(audited) | 2009         |
|                                                                                                                                       | (unaudited) (RUB bln)                   |             | (RUB bln)                       |                   |              |
| Interest income .....                                                                                                                 | 259.0                                   | 176.6       | 416.7                           | 330.5             | 373.7        |
| Interest expense .....                                                                                                                | (146.6)                                 | (81.5)      | (189.7)                         | (159.4)           | (221.5)      |
| Net interest income .....                                                                                                             | 112.4                                   | 95.1        | 227.0                           | 171.1             | 152.2        |
| Provision charge for impairment of debt financial assets .....                                                                        | (32.3)                                  | (17.3)      | (31.6)                          | (51.6)            | (154.7)      |
| <b>Net interest income/(expense) after provision for impairment .....</b>                                                             | <b>80.1</b>                             | <b>77.8</b> | <b>195.4</b>                    | <b>119.5</b>      | <b>(2.5)</b> |
| Net fee and commission income .....                                                                                                   | 21.8                                    | 17.9        | 39.2                            | 24.7              | 21.0         |
| (Losses net of gains)/gains less losses arising from financial instruments at fair value through profit or loss .....                 | (4.0)                                   | 9.1         | (30.8)                          | 14.8              | (21.3)       |
| Gains less losses/(losses net of gains) from available-for-sale financial assets .....                                                | 2.8                                     | 0.4         | 4.1                             | (0.1)             | 1.1          |
| (Losses net of gains)/gains less losses arising from extinguishment of liability .....                                                | (0.9)                                   | —           | (0.7)                           | —                 | 14.7         |
| Gains/(losses) on initial recognition of financial instruments, restructuring and other gains/(losses) on loans and advances to ..... | 9.4                                     | 9.9         | 20.2                            | (0.2)             | (19.7)       |

|                                                                                                       | For the<br>six months ended June<br>30, |              | For the year ended December 31, |              |               |
|-------------------------------------------------------------------------------------------------------|-----------------------------------------|--------------|---------------------------------|--------------|---------------|
|                                                                                                       | 2012                                    | 2011         | 2011                            | 2010         | 2009          |
|                                                                                                       | (unaudited) (RUB bln)                   |              | (audited)<br>(RUB bln)          |              |               |
| customers .....                                                                                       |                                         |              |                                 |              |               |
| Gains less losses/(losses net of gains) arising from dealing in<br>foreign currencies.....            | 25.0                                    | 26.0         | 6.1                             | (7.5)        | (12.4)        |
| Foreign exchange translation (losses net of gains)/gains less losses<br>.....                         | (17.9)                                  | (14.6)       | (6.5)                           | 12.1         | 26.6          |
| Share in income/(loss) of associates and joint ventures.....                                          | 0.5                                     | 1.5          | 7.5                             | (0.7)        | 0.3           |
| Provision charge for impairment of other assets, credit related<br>commitments and legal claims ..... | (0.1)                                   | (1.5)        | (1.4)                           | (2.2)        | (1.7)         |
| Income arising from non-banking activities .....                                                      | 20.4                                    | 8.8          | 20.4                            | 11.0         | 2.8           |
| Expenses arising from non-banking activities .....                                                    | (11.7)                                  | (4.5)        | (9.1)                           | (7.2)        | (1.1)         |
| Other operating income .....                                                                          | 4.5                                     | 3.4          | 9.2                             | 3.1          | 3.0           |
| <b>Net Non-interest income</b> .....                                                                  | <b>49.8</b>                             | <b>56.4</b>  | <b>58.2</b>                     | <b>47.8</b>  | <b>13.3</b>   |
| <b>Operating income</b> .....                                                                         | <b>129.9</b>                            | <b>134.2</b> | <b>253.6</b>                    | <b>167.3</b> | <b>10.8</b>   |
| Staff costs and administrative expenses.....                                                          | (87.1)                                  | (67.3)       | (141.5)                         | (95.1)       | (76.4)        |
| Impairment of goodwill .....                                                                          | —                                       | —            | —                               | (1.1)        | (3.7)         |
| Gain from disposal of subsidiaries and associates.....                                                | 1.0                                     | 1.5          | 3.4                             | —            | 1.0           |
| <b>Profit/(loss) before taxation</b> .....                                                            | <b>43.8</b>                             | <b>68.4</b>  | <b>115.5</b>                    | <b>71.1</b>  | <b>(68.3)</b> |
| Income tax (expense)/recovery .....                                                                   | (10.2)                                  | (14.8)       | (25.0)                          | (16.3)       | 8.7           |
| <b>Net profit/(loss)</b> .....                                                                        | <b>33.6</b>                             | <b>53.6</b>  | <b>90.5</b>                     | <b>54.8</b>  | <b>(59.6)</b> |
| Attributable to:                                                                                      |                                         |              |                                 |              |               |
| Shareholders of the parent .....                                                                      | 32.8                                    | 53.4         | 89.4                            | 58.2         | (63.4)        |
| Non-controlling interests .....                                                                       | 0.8                                     | 0.2          | 1.1                             | (3.4)        | 3.8           |

### ***Results of Operations for the Six months ended June 30, 2012 and 2011***

The Group generated a net profit of RUB 33.6 billion during the six months ended June 30, 2012, a decrease of RUB 20.0 billion, or 37.3%, from RUB 53.6 billion in the six months ended June 30, 2011. The decrease in net profit in the first six months of 2012 as compared to the same period in 2011 resulted primarily from a RUB 19.8 billion increase in staff costs, a RUB 15.0 billion increase in provision charge for impairment of debt financial assets and a RUB 13.1 billion change in gains less losses arising from financial instruments at fair value through profit or loss from RUB 9.1 billion for the six months ended June 30, 2011 to RUB (4.0) billion for the same period in 2012. The negative trends were partially compensated by a RUB 17.3 billion increase in net interest income and a RUB 4.4 billion increase in net income arising from non-banking activities.

#### ***Net Interest Income***

Net interest income has historically been the largest component of the Group's operating income. Net interest income is determined by the differential between the interest rates that the Group receives on its interest-earning assets and the interest rates that it pays on its interest-bearing liabilities, as well as the volumes of such assets and liabilities.

In the six months ended June 30, 2012, net interest income before provision for impairment increased by 18.2% to RUB 112.4 billion, from RUB 95.1 billion in the six months ended June 30, 2011. This increase primarily reflected greater growth in average lending volumes than in interest-bearing liabilities.

Net interest spread represents the difference between the annualised average interest rate on interest-earning assets and the annualised average interest rate on interest-bearing liabilities. The Group's net interest spread decreased to 4.1% in the six months ended June 30, 2012 from 4.6% in the six months ended

June 30, 2011, largely reflecting increased interest rates on the Group's interest-bearing liabilities. See "Selected Statistical and Other Information".

Net interest margin represents the annualised ratio of net interest income before the provision for impairment to average interest-earning assets. The Group's net interest margin decreased to 4.0% in the six months ended June 30, 2012 from 4.8% in the six months ended June 30, 2011. The decrease in net interest margin was primarily attributable to increased levels of interest-earning assets as well as the additional interest expense arising from consolidation of the Bank of Moscow. See "Selected Statistical and Other Information".

### Interest Income

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

|                                           | For the six months ended June 30, |                                  |                                  |                                  |
|-------------------------------------------|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|                                           | 2012<br>(unaudited)<br>(RUB bln)  | % of total<br>interest<br>income | 2011<br>(unaudited)<br>(RUB bln) | % of total<br>interest<br>income |
| <b>Interest income</b>                    |                                   |                                  |                                  |                                  |
| Loans and advances to customers.....      | 235.4                             | 90.9                             | 159.3                            | 90.2                             |
| Securities <sup>(1)</sup> .....           | 16.6                              | 6.4                              | 13.0                             | 7.4                              |
| Due from other banks <sup>(2)</sup> ..... | 7.0                               | 2.7                              | 4.3                              | 2.4                              |
| <b>Total interest income</b> .....        | <b>259.0</b>                      | <b>100.0</b>                     | <b>176.6</b>                     | <b>100.0</b>                     |

(1) Consists of interest income arising on financial assets at fair value through profit and loss as well as other financial assets.

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

In the six months ended June 30, 2012, total interest income increased by 46.7% to RUB 259.0 billion from RUB 176.6 billion in the six months ended June 30, 2011, primarily due to the increase in average balances of interest-earning assets from RUB 3,950.0 billion to RUB 5,650.1 billion, including the effect of the consolidation of the Bank of Moscow.

The increase in interest income on loans and advances to customers, by 47.8% to RUB 235.4 billion in the six months ended June 30, 2012 from RUB 159.3 billion in the six months ended June 30, 2011, was driven by growth in average balances of loans and advances to customers from RUB 3,135.0 billion to RUB 4,710.5 billion, as well as consolidation of the Bank of Moscow. The increase was partly offset by the decrease in the annualised interest rate from 10.2% to 10.0%, which was in line with general trends in the Russian lending market.

Interest income on securities increased by 27.7%, to RUB 16.6 billion, in the six months ended June 30, 2012, from RUB 13.0 billion in the six months ended June 30, 2011 due to increased average balances accompanied by a slight increase in annualised average interest rates.

Interest income on amounts due from other banks increased to RUB 7.0 billion in the six months ended June 30, 2012 compared to RUB 4.3 billion in the same period in 2011, resulting from increased annualised average interest rates from 1.9% to 2.8%.

### Interest Expense

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

|                                             | For the six months ended June 30, |                                   |                                  |                                   |
|---------------------------------------------|-----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|
|                                             | 2012<br>(unaudited)<br>(RUB bln)  | % of total<br>interest<br>expense | 2011<br>(unaudited)<br>(RUB bln) | % of total<br>interest<br>expense |
| <b>Interest expense</b>                     |                                   |                                   |                                  |                                   |
| Customer deposits.....                      | (81.9)                            | 55.9                              | (47.2)                           | 57.9                              |
| Due to banks and other borrowed funds ..... | (30.1)                            | 20.5                              | (6.9)                            | 8.5                               |
| Debt securities issued .....                | (25.1)                            | 17.1                              | (19.2)                           | 23.6                              |
| Subordinated debt .....                     | (9.5)                             | 6.5                               | (8.2)                            | 10.1                              |
| <b>Total interest expense .....</b>         | <b>(146.6)</b>                    | <b>100.0</b>                      | <b>(81.5)</b>                    | <b>100.0</b>                      |

In the six months ended June 30, 2012, total interest expense increased by 79.9% to RUB 146.6 billion from RUB 81.5 billion in the same period in 2011, due to increases in both the average balances and the annualised interest rate on interest-bearing liabilities.

Interest expense on customer deposits increased by 73.5% to RUB 81.9 billion in the six months ended June 30, 2012 from RUB 47.2 billion in the same period in 2011, primarily due to an increase in the average balance of customer deposits to RUB 3,425.3 billion from RUB 2,406.9 billion, as well as an increase in the annualised average interest rates to 4.8% from 3.9%.

Interest expense on debt securities issued increased by 30.7%, to RUB 25.1 billion, in the six months ended June 30, 2012 from RUB 19.2 billion in the same period in 2011, largely due to increased average balances of debt securities issued, to RUB 804.3 billion from RUB 578.9 billion, partially offset by a decrease in annualised average interest rates.

Interest expense on subordinated debt increased by 15.9%, to RUB 9.5 billion, in the six months ended June 30, 2012 from RUB 8.2 billion in the same period in 2011, due to the growth in the average balances of subordinated debt, partially offset by a slight decrease in annualised average interest rates.

Interest expense on amounts due to other banks and other borrowed funds increased by 336.2% to RUB 30.1 billion in the six months ended June 30, 2012 from RUB 6.9 billion in the six months ended June 30, 2011, mainly due to the growth in the annualised average interest rate to 4.6% from 2.4% as well as increased average balances.

#### *Provision for Impairment*

Provision for impairment represents provision charges or recoveries of provisions made for loans and advances to customers, as well as for amounts due from other banks and investment securities held-to-maturity. The following table sets forth the Group's provision charge for impairment and relevant ratios for the periods indicated.

|                                                                                                                  | For the six months ended June 30, |                     |
|------------------------------------------------------------------------------------------------------------------|-----------------------------------|---------------------|
|                                                                                                                  | 2012<br>(unaudited)               | 2011<br>(unaudited) |
|                                                                                                                  | (RUB bln)                         |                     |
| Provision charge for impairment on loans and advances to customers.....                                          | 32.3                              | 17.8                |
| Reversal of provision for impairment on due from other banks .....                                               | (0.1)                             | (0.5)               |
| <b>Total provision charge for impairment of debt financial assets .....</b>                                      | <b>(32.2)</b>                     | <b>(17.3)</b>       |
| Provision charge for impairment on customer loans and advances/average gross customer loans <sup>(1)</sup> ..... | 1.4%                              | 1.1%                |

(1) Annualised ratio

Provision charge for impairment reflects net changes in the allowance for impairment on customer loans and advances. It typically reflects changes in the size of the total loan portfolio, the probability of defaults and the estimated loss of a given default.

Provision charge for impairment on loans and advances to customers increased from RUB 17.8 billion in the six months ended June 30, 2011 to RUB 32.3 billion in the six months ended June 30, 2012, which was attributable to countercyclical planning by management leading to an increase in reserves against corporate loans. Accordingly, provision charge for impairment on loans and advances to corporate customers increased to RUB 21.0 billion in the six months ended June 30, 2012 from RUB 13.8 billion in the same period in 2011 and provision charge for impairment on loans and advances to individuals increased to RUB 11.4 billion in the six months ended June 30, 2012 from RUB 4.0 billion in the same period in 2011. Total provision charge for impairment of debt financial assets increased to 1.4% of the average gross loan portfolio in the six months ended June 30, 2012, as compared to 1.1% in the six months ended June 30, 2011.

#### *Non-Interest Income*

The Group generates non-interest income from net results from financial instruments, net fee and commission income and certain other operating income items. In the six months ended June 30, 2012, the Group had total non-interest income of RUB 49.8 billion, a decrease of 11.7% from RUB 56.4 billion in the six months ended June 30, 2011.

Net fee and commission income depends primarily on the volume of transactions with customers and counterparties. Net fee and commission income increased by 21.8% to RUB 21.8 billion in the six months ended June 30, 2012, from RUB 17.9 billion in the same period of 2011. This increase was primarily attributable to consolidation of the Bank of Moscow as well as further expansion of the Group's retail customer base, which led to an increase in the volume of commission-generating transactions and to the development of new retail products.

The following table sets forth the components of the Group's net fee and commission income for the periods indicated.

|                                                     | <b>For the six months ended<br/>June 30,</b> |              |
|-----------------------------------------------------|----------------------------------------------|--------------|
|                                                     | <b>2012</b>                                  | <b>2011</b>  |
|                                                     | <b>(unaudited)</b>                           |              |
|                                                     | <b>(RUB bln)</b>                             |              |
| <b>Fee and commission income</b>                    |                                              |              |
| Settlement transactions .....                       | 15.6                                         | 10.7         |
| Guarantees issued and trading finance.....          | 4.3                                          | 2.7          |
| Cash transactions.....                              | 3.3                                          | 1.9          |
| Operations with securities and capital markets..... | 2.5                                          | 4.1          |
| Other.....                                          | 1.5                                          | 1.4          |
| <b>Total fee and commission income.....</b>         | <b>27.2</b>                                  | <b>20.8</b>  |
| <b>Fee and commission expense</b>                   |                                              |              |
| Settlement transactions .....                       | (3.3)                                        | (1.8)        |
| Cash transactions .....                             | (1.2)                                        | (0.6)        |
| Other.....                                          | (0.9)                                        | (0.5)        |
| <b>Total fee and commission expense.....</b>        | <b>(5.4)</b>                                 | <b>(2.9)</b> |
| <b>Net fee and commission income.....</b>           | <b>21.8</b>                                  | <b>17.9</b>  |

The Group recognized a loss of RUB 4.0 billion from financial instruments at fair value through profit or loss in the six months ended June 30, 2012, compared to a gain of RUB 9.1 billion in the six months ended June 30, 2011. The change in the six months ended June 30, 2012 as compared to the same period in 2011 resulted primarily from losses on derivative instruments.

Gains less losses from dealing in foreign currencies represent the difference between spot rates and contract rates on customer foreign exchange transactions, as well as realised and unrealised gains and losses on the “second leg” (as defined below) of currency swaps and forward and futures transactions, which are primarily used for mitigation of the Group’s exposure to currency risk (“**currency hedging**”). The open currency risk is limited under applicable CBR regulations, which impose limits on aggregated (including balance and off-balance-sheet) open positions in each currency or precious metal as 10% of statutory equity, and for aggregated total open positions (long and short positions are summarised separately) as 20% of statutory equity.

In the normal course of business, the Group enters into currency swaps, which combine an initial spot deal (the “**first leg**”) and a subsequent reverse forward deal (the “**second leg**”). The open currency balance sheet positions of the Group are hedged through these swaps, which mitigate the Group’s exposure to currency risk. The revaluation of the on-balance sheet open currency positions that arise from the first leg of the currency swap transactions (the spot deal) is reflected as foreign exchange translation gains less losses, while the revaluation of the off-balance-sheet second leg (the reverse forward deal) is reflected as gains less losses from dealing in foreign currencies. Consequently, gains and losses arising from dealing in foreign currencies on the second leg of currency swaps are compensated substantially by matching losses and gains from revaluation of the first leg of the swaps, reflected as foreign exchange translation gains less losses.

The Group recognized gains from dealing in foreign currencies of RUB 25.0 billion in the six months ended June 30, 2012, as compared to gains of RUB 26.0 billion in the six months ended June 30, 2011. These results represented net gains from customer foreign exchange transactions in the normal course of business and realised and unrealised gains on FX derivative financial instruments entered into by the Group for currency hedging of the Group’s spot open currency positions. As noted above, with respect to the currency FX derivative instruments, such amounts were balanced by matching losses from revaluation of the Group’s spot open currency positions (non-derivative assets and liabilities denominated in foreign currencies) within foreign exchange translation gains less losses.

Foreign exchange translation gains less losses represent the impact of translating the Group’s entities’ assets and liabilities denominated in currencies other than their functional currencies, including those arising from the first leg of currency swap transactions, into their functional currencies.

The Group had a net loss from foreign exchange translation of RUB 17.9 billion in the six months ended June 30, 2012 as compared to a loss of RUB 14.6 billion in the same period in 2011.

In the six months ended June 30, 2012, net income on non-banking activities increased by RUB 4.4 billion, to RUB 8.7 billion, from RUB 4.3 billion in the same period in 2011.

#### *Staff Costs and Administrative Expenses*

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

|                                                                        | For the six months ended June 30, |            |           |            |
|------------------------------------------------------------------------|-----------------------------------|------------|-----------|------------|
|                                                                        | 2012                              |            | 2011      |            |
|                                                                        | (unaudited)                       |            |           |            |
|                                                                        | (RUB bln)                         | % of total | (RUB bln) | % of total |
| Staff costs .....                                                      | 42.8                              | 49.1       | 36.4      | 54.1       |
| Depreciation and other expenses related to premises and equipment..... | 9.2                               | 10.6       | 7.8       | 11.6       |
| Leasing and rent expenses .....                                        | 4.5                               | 5.2        | 2.9       | 4.3        |
| Defined contribution pension expense.....                              | 4.1                               | 4.7        | 2.9       | 4.3        |
| Taxes other than on income.....                                        | 4.0                               | 4.6        | 3.0       | 4.5        |
| Professional services.....                                             | 3.3                               | 3.8        | 2.3       | 3.4        |
| Impairment, amortisation and other expenses related to                 | 2.8                               | 3.2        | 1.5       | 2.2        |

| For the six months ended June 30,                                                       |             |              |             |              |
|-----------------------------------------------------------------------------------------|-------------|--------------|-------------|--------------|
| 2012                                                                                    |             | 2011         |             |              |
|                                                                                         | (RUB bln)   | (unaudited)  |             | % of total   |
|                                                                                         |             | % of total   | (RUB bln)   |              |
| intangibles, except for amortisation of core deposit and customer loan intangible ..... |             |              |             |              |
| Advertising expenses .....                                                              | 2.6         | 3.0          | 2.0         | 3.0          |
| Amortisation of core deposit and customer loan intangibles .....                        | 2.5         | 2.9          | 0.5         | 0.7          |
| Payments to deposit insurance system .....                                              | 2.3         | 2.6          | 1.6         | 2.4          |
| Post and telecommunication expenses .....                                               | 1.5         | 1.7          | 1.1         | 1.6          |
| Transport expenses .....                                                                | 1.2         | 1.4          | 0.8         | 1.2          |
| Security expenses .....                                                                 | 1.2         | 1.4          | 0.9         | 1.3          |
| Charity .....                                                                           | 1.1         | 1.3          | 0.9         | 1.3          |
| Insurance of own operations and assets .....                                            | 0.2         | 0.2          | 0.4         | 0.6          |
| Other .....                                                                             | 3.8         | 4.3          | 2.3         | 3.5          |
| <b>Total staff costs and administrative expenses .....</b>                              | <b>87.1</b> | <b>100.0</b> | <b>67.3</b> | <b>100.0</b> |
| <b>Efficiency ratio<sup>(1)</sup> .....</b>                                             | <b>64.9</b> |              | <b>59.6</b> |              |

(1) Efficiency ratio represents staff costs and administrative expenses divided by sum of net interest income and net fee and commission income.

Staff costs and administrative expenses increased by RUB 19.8 billion, or 29.4%, to RUB 87.1 billion in the six months ended June 30, 2012 from RUB 67.3 billion in the same period in 2011.

Staff costs are the largest component of staff costs and administrative expenses. Staff costs in the six months ended June 30, 2012 increased by 17.6% to RUB 42.8 billion from RUB 36.4 billion in the six months ended June 30, 2011, due to consolidation of the Bank of Moscow, and continued expansion of the Group's retail business. Administrative expenses other than staff costs increased by RUB 13.4 billion, or 43.4% to RUB 44.3 billion in the six months ended June 30, 2012, from RUB 30.9 billion in the six months ended June 30, 2011, due to general increases in costs and expenses resulting in part from consolidation of the Bank of Moscow and expansion of the Group's business.

#### *Income Tax Expense*

Income tax expense comprises the Group's current income tax charge and changes in deferred income tax. Taxes other than income taxes, such as property tax, are recorded within staff costs and administrative expenses. Income tax expense in respect of the current tax assets and liabilities is recognized based on the income tax rates enacted by the end of the reporting period in relevant tax jurisdictions where the Group is present. Income tax expense in respect of the deferred tax assets and liabilities is measured at the income tax rates that are expected to apply to the period when deferred assets are realized or liabilities are settled based on the income tax rates officially enacted by the end of the reporting period.

In the periods ended June 30, 2012 and 2011, the income tax rate applicable to the majority of the income of members of the Group ranged from 10% to 32%. In the six months ended June 30, 2012, the Group's effective income tax rate was 23%, as compared to 22% in the six months ended June 30, 2011, which was close to the theoretical tax rate of 20%. The effective tax rate in these periods was higher than the theoretical tax rate due to non-deductible expenses, the effect of changes in unrecognized deferred tax assets and income taxed at different rates.

#### *Results of Operations for the Years Ended December 31, 2011 and 2010*

The Group generated a net profit of RUB 90.5 billion during 2011, an increase of RUB 35.7 billion, or 65.1%, from RUB 54.8 billion in 2010. The increased net profit in 2011 resulted primarily from three factors: (i) a RUB 75.9 billion increase in net interest income after provision for impairment, reflecting an increase in net interest income attributable to a significant increase in lending volumes and a slowdown in

provision charge for impairment of debt financial assets due to further amelioration of the quality of customer loans and advances during the period; (ii) a RUB 20.4 billion change in net recovery of losses on initial recognition of financial instruments, restructuring and other gains/(losses) on loans and advances mainly arising from renegotiation of critical terms (for example, currency) on loans, issued during the crisis at non-market rates to support the Russian economy; and (iii) a RUB 14.5 billion increase in net fee and commission income generated in the ordinary course of business. The positive trends were partly leveled by RUB 45.6 billion change in losses net of gains arising from financial instruments at fair value through profit or loss, caused by negative trends in the financial markets in the second half of 2011. The Group acquired control over the Bank of Moscow as at September 30, 2011, which from the date of the Group's acquisition of a controlling interest until the end of the year contributed RUB 7.5 billion to the Group's net profit in 2011.

### *Net Interest Income*

Net interest income has historically been the largest component of the Group's operating income. Net interest income is determined by the differential between the interest rates that the Group receives on its interest-earning assets and the interest rates that it pays on its interest-bearing liabilities, as well as the volumes of such assets and liabilities. In the year ended December 31, 2011, net interest income before provision for impairment increased by 32.7% to RUB 227.0 billion, from RUB 171.1 billion in the year ended December 31, 2010. This increase primarily reflected increased lending volumes: the annualised average interest rate on interest-earning assets decreased to 9.2% in 2011 from 9.9% in 2010, and the annualised average interest rate on interest-bearing liabilities decreased to 4.3% in 2011 from 5.3% in 2010.

The Group's net interest spread increased to 4.9% in 2011 from 4.6% in 2010 due to the factors described above. The average interest rate on interest-bearing liabilities decreased from 5.3% during 2010 to 4.3% during 2011, and the average interest rate on interest-earning assets decreased from 9.9% to 9.2% during the same periods. The Group's net interest margin remained relatively flat at the level of 5.0% in 2011, compared to 5.1% in 2010.

### *Interest Income*

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

|                                                                   | For the year ended December 31, |                                  |                                |                                  |
|-------------------------------------------------------------------|---------------------------------|----------------------------------|--------------------------------|----------------------------------|
|                                                                   | 2011<br>(audited)<br>(RUB bln)  | % of total<br>interest<br>income | 2010<br>(audited)<br>(RUB bln) | % of total<br>interest<br>income |
| <b>Interest income</b>                                            |                                 |                                  |                                |                                  |
| Loans and advances to customers.....                              | 376.7                           | 90.4                             | 301.5                          | 91.2                             |
| Other financial assets, including securities <sup>(1)</sup> ..... | 31.2                            | 7.5                              | 21.9                           | 6.6                              |
| Due from other banks <sup>(2)</sup> .....                         | 8.8                             | 2.1                              | 7.1                            | 2.2                              |
| <b>Total interest income</b> .....                                | <b>416.7</b>                    | <b>100.0</b>                     | <b>330.5</b>                   | <b>100.0</b>                     |

(1) Consists of interest income arising on financial assets at fair value through profit or loss as well as interest income arising on other financial assets.

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

In the year ended December 31, 2011, total interest income increased by 26.1% to RUB 416.7 billion from RUB 330.5 billion in the year ended December 31, 2010. This growth resulted from the increase in the average balances of interest-earning assets, from RUB 3,337.2 billion to RUB 4,533.7 billion, reflecting the overall expansion of the Group's business (including the consolidation of the Bank of Moscow with effect

from September 30, 2011), partially offset by a decrease in annualised average interest rates to 9.2% in 2011 from 9.9% in 2010, also related to the overall expansion of the Group's business.

The increase in interest income on loans and advances to customers, by 24.9% to RUB 376.7 billion in the year ended December 31, 2011 from RUB 301.5 billion in the year ended December 31, 2010, was driven primarily by overall growth in the Group's loan portfolio resulting from expansion of the Group's business and increased average balances of loans and advances to customers from RUB 2,713.5 billion in 2010 to RUB 3,658.7 billion in 2011. These increased balances were partially offset by a decrease in the annualised average interest rates on loans and advances to customers to 10.3% in 2011 from 11.1% in 2010.

Interest income on other financial assets, including securities, increased by 42.5% to RUB 31.2 billion in 2011 compared to RUB 21.9 billion in 2010 due to the overall increase of the average balance of the securities portfolio, partly offset by a decrease in the average interest rate to 7.8% in 2011 from 8.7% in 2010.

Interest income on amounts due from other banks increased by 23.9% to RUB 8.8 billion in 2011 compared to RUB 7.1 billion in 2010, attributable to increased average balances, as the average annualised interest rate declined slightly from 1.9% to 1.8% for the period.

### *Interest Expense*

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

|                                             | For the year ended December 31,   |              |                                   |              |
|---------------------------------------------|-----------------------------------|--------------|-----------------------------------|--------------|
|                                             | % of total<br>interest<br>expense |              | % of total<br>interest<br>expense |              |
|                                             | 2011<br>(audited)<br>(RUB bln)    |              | 2010<br>(audited)<br>(RUB bln)    |              |
| <b>Interest expense</b>                     |                                   |              |                                   |              |
| Customer deposits.....                      | (112.6)                           | 59.3         | (85.9)                            | 53.9         |
| Debt securities issued .....                | (36.8)                            | 19.4         | (40.1)                            | 25.1         |
| Due to banks and other borrowed funds ..... | (23.1)                            | 12.2         | (16.4)                            | 10.3         |
| Subordinated debt.....                      | (17.2)                            | 9.1          | (17.0)                            | 10.7         |
| <b>Total interest expense .....</b>         | <b>(189.7)</b>                    | <b>100.0</b> | <b>(159.4)</b>                    | <b>100.0</b> |

In 2011, total interest expense increased by 19.0% to RUB 189.7 billion from RUB 159.4 billion 2010. The increase was mainly due to increased average balances of interest-bearing liabilities, from RUB 3,011.4 billion in 2010 to RUB 4,457.6 billion in 2011, more than offsetting the effect of the decrease in interest rates from 5.3% in 2010 to 4.3% in 2011.

Interest expense on customer deposits increased by 31.1% to RUB 112.6 billion in 2011 from RUB 85.9 billion in 2010, primarily due to increased average balances of customer deposits, by 64.3% to RUB 2,822.4 billion in 2011 from RUB 1,717.5 billion in 2010, partially offset by a decline in the average interest rate to 4.0% in 2011 from 5.0% in 2010.

Interest expense on debt securities issued decreased by 8.2%, to RUB 36.8 billion in 2011 from RUB 40.1 billion, largely due to replacement of debt securities bearing higher rates with securities bearing lower rates.

Interest expense on amounts due to other banks and other borrowed funds increased by 40.9% to RUB 23.1 billion in 2011 from RUB 16.4 billion in 2010, mainly due to an increase in average balances from RUB 576.5 billion in 2010 to RUB 810.9 billion in 2011. The increase in average balances resulted primarily from the consolidation of the Bank of Moscow.

Interest expense on subordinated debt increased by 1.2%, to RUB 17.2 billion in 2011 from RUB 17.0 billion in 2010, reflecting an increase in average balances to RUB 216.7 billion in 2011 from RUB 188.4 billion, which increase was primarily attributable to the consolidation of the Bank of Moscow, partly offset by a decline in the average annualised interest rate from 9.0% to 7.9%.

### *Provision for Impairment*

Provision for impairment represents provision charges or recoveries of provisions made for loans and advances to customers, as well as for amounts due from other banks and investment securities held-to-maturity. The following table sets forth the provision charge for impairment and relevant ratios for the periods indicated.

|                                                                                                                  | For the year ended December 31, |             |
|------------------------------------------------------------------------------------------------------------------|---------------------------------|-------------|
|                                                                                                                  | 2011                            | 2010        |
|                                                                                                                  | (audited)                       | (audited)   |
|                                                                                                                  | (RUB bln)                       | (RUB bln)   |
| Provision charge for impairment on loans and advances to customers.....                                          | 31.9                            | 50.2        |
| (Reversal of)/provision charge for impairment on due from other banks.....                                       | (0.3)                           | 1.6         |
| Reversal of provision for impairment on investment securities held-to-maturity                                   | —                               | (0.2)       |
| <b>Total provision charge for impairment on debt financial assets .....</b>                                      | <b>31.6</b>                     | <b>51.6</b> |
| Provision charge for impairment on customer loans and advances/average gross customer loans <sup>(1)</sup> ..... | 0.9%                            | 1.9%        |

(1) Unaudited

Provision charge for impairment reflects net changes in the allowance for impairment on customer loans and advances. It typically reflects changes in the size of the total loan portfolio, the probability of defaults and the estimated loss of a given default.

Provision charge for impairment on loans and advances to customers decreased from RUB 50.2 billion in 2010 to RUB 31.9 billion in 2011, which was attributable to improvements in the quality of the loan portfolio as well as improved economic conditions in the Russian Federation, where the majority of the Group's borrowers are located. Provision charge for impairment on loans and advances to corporate customers decreased to RUB 20.9 billion in 2011 from RUB 39.3 billion in 2010. Provision charge for impairment on loans and advances to individuals increased to RUB 11.0 billion in 2011 from RUB 10.9 billion in 2010. Provision charge decreased to 0.9% of the average gross loan portfolio in 2011, as compared to 1.9% in 2010.

### *Non-Interest (Loss)/Income*

The Group generates non-interest income from net results from financial instruments, net fee and commission income and certain other operating income items. In 2011, the Group had total non-interest income of RUB 58.2 billion, an increase of 21.8% from RUB 47.8 billion in 2010, resulting from increased net fee and commission income.

Net fee and commission income depends primarily on the volume of transactions with customer and counterparties. Net fee and commission income increased by 58.7% to RUB 39.2 billion in 2011, from RUB 24.7 billion in 2010. This increase was primarily attributable to further expansion of the Group's retail business, which led to an increase in the volume of commission-generating transactions and to the development of new retail products.

The following table sets forth the components of the Group's net fee and commission income for the periods indicated.

|                                                     | For the year ended December 31, |              |
|-----------------------------------------------------|---------------------------------|--------------|
|                                                     | 2011                            | 2010         |
|                                                     | (audited)                       |              |
|                                                     | (RUB bln)                       |              |
| <b>Fee and commission income</b>                    |                                 |              |
| Settlement transactions .....                       | 24.8                            | 15.4         |
| Guarantees issued and trading finance.....          | 6.6                             | 3.9          |
| Cash transactions .....                             | 5.3                             | 2.9          |
| Operations with securities and capital markets..... | 5.9                             | 4.5          |
| Other .....                                         | 4.8                             | 2.1          |
| <b>Total fee and commission income</b> .....        | <b>47.4</b>                     | <b>28.8</b>  |
| <b>Fee and commission expense</b>                   |                                 |              |
| Settlement transactions .....                       | (5.0)                           | (2.2)        |
| Cash transactions .....                             | (1.9)                           | (1.0)        |
| Other .....                                         | (1.3)                           | (0.9)        |
| <b>Total fee and commission expense</b> .....       | <b>(8.2)</b>                    | <b>(4.1)</b> |
| <b>Net fee and commission income</b> .....          | <b>39.2</b>                     | <b>24.7</b>  |

The Group recognised a loss of RUB 30.8 billion from financial instruments at fair value through profit or loss in 2011, compared to a gain of RUB 14.8 billion gain in 2010. The losses in 2011 resulted primarily from the negative valuation of financial instruments, including derivatives.

In 2011, the Group recognised a RUB 4.1 billion realized gain from financial assets available-for-sale compared to a net loss of RUB 0.1 billion in 2010. The net gain in 2011 resulted from gain realized on the sale of available-for-sale financial assets.

During 2011, the Group recognized net recoveries on initial recognition and restructuring of financial instruments, restructuring and other gains and losses on loans and advances to customers of RUB 20.2 billion, as compared to losses of RUB 0.2 billion in 2010. This gain arose from renegotiation of key terms on loans that had been issued previously on non-market terms, and the corresponding reversal of losses on such loans that had been recognized in prior periods.

The Group recognized gains from dealing in foreign currencies of RUB 6.1 billion in 2011, as compared to losses of RUB 7.5 billion in 2010. These results represented a net loss and gain from customer foreign exchange transactions in the normal course of business and realised and unrealised gains and losses on the second leg of currency swaps entered into by the Group for currency hedging. As noted above, for currency swap transactions, such gains and losses were compensated by matching losses and gains from revaluation of the first leg of the swap recorded within foreign exchange translation gains less losses.

Foreign exchange translation gains less losses represent the impact of translating the Group's entities' assets and liabilities denominated in currencies other than their functional currencies, including those arising from the first leg of currency swap transactions, into their functional currencies.

The Group had a net loss from foreign exchange translations of RUB 6.5 billion in 2011 and a gain of RUB 12.1 billion in 2010. The loss in 2011 reflected primarily the significant appreciation of the U.S. dollar against the Russian Ruble during the year, leading to losses when long U.S. dollar positions were redenominated in rubles, which is the functional currency of the Group's Russian entities. The gains in 2010 primarily reflected translation gains on revaluation of the Group's positions in Euro into rubles, and depreciation of the Euro against the ruble during this period.

## Impairment of Goodwill

In 2010 the Group wrote off goodwill of RUB 1.1 billion through impairment charge, mainly related to the acquisition of OJSC PL Kamelia, due to uncertainty about future cash inflows and the economic viability of this business. The Group did not recognize any impairment of goodwill in 2011.

## Staff Costs and Administrative Expenses

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

|                                                                                                                              | For the year ended December 31, |              |              |              |
|------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------|--------------|--------------|
|                                                                                                                              | 2011                            | (audited)    | 2010         |              |
|                                                                                                                              | (RUB bln)                       | % of total   | (RUB bln)    | % of total   |
| Staff costs .....                                                                                                            | 69.2                            | 48.9         | 47.3         | 49.7         |
| Depreciation and other expenses related to premises and equipment .....                                                      | 16.9                            | 11.9         | 11.6         | 12.2         |
| Taxes other than on income .....                                                                                             | 7.3                             | 5.2          | 5.0          | 5.3          |
| Leasing and rent expenses .....                                                                                              | 6.6                             | 4.7          | 4.8          | 5.0          |
| Advertising expenses .....                                                                                                   | 5.8                             | 4.1          | 4.2          | 4.4          |
| Defined contribution pension expense .....                                                                                   | 5.4                             | 3.8          | 3.1          | 3.3          |
| Professional services .....                                                                                                  | 5.3                             | 3.8          | 4.7          | 4.9          |
| Impairment, amortization and other expenses related to intangibles, except for amortisation of core deposit intangible ..... | 4.3                             | 3.0          | 2.1          | 2.2          |
| Payments to deposit insurance system .....                                                                                   | 3.5                             | 2.5          | 2.2          | 2.3          |
| Post and telecommunication expenses .....                                                                                    | 2.8                             | 2.0          | 2.0          | 2.1          |
| Transport expenses .....                                                                                                     | 2.3                             | 1.6          | 1.2          | 1.3          |
| Charity .....                                                                                                                | 1.9                             | 1.3          | 1.5          | 1.6          |
| Security expenses .....                                                                                                      | 1.9                             | 1.3          | 1.3          | 1.4          |
| Amortization of core deposit and customer loan intangibles .....                                                             | 1.9                             | 1.3          | 1.0          | 1.1          |
| Insurance .....                                                                                                              | 0.5                             | 0.4          | 0.7          | 0.7          |
| Other .....                                                                                                                  | 5.9                             | 4.2          | 2.4          | 2.5          |
| <b>Total staff costs and administrative expenses .....</b>                                                                   | <b>141.5</b>                    | <b>100.0</b> | <b>95.1</b>  | <b>100.0</b> |
| <b>Efficiency ratio<sup>(1)</sup> .....</b>                                                                                  | <b>53.2%</b>                    |              | <b>48.6%</b> |              |

(1) Efficiency ratio represents staff costs and administrative expenses divided by sum of net interest income and net fee and commission income.

Staff costs and administrative expenses increased by 48.8%, to RUB 141.5 billion in 2011 from RUB 95.1 billion in 2010, reflecting the expansion of the Group's business, including the acquisition of TCB with effect from December 31, 2010 and the Bank of Moscow from September 30, 2011, and the corresponding increase in numbers of personnel.

In 2011, staff costs increased by 46.3% to RUB 69.2 billion from RUB 47.3 billion from in 2010, due to the acquisitions of the Bank of Moscow and TCB, as well as continued growth of the retail business. Administrative expenses other than staff costs increased by 51.3% to RUB 72.3 billion in 2011, from RUB 47.8 billion in 2010. The increase in administrative expenses other than staff costs was primarily attributable to an increase of RUB 5.3 billion, or 45.7%, in depreciation and other expenses related to premises and equipment, an increase in taxes other than on income of RUB 2.3 billion, or 46.0% an increase in defined contribution pension expense by RUB 2.3 billion, or 74.2%, and an increase in impairment, amortisation and other expenses related to intangibles, except for amortisation of core deposit intangibles, of RUB 2.2 billion, or 104.8% and an increase in other administrative expenses by RUB 3.5 billion, or 145.8%.

### *Income Tax Expense*

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

In the years ended December 31, 2011 and 2010, the Group's effective tax rate was 22%, which was close to the theoretical Russian statutory tax rate of 20%, as compared to 23% in the year ended December 31, 2009. The difference between the theoretical and actual income tax rates was mainly attributable to non-deductible expenses and changes in unrecognized deferred tax assets.

### ***Results of Operations for the Years Ended December 31, 2010 and 2009***

The Group generated a net profit of RUB 54.8 billion during 2010, and a net loss of RUB 59.6 billion in 2009. The increasing net profit in 2010 resulted primarily from three factors: (i) a RUB 103.1 billion reduction in provision charge for loan impairment, due to the abatement of negative trends in economic conditions in the Russian Federation; (ii) a RUB 36.1 billion positive change in gains less losses arising from financial assets at fair value through profit or loss, resulting primarily from the absence in 2010 of two negative factors that contributed to the loss in 2009, namely: (a) the change in 2009 from mark-to-model to mark-to-market valuation of certain financial instruments at fair value through profit or loss (see "*Critical Accounting Policies*") and (b) the discontinuation of hedge accounting due to the ineffectiveness of fair value hedges; and (iii) a RUB 18.9 billion increase in net interest income, reflecting a decrease in interest expense that outpaced the decrease in interest income during the period.

### *Net Interest Income*

In the year ended December 31, 2010, net interest income before provision for impairment increased by 12.4% to RUB 171.1 billion from RUB 152.2 billion in the year ended December 31, 2009.

Net interest spread represents the difference between the annualised average interest rate on interest-earning assets and the annualised average interest rate on interest-bearing liabilities. The Group's net interest spread increased to 4.6% in 2010 from 4.1% in 2009, as a result of a greater decrease in the average interest rate on interest-bearing liabilities (from 7.1% to 5.3%) as compared to the decrease in the average interest rate on interest-earning assets (from 11.2% to 9.9%). See "*Selected Statistical and Other Information*".

Net interest margin represents the annualised ratio of net interest income before provision for impairment to average interest-earning assets. The Group's net interest margin increased to 5.1% in 2010, compared to 4.6% in 2009. See "*Selected Statistical and Other Information*". The increase in net interest margin was primarily attributable to a reduction in high-interest rate funding sources, including amounts received from the CBR.

### *Interest Income*

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

|                                                   | For the year ended December 31, |                            |                        |                            |
|---------------------------------------------------|---------------------------------|----------------------------|------------------------|----------------------------|
|                                                   | 2010                            | % of total interest income | 2009                   | % of total interest income |
|                                                   | (audited)<br>(RUB bln)          |                            | (audited)<br>(RUB bln) |                            |
| <b>Interest income</b>                            |                                 |                            |                        |                            |
| Loans and advances to customers.....              | 301.5                           | 91.2                       | 343.9                  | 92.0                       |
| Other financial assets, including securities..... | 21.9                            | 6.6                        | 18.7                   | 5.0                        |
| Due from other banks <sup>(1)</sup> .....         | 7.1                             | 2.2                        | 11.1                   | 3.0                        |
| <b>Total interest income</b> .....                | <b>330.5</b>                    | <b>100.0</b>               | <b>373.7</b>           | <b>100.0</b>               |

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

In the year ended December 31, 2010, total interest income decreased by 11.6% to RUB 330.5 billion from RUB 373.7 billion in the year ended December 31, 2009.

The decrease in interest income on loans and advances to customers, by 12.3% to RUB 301.5 billion in the year ended December 31, 2010 from RUB 343.9 billion in the year ended December 31, 2009, was driven primarily by the decrease of the average interest rates on loans and advances to customers from 12.7% in the year ended December 31, 2009 to 11.1% in the year ended December 31, 2010, though the average balance of loans and advances to customers increased slightly as a result of growth in the Group's lending activity.

Interest income on other financial assets, including securities increased by 17.1% to RUB 21.9 billion in 2010 compared to RUB 18.7 billion in 2009 due to the overall increase of the average balance of the securities portfolio, partly offset by the decrease in the average interest rate to 8.7% in 2010 from 9.8% in 2009.

Interest income on amounts due from other banks decreased by 36.0% to RUB 7.1 billion in 2010, compared to RUB 11.1 billion in 2009, due to both a decrease in the average interest rate to 1.9% in 2010, from 2.5% in 2009, and a decrease in the average balance.

### Interest Expense

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

|                                            | For the year ended December 31, |                             |                        |                             |
|--------------------------------------------|---------------------------------|-----------------------------|------------------------|-----------------------------|
|                                            | 2010                            | % of total interest expense | 2009                   | % of total interest expense |
|                                            | (audited)<br>(RUB bln)          |                             | (audited)<br>(RUB bln) |                             |
| <b>Interest expense</b>                    |                                 |                             |                        |                             |
| Customer deposits.....                     | (85.9)                          | 53.9                        | (89.9)                 | 40.6                        |
| Debt securities issued.....                | (40.1)                          | 25.1                        | (38.1)                 | 17.2                        |
| Subordinated debt.....                     | (17.0)                          | 10.7                        | (18.7)                 | 8.4                         |
| Due to banks and other borrowed funds..... | (16.4)                          | 10.3                        | (74.8)                 | 33.8                        |
| <b>Total interest expense</b> .....        | <b>(159.4)</b>                  | <b>100.0</b>                | <b>(221.5)</b>         | <b>100.0</b>                |

In 2010, total interest expense decreased by 28.0% to RUB 159.4 billion from RUB 221.5 billion in 2009, mainly due to a general decrease in interest rates and a reduction in average interest-bearing liabilities, which, in turn, was primarily driven by the decrease in average balances due to other banks and other borrowed funds. The decrease in average interest rates from 7.1% in 2009 to 5.3% in 2010 was in line with

the overall decrease in interest rates in the market, and also reflects the repayment of a significant amount of high-interest-bearing deposits, including amounts received from the CBR.

Interest expense on customer deposits decreased by 4.4% to RUB 85.9 billion in 2010 from RUB 89.9 billion in 2009, primarily due to a decline in the average interest rate to 5.0% in 2010 from 6.4% in 2009, reflecting the generally decreasing interest rate environment. This decline in rates was partly offset by an increase in average customer deposits, driven by confidence in Russian Federation's large state-owned banks during the post-crisis period, which resulted in attracting new large clients who moved to state-owned banks from private banks, as well as the retention and increase of deposit balances of existing clients.

Interest expense on debt securities issued slightly increased, by 5.2%, to RUB 40.1 billion in 2010 from RUB 38.1 billion in 2009, largely due to an increase in the average interest rate to 7.6% in 2010 from 7.3% in 2009 and increases in the total debt securities in issue.

Interest expense on subordinated debt decreased slightly, by 9.1%, to RUB 17.0 billion in 2010 from RUB 18.7 billion in 2009, mainly due to execution of a call option and early repayment of VTB's subordinated Eurobonds in accordance with their terms. The average interest rate on subordinated debt decreased to 9.0% in 2010 from 9.3% in 2009, reflecting in part the step-up in interest on subordinated debt issued by a member of the Group following the Group's decision not to exercise the redemption option.

Interest expense on amounts due to other banks and other borrowed funds represented 10.3% of total interest expense in 2010, compared to 33.8% in 2009. Interest expense on amounts due to other banks and other borrowed funds decreased by 78.1% to RUB 16.4 billion in 2010 from RUB 74.8 billion in 2009, mainly due to a repayment of high-interest-bearing deposits and corresponding significant reduction in balances, primarily the CBR. The average interest rate decreased to 2.8% in 2010 compared to 7.6% in 2009.

#### *Provision for Impairment*

Provision for impairment represents provision charges or recoveries of provisions made for loans and advances to customers, as well as for amounts due from other banks and investment securities held-to-maturity. The following table sets forth the provision charge for impairment and relevant ratios for the periods indicated.

|                                                                                                                  | <b>For the year ended December 31,</b> |                  |
|------------------------------------------------------------------------------------------------------------------|----------------------------------------|------------------|
|                                                                                                                  | <b>2010</b>                            | <b>2009</b>      |
|                                                                                                                  | <b>(audited)</b>                       | <b>(audited)</b> |
|                                                                                                                  | <b>(RUB bln)</b>                       |                  |
| Provision charge for impairment on loans and advances to customers.....                                          | 50.2                                   | 152.9            |
| Provision charge for impairment on due from other banks .....                                                    | 1.6                                    | 0.9              |
| (Reversal of provision)/provision charge for impairment on investment securities held-to-maturity .....          | (0.2)                                  | 0.9              |
| <b>Total provision charge for impairment on debt financial assets .....</b>                                      | <b>51.6</b>                            | <b>154.7</b>     |
| Provision charge for impairment on customer loans and advances/average gross customer loans <sup>(1)</sup> ..... | 1.9%                                   | 5.7%             |

(1) Unaudited

Provision charge for impairment reflects net changes in the allowance for impairment on customer loans and advances. It typically reflects changes in the size of the total loan portfolio, the probability of defaults and the estimated loss of a given default.

Provision charge for impairment on loans and advances to customers decreased from RUB 152.9 billion in 2009 to RUB 50.2 billion in 2010, which was attributable to stabilisation in the quality of the loan portfolio resulting from the abatement of negative trends in economic conditions in the Russian Federation. The Group's core activity is providing loans and advances to customers concentrated in the Russian Federation, and therefore the decrease in provision charge was mostly due to the decrease in

provisions on loans to Russian borrowers. Provision charge for impairment on loans and advances to corporate customers decreased to RUB 39.3 billion in 2010 from RUB 137.0 billion in 2009; and provision charge for impairment on loans and advances to individuals decreased to RUB 10.9 billion in 2010 from RUB 15.9 billion in 2009. As a proportion of the average gross loan portfolio, provision charge decreased to 1.9% in 2010 as compared to 5.7% in 2009.

#### *Non-Interest (Loss)/Income*

The Group generates non-interest income from net results from financial instruments, net fee and commission income and certain other operating income items.

In 2010 and 2009, the Group had total non-interest income of RUB 47.8 billion and RUB 13.3 billion, respectively. Components of non-interest income that demonstrated significant volatility in 2010 include results from financial assets through profit or loss, which amounted to RUB 14.8 billion, compared to loss of RUB 21.3 billion in 2009, and loss on initial recognition of financial instruments and on loans restructuring, which decreased by RUB 19.5 billion to RUB 0.2 billion. These positive trends were partly offset by a RUB 14.7 billion decrease in gains less losses arising from extinguishment of liability and a decrease in foreign exchange items (gains less losses arising from foreign exchange translation and from dealing in foreign currencies), which in the aggregate decreased from RUB 14.2 billion to RUB 4.6 billion.

Net fee and commission income depends primarily on the volume of transactions with customers and counterparties. Net fee and commission income increased by 17.6% to RUB 24.7 billion in 2010 from RUB 21.0 billion in 2009. This increase was primarily attributable to further expansion of the Group's retail customer base, which led to an increase in the volume of commission-generating transactions and to the development of new retail products.

The following table sets forth the components of the Group's net fee and commission income for the periods indicated.

|                                                     | For the year ended December 31, |              |
|-----------------------------------------------------|---------------------------------|--------------|
|                                                     | 2010                            | 2009         |
|                                                     | (audited)<br>(RUB bln)          |              |
| <b>Fee and commission income</b>                    |                                 |              |
| Settlement transactions .....                       | 15.4                            | 13.2         |
| Guarantees issued and trading finance.....          | 3.9                             | 4.4          |
| Cash transactions .....                             | 2.9                             | 2.6          |
| Operations with securities and capital markets..... | 4.5                             | 4.5          |
| Other .....                                         | 2.1                             | 0.8          |
| <b>Total fee and commission income</b> .....        | <b>28.8</b>                     | <b>25.5</b>  |
| <b>Fee and commission expense</b>                   |                                 |              |
| Settlement transactions .....                       | (2.2)                           | (1.8)        |
| Cash transactions .....                             | (1.0)                           | (1.0)        |
| Other .....                                         | (0.9)                           | (1.7)        |
| <b>Total fee and commission expense</b> .....       | <b>(4.1)</b>                    | <b>(4.5)</b> |
| <b>Net fee and commission income</b> .....          | <b>24.7</b>                     | <b>21.0</b>  |

The Group recognised a RUB 14.8 billion gain from financial instruments at fair value through profit or loss in 2010, compared to net losses of RUB 21.3 billion in 2009. The positive change in gains less losses arising from financial instruments at fair value through profit or loss in 2010 was mainly attributable to the absence in 2010 of two negative factors that led to the recognition of losses in 2009: (i) the shift from mark-to-model to mark-to-market valuation due to the recovery of market activity for certain financial assets at fair value through profit or loss and (ii) the discontinuation of hedge accounting due to the ineffectiveness of certain fair value hedges.

During 2009, the Group recognised losses on initial recognition and restructuring of loans and loan commitments in the total net amount of RUB 18.8 billion and of financial assets in the total net amount of RUB 0.9 billion. The loss on loans restructuring was associated with the restructuring of several loans issued to prime Russian borrowers, setting preferential interest rates and/or repayment schedules to support the operations of Russian companies. Such loans were not classified as impaired, as restructuring was not caused by financial difficulties of the borrowers. The effective interest rates applicable to these loans were determined based on the remaining cash flows under the relevant loan agreement through their maturity. The loss on initial recognition of financial instruments and on loans restructuring represents the difference between the fair value of the newly issued/restructured loan calculated on the basis of the market interest rate as prescribed by IFRS and the amount granted/carrying value of the restructured loan.

The Group recognised losses of RUB 7.5 billion and RUB 12.4 billion from dealing in foreign currencies in 2010 and 2009, respectively. These results represented a net loss and gain from customer foreign exchange transactions in the normal course of business and realised and unrealised gains and losses on the second leg of currency swaps entered into by the Group for currency hedging. As noted above, for currency swap deals, such gains and losses were compensated by matching losses and gains from revaluation of the first leg of the swaps recorded within foreign exchange translation gains less losses.

Foreign exchange translation gains less losses represent the impact of translating the Group's entities' assets and liabilities denominated in currencies other than their functional currencies, including those arising from the first leg of currency swap transactions, into their functional currencies.

The Group had a net gain from foreign exchange translations of RUB 12.1 billion and RUB 26.6 billion in 2010 and 2009, respectively. The gains in 2010 primarily reflected the positive revaluation of the Group's significant short position in Euro and the depreciation of the Euro against the ruble during this period. The gain in 2009 resulted from the Group's significant long U.S. dollar balance sheet position and the significant appreciation of the U.S. dollar against the ruble during the period.

#### *Impairment of Goodwill*

In 2010, the Group wrote off goodwill of RUB 1.1 billion through impairment charge, mainly related to the acquisition of OJSC PL Kamelia, due to uncertainty about future cash inflows and the economic viability of this business.

In 2009, the Group recognised impairment losses of RUB 3.7 billion on the goodwill recognised in the acquisition of Hals-Development, due to uncertainty about future cash flows and the economic value of this business in the observable future.

#### *Staff Costs and Administrative Expenses*

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

|                                                                         | For the year ended December 31, |            |           |            |
|-------------------------------------------------------------------------|---------------------------------|------------|-----------|------------|
|                                                                         | 2010                            |            | 2009      |            |
|                                                                         | (audited)                       |            |           |            |
|                                                                         | (RUB bln)                       | % of total | (RUB bln) | % of total |
| Staff costs .....                                                       | 47.3                            | 49.7       | 37.1      | 48.6       |
| Depreciation and other expenses related to premises and equipment ..... | 11.6                            | 12.2       | 8.4       | 11.0       |
| Taxes other than on income .....                                        | 5.0                             | 5.3        | 3.3       | 4.3        |
| Leasing and rent expenses .....                                         | 4.8                             | 5.0        | 5.3       | 6.9        |
| Professional services .....                                             | 4.7                             | 4.9        | 3.3       | 4.3        |
| Advertising expenses .....                                              | 4.2                             | 4.4        | 2.6       | 3.4        |
| Defined contribution pension expense .....                              | 3.1                             | 3.3        | 3.2       | 4.2        |
| Payments to deposit insurance system .....                              | 2.2                             | 2.3        | 1.6       | 2.1        |

|                                                                                                                              | For the year ended December 31, |              |              |              |
|------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------|--------------|--------------|
|                                                                                                                              | 2010                            |              | 2009         |              |
|                                                                                                                              | (audited)                       |              |              |              |
|                                                                                                                              | (RUB bln)                       | % of total   | (RUB bln)    | % of total   |
| Impairment, amortisation and other expenses related to intangibles, except for amortisation of core deposit intangible ..... | 2.1                             | 2.2          | 1.7          | 2.2          |
| Post and telecommunication expenses.....                                                                                     | 2.0                             | 2.1          | 1.9          | 2.5          |
| Charity .....                                                                                                                | 1.5                             | 1.6          | 1.1          | 1.4          |
| Security expenses .....                                                                                                      | 1.3                             | 1.4          | 1.3          | 1.7          |
| Transport expenses .....                                                                                                     | 1.2                             | 1.3          | 0.8          | 1.0          |
| Amortisation of core deposit intangible.....                                                                                 | 1.0                             | 1.1          | 1.0          | 1.3          |
| Insurance.....                                                                                                               | 0.7                             | 0.7          | 0.3          | 0.4          |
| Impairment of premises and equipment.....                                                                                    | —                               | —            | 1.9          | 2.5          |
| Other .....                                                                                                                  | 2.4                             | 2.5          | 1.6          | 2.2          |
| <b>Total staff costs and administrative expenses .....</b>                                                                   | <b>95.1</b>                     | <b>100.0</b> | <b>76.4</b>  | <b>100.0</b> |
| <b>Efficiency ratio<sup>(1)</sup> .....</b>                                                                                  | <b>48.6%</b>                    |              | <b>44.1%</b> |              |

(1) Efficiency ratio represents staff costs and administrative expenses divided by sum of net interest income and net fee and commission income.

Staff costs and administrative expenses increased by 24.5%, to RUB 95.1 billion in 2010 from RUB 76.4 billion in 2009.

In 2010, staff costs increased by 27.5% to RUB 47.3 billion, from RUB 37.1 billion in 2009, due to an increased number of staff associated with development of the investment banking and retail businesses. Administrative expenses other than staff costs increased by 21.6% to RUB 47.8 billion in 2010, from RUB 39.3 billion 2009. The increase in administrative expenses other than staff costs reflected a RUB 3.2 billion, or 38.1%, increase in depreciation and other expenses related to premises and equipment, a RUB 1.7 billion, or 51.5%, increase in taxes other than on income and a RUB 1.6 billion, or 61.5%, increase in advertising expenses. These effects were partly offset by an abatement in 2010 of negative factors that had resulted in recognition of an impairment of premises and equipment in the amount of RUB 1.9 billion in 2009.

### Income Tax Expense

Income tax expense comprises the Group's current income tax charge and changes in deferred income tax. Taxes other than income taxes, such as property tax, are recorded within staff costs and administrative expenses. The following table sets forth the components of the Group's income tax expense for the periods indicated.

In the year ended December 31, 2010 and the year ended December 31, 2009 the income tax rate applicable to the majority of the income of members of the Group ranged from 10% to 32%. The statutory tax rate in the Russian Federation, where the majority of the Group's operations are located, was 20% in the period under review.

In the year ended December 31, 2010 the Group's effective tax rate was 23%, which was close to theoretical tax rate, as compared to 13% in the year ended December 31, 2009. The difference between the theoretical and actual income tax expense in the year ended December 31, 2010 was mainly attributable to non-deductible expenses and changes in unrecognized deferred tax assets.

### Financial Condition

*The following discussion of the Group's assets and liabilities should be read in conjunction with "Risk Management" and the data set forth under "Selected Statistical and other Information". As set forth above under "—Results of Operations", while presented in tabular data as of December 31, 2010, TCB*

balances have been excluded for the purposes of accompanying discussion of financial position as of December 31, 2010 unless noted otherwise.

### **Total Assets**

The following table sets out the principal components of the Group's total assets as of the statement of financial position dates set forth below.

|                                                                               | As of June 30, |              | 2011           |              | As of December 31, |              | 2009           |              |
|-------------------------------------------------------------------------------|----------------|--------------|----------------|--------------|--------------------|--------------|----------------|--------------|
|                                                                               | 2012           |              |                |              | 2010               |              |                |              |
|                                                                               | (unaudited)    |              |                |              | (audited)          |              |                |              |
|                                                                               | (RUB bln)      | % of total   | (RUB bln)      | % of total   | (RUB bln)          | % of total   | (RUB bln)      | % of total   |
| Loans and advances to customers.....                                          | 4,327.8        | 63.1         | 4,301.6        | 63.4         | 2,785.4            | 64.9         | 2,309.9        | 64.0         |
| Securities portfolio <sup>(1)</sup>                                           | 1,029.7        | 15.0         | 970.2          | 14.3         | 451.6              | 10.5         | 400.7          | 11.1         |
| Cash and short term funds and mandatory cash balances with central banks..... | 416.5          | 6.1          | 478.9          | 7.1          | 301.9              | 7.0          | 284.1          | 7.9          |
| Due from other banks                                                          | 411.2          | 6.0          | 424.6          | 6.3          | 349.9              | 8.2          | 345.6          | 9.6          |
| Intangible assets and goodwill.....                                           | 139.9          | 2.0          | 141.2          | 2.1          | 30.5               | 0.7          | 11.9           | 0.3          |
| Investment property.....                                                      | 137.6          | 2.0          | 122.5          | 1.8          | 102.2              | 2.4          | 79.8           | 2.2          |
| Premises and equipment                                                        | 120.4          | 1.8          | 116.8          | 1.7          | 113.2              | 2.6          | 65.9           | 1.8          |
| Deferred tax asset .....                                                      | 45.4           | 0.7          | 42.7           | 0.6          | 37.9               | 0.9          | 31.4           | 0.9          |
| Investments in associates and joint ventures.....                             | 36.0           | 0.5          | 32.5           | 0.5          | 15.7               | 0.4          | 13.9           | 0.4          |
| Assets of disposal group held for sale .....                                  | 9.6            | 0.1          | 10.3           | 0.2          | —                  | —            | —              | —            |
| Other assets.....                                                             | 183.9          | 2.7          | 148.3          | 2.2          | 102.6              | 2.4          | 67.6           | 1.9          |
| <b>Total assets .....</b>                                                     | <b>6,858.0</b> | <b>100.0</b> | <b>6,789.6</b> | <b>100.0</b> | <b>4,290.9</b>     | <b>100.0</b> | <b>3,610.8</b> | <b>100.0</b> |

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

### **Loans and Advances to Customers**

The Group offers a broad range of loan products to its customers through its distribution network. Loans and advances to customers, net of allowance for impairment, are the largest component of the Group's total assets and accounted for 63.1%, 63.4%, 66.0% (64.9% including TCB) and 64.0% of total assets as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively.

Loans and advances to customers increased slightly, by 0.6%, to RUB 4,327.8 billion as of June 30, 2012, from RUB 4,301.6 billion as of December 31, 2011; this slight increase was in line with management's strategy of focusing on loan quality over increased lending volumes. Customer loans and advances increased by 54.4% to RUB 4,301.6 billion as of December 31, 2011 from RUB 2,785.4 billion as of December 31, 2010, which was attributable to the heightened lending activity throughout the Group as well as the acquisition of Bank of Moscow.

Loans and advances to customers increased by 11.8% to RUB 2,581.8 billion (RUB 2,785.4 billion including TCB) as of December 31, 2010 from RUB 2,309.9 billion as of December 31, 2009, which was in line with the Group's strategy to increase its lending activities.

## Securities Portfolio

The Group's securities portfolio comprised 15.0%, 14.3%, 9.8% (10.5% including TCB) and 11.1% of the Group's total assets as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively.

The following table sets forth information relating to securities held in each of the four categories set forth below as of the statement of financial position dates set forth below.

|                                                                                       | As of June 30,           |              | As of December 31, |              |                        |              |              |              |
|---------------------------------------------------------------------------------------|--------------------------|--------------|--------------------|--------------|------------------------|--------------|--------------|--------------|
|                                                                                       | 2012                     |              | 2011               |              | 2010                   |              | 2009         |              |
|                                                                                       | (unaudited)<br>(RUB bln) | % of total   | (RUB bln)          | % of total   | (audited)<br>(RUB bln) | % of total   | (RUB bln)    | % of total   |
| Financial assets at fair value through profit or loss .....                           | 570.8                    | 55.4         | 571.5              | 58.9         | 344.6                  | 76.3         | 267.9        | 66.9         |
| Financial assets pledged under repurchase agreements and loaned financial assets..... | 242.5                    | 23.6         | 198.6              | 20.5         | 16.9                   | 3.7          | 96.2         | 24.0         |
| Financial assets available-for-sale .                                                 | 184.1                    | 17.9         | 167.7              | 17.3         | 55.9                   | 12.4         | 24.9         | 6.2          |
| Investment securities held-to-maturity .....                                          | 32.3                     | 3.1          | 32.4               | 3.3          | 34.2                   | 7.6          | 11.7         | 2.9          |
| <b>Total securities portfolio .....</b>                                               | <b>1,029.7</b>           | <b>100.0</b> | <b>970.2</b>       | <b>100.0</b> | <b>451.6</b>           | <b>100.0</b> | <b>400.7</b> | <b>100.0</b> |

The Group's total securities portfolio increased by RUB 59.5 billion, or 6.1%, to RUB 1,029.7 billion as of June 30, 2012 from RUB 970.2 billion as of December 31, 2011, which in turn was an increase of RUB 518.6 billion, or 114.8%, from RUB 451.6 billion (including TCB) as of December 31, 2010. The increase in the Group's securities portfolio during the first six months of 2012 was due to the growth in the volumes of financial assets pledged under repurchase agreements and loaned financial assets, and financial assets available-for-sale. The increase in the Group's securities portfolio during 2011 was attributable to increased trading activities and an increase in financial assets pledged under repurchase agreements and loaned financial assets, consisting of federal loan bonds with debt amortization (OFZ-AD) acquired by the Bank of Moscow with the proceeds of a loan from DIA, and with a carrying amount of RUB 175.5 billion as of December 31, 2011 (RUB 192.7 billion as of June 30, 2012).

The Group's total securities portfolio decreased by RUB 18.1 billion, or 4.5%, to RUB 382.6 billion (including TCB, it increased by RUB 50.9 billion or by 12.7% to RUB 451.6 billion) as of December 31, 2010 from RUB 400.7 billion as of December 31, 2009.

Financial assets at fair value through profit or loss is the largest component of the Group's total securities portfolio, and include both securities held for trading and other securities and financial assets designated to this category. Financial assets at fair value through profit or loss accounted for 55.4%, 58.9%, 74.3% (76.3% including TCB) and 66.9% of the Group's total securities portfolio as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively.

Financial assets at fair value through profit or loss decreased slightly by RUB 0.7 billion, or 0.1%, to RUB 570.8 billion as of June 30, 2012 from RUB 571.5 billion as of December 31, 2011. This decrease reflected the decrease in the trading portfolio, consisting largely of bonds of Russian issuers.

Financial assets held-to-maturity decreased slightly by RUB 0.1 billion, or 0.3%, to RUB 32.3 billion as of June 30, 2012 from RUB 32.4 billion as of December 31, 2011, following a decrease of RUB 1.8 billion, or 5.3% from RUB 34.2 billion as of December 31, 2010 (including TCB).

Financial assets held-to-maturity increased by RUB 20.1 billion, or 171.8%, to RUB 31.8 billion (RUB 34.2 billion including TCB) as of December 31, 2010 from RUB 11.7 billion as of December 31, 2009. This increase resulted mainly from the transfer to this category of securities pledged under repurchase agreements on the finalization of direct repo transactions.

Financial assets available-for-sale constituted 17.9%, 17.3%, 13.0% (12.4% including TCB) and 6.2% of the Group's total securities portfolio as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively.

The Group's financial assets available-for-sale increased by RUB 16.4 billion, or 9.8%, to RUB 184.1 billion as of June 30, 2012 from RUB 167.7 billion as of December 31, 2011, which in turn represented an increase of 200%, over the amount as of December 31, 2010 (including TCB). This was primarily due to increased volumes of bonds of Russian companies and banks. The Group's financial assets available-for-sale increased by RUB 25.0 billion to RUB 49.9 billion (including TCB to RUB 55.9 billion) as of December 31, 2010 from RUB 24.9 billion as of December 31, 2009, primarily due to a RUB 15.3 billion increase in bonds issued by foreign governments.

The Group's financial assets pledged under repurchase agreements and loaned financial assets increased by RUB 43.9 billion, or 22.1%, to RUB 242.5 billion as of June 30, 2012 from RUB 198.6 billion as of December 31, 2011. The amount of financial assets pledged under repurchase agreements and loaned financial assets as of December 31, 2011 increased by RUB 181.7 billion, from RUB 16.9 billion as of December 31, 2010. The growth in the first six months of 2012 was mainly attributable to the increased volumes of bonds of Russian issuers pledged under repurchase agreements with the CBR. The 2011 increase was attributable to federal loan bonds with debt amortization (OFZ-AD) with the carrying amount of RUB 175.5 billion, purchased by the Bank of Moscow in September 2011 using the proceeds of a loan from DIA; the carrying amount of these bonds was RUB 192.7 billion as of June 30, 2012. See also "—Key Factors Affecting results of Operations—Acquisition of Bank of Moscow."

Financial assets pledged under repurchase agreements and loaned financial assets decreased by 82.8% to RUB 16.5 billion (RUB 16.9 billion including TCB) as of December 31, 2010 from RUB 96.2 billion as of December 31, 2009, mainly due to an increase in activity in the debt markets in mutual confidence of debt market participants.

### **Cash and Due from Other Banks**

The following table sets forth the Group's net cash position as of the statement of financial position dates set forth below.

|                                                        | As of June<br>30,<br>2012<br>(unaudited) | As of December 31,<br>2011      2010      2009<br>(audited) |              |              |
|--------------------------------------------------------|------------------------------------------|-------------------------------------------------------------|--------------|--------------|
|                                                        |                                          | (RUB bln)                                                   |              |              |
| <b>Cash and due from other banks</b>                   |                                          |                                                             |              |              |
| Cash and short-term funds .....                        | 356.0                                    | 407.0                                                       | 275.5        | 260.2        |
| Mandatory cash balances with local central banks ..... | 60.5                                     | 71.9                                                        | 26.4         | 23.9         |
| Due from other banks, gross .....                      | 413.5                                    | 427.2                                                       | 352.8        | 346.9        |
| Less: Allowance for impairment .....                   | (2.3)                                    | (2.6)                                                       | (2.9)        | (1.3)        |
| <b>Total cash and due from other banks .....</b>       | <b>827.7</b>                             | <b>903.5</b>                                                | <b>651.8</b> | <b>629.7</b> |

Total cash and due from other banks, net, decreased by 8.4% to RUB 827.7 billion as of June 30, 2012 from RUB 903.5 billion as of December 31, 2011, largely due to a decline in cash balances with central banks (other than mandatory reserve deposits) reflected within cash and short-term funds. Total cash and due from other banks, net, increased by 38.6% to RUB 903.5 billion as of December 31, 2011 from RUB 651.8 billion as of December 31, 2010. The increase was mainly due to the growth in cash and short-term funds, due from other banks and mandatory cash balances with local central banks by RUB 131.5 billion, RUB 74.4 billion and RUB 45.5 billion, respectively, over the same dates. Cash and due from other banks, net, decreased by 9.3% to RUB 571.2 billion (including TCB, it increased by RUB 22.1 billion, or 3.5%) as of December 31, 2010 from RUB 629.7 billion as of December 31, 2009, primarily due to the decrease in due from other banks by RUB 58.6 billion as at the same dates. The Group

uses term placements with other banks, mostly international banks and local central banks, as a liquidity and market risk management tool and, to a lesser degree, as a source of relatively low-risk income. The balance of term placements with other banks, gross, decreased by 3.2% to RUB 413.5 billion as of June 30, 2012 from RUB 427.2 billion as of December 31, 2011.

The Group's allowance for impairment on amounts due from other banks decreased to RUB 2.3 billion as of June 30, 2012, from RUB 2.6 billion as of December 31, 2011 and RUB 2.9 billion as of December 31, 2010, after increasing from RUB 1.3 billion as of December 31, 2009.

### ***Investment property***

As of June 30, 2012, the amount of the Group's investment property had increased by RUB 15.1 billion, or 12.3%, to RUB 137.6 billion, as compared to RUB 122.5 billion as of December 31, 2011, primarily reflecting a positive revaluation of investment property at Hals-Development (formerly Sistema-Hals). The amount of the Group's investment property increased by RUB 20.3 billion, or 19.9%, to RUB 122.5 billion, as of December 31, 2011 from RUB 102.2 billion as of December 31, 2010. This was mainly attributable to an acquisition of a new project by Hals-Development, consolidation of the Bank of Moscow and to a positive revaluation of investment property.

The amount of the Group's investment property increased by 24.3% to RUB 99.2 billion (including TCB to RUB 102.2 billion) as of December 31, 2010 from RUB 79.8 billion as of December 31, 2009, which was mainly attributable to land and real estate assigned to VTB by certain of its borrowers as settlement for debts owed by such borrowers, and the acquisition by VTB of new subsidiaries, including CJSC "VTB Arena".

In 2009, the Group received title to land plots with a value of RUB 54.0 billion in exchange for the settlement of certain outstanding loans granted by the Group. In addition, RUB 20.0 billion of the increase in 2009 was attributable to the acquisition of Hals-Development. The acquired properties were valued by an independent, professionally qualified appraiser at fair value as of the date of acquisition.

### ***Premises and Equipment***

During the first six months of 2012, the Group's premises and equipment increased in amount by RUB 3.6 billion, or by 3.1%, to RUB 120.4 billion as of June 30, 2012. The Group's premises and equipment increased in amount slightly by RUB 3.6 billion, or 3.2%, to RUB 116.8 billion as of December 31, 2011 from RUB 113.2 billion as of December 31, 2010, primarily attributable to the sale of equipment related to VTB-Leasing, as well as accumulated depreciation. The Group's premises and equipment increased in amount by 63.1% to RUB 107.5 billion (by 71.8% to RUB 113.2 billion including TCB) as of December 31, 2010 from RUB 65.9 billion as of December 31, 2009. This increase was primarily attributable to the development of the Group's leasing business, which resulted in increased operational leasing, under which the leased assets are booked by VTB as equipment and the lessee pays rent to the Group.

### ***Investments in associates and joint ventures***

The Group's investments in associates and joint ventures decreased, by RUB 3.5 billion, to RUB 36.0 billion as of June 30, 2012 from RUB 32.5 billion as of December 31, 2011 and RUB 15.7 billion as of December 31, 2010 (including TCB). The increase during 2011 by RUB 16.8 billion was mainly attributable to the Group's purchase of 50% minus one share of Metropolitan Insurance Group.

### ***Assets of Disposal Group Held for Sale***

In connection with the acquisition of the Bank of Moscow, the Group acquired control over BM Bank, Ltd., located in Kiev, Ukraine. In the fourth quarter of 2011 management decided to sell these investments and intends to complete the sale within 12 months, though as at June 30, 2012 negotiations had

not been concluded. The Group accounted for these investments as a disposal group held for sale under IFRS 5. As at June 30, 2012 the carrying values of assets and liabilities of the disposal group held for sale amounted to RUB 9.6 billion and RUB 8.4 billion, respectively. As of December 31, 2011, the carrying values of assets and liabilities of this group were RUB 10.3 billion and RUB 8.5 billion, respectively.

### ***Deferred Tax Asset and Liability***

Deferred tax assets and liabilities are assessed separately for each entity of the Group. VTB and its subsidiaries cannot set off tax assets and tax liabilities between different legal entities. The Group's deferred tax asset amounted to RUB 45.4 billion, RUB 42.7 billion, RUB 37.7 billion (RUB 37.9 billion including TCB) and RUB 31.4 billion as at June 30, 2012 and December 31, 2011, 2010 and 2009, respectively. The Group recognised a deferred tax liability of RUB 10.3 billion, RUB 10.0 billion, RUB 6.2 billion (RUB 7.3 billion including TCB) and RUB 7.0 billion as of June 30, 2012, December 31, 2011, 2010 and 2009, respectively.

### ***Other Assets***

Other assets primarily include property held for sale, assets arising from non-banking activity, trade receivables, equipment purchased for leasing purposes, amounts in course of settlement and tax receivables.

Other assets increased by RUB 35.6 billion, or 24.0%, to RUB 183.9 billion as of June 30, 2012. During the year ended December 31, 2011, other assets increased by RUB 45.7 billion, or 44.5%, to RUB 148.3 billion. Other assets amounted to RUB 97.2 billion (RUB 102.6 billion including TCB) as of December 31, 2010, representing 43.7% of organic growth compared to RUB 67.6 billion as of December 31, 2009. This growth in 2010 was driven mainly by a RUB 11.7 billion increase in amounts in course of settlement.

### ***Total Liabilities***

As of June 30, 2012, the Group had total liabilities of RUB 6,228.6 billion, an increase of 1.0%, or RUB 64.1 billion, from December 31, 2011. The amount as of December 31, 2011 represented an increase of RUB 2,451.8 billion, or 66.0%, from RUB 3,712.7 billion as of December 31, 2010, and in turn an increase of RUB 243.7 billion, or 7.8%, from RUB 3,105.9 billion as of December 31, 2009. The significant increase in total liabilities in 2011 was driven by increased customer deposits resulting from the acquisition of Bank of Moscow.

The following table sets forth the Group's liabilities as of the dates set forth below.

|                                | As of June 30, |              | As of December 31, |              |                |              |                |              |
|--------------------------------|----------------|--------------|--------------------|--------------|----------------|--------------|----------------|--------------|
|                                | 2012           |              | 2011               |              | 2010           |              | 2009           |              |
|                                | (unaudited)    |              |                    |              | (audited)      |              |                |              |
|                                | (RUB bln)      | % of total   | (RUB bln)          | % of total   | (RUB bln)      | % of total   | (RUB bln)      | % of total   |
| Customer deposits .....        | 3,438.3        | 55.2         | 3,596.7            | 58.3         | 2,212.9        | 59.6         | 1,568.8        | 50.5         |
| Debt securities issued .....   | 892.8          | 14.3         | 664.5              | 10.8         | 593.1          | 16.0         | 485.7          | 15.6         |
| Due to other banks .....       | 630.7          | 10.1         | 699.7              | 11.4         | 397.3          | 10.7         | 287.0          | 9.3          |
| Other borrowed funds .....     | 781.2          | 12.5         | 734.6              | 11.9         | 185.7          | 5.0          | 470.9          | 15.2         |
| Subordinated debt .....        | 243.5          | 3.9          | 241.1              | 3.9          | 205.5          | 5.5          | 195.3          | 6.3          |
| Deferred tax liability .....   | 10.3           | 0.2          | 10.0               | 0.2          | 7.3            | 0.2          | 7.0            | 0.2          |
| Liabilities of disposal group  |                |              |                    |              |                |              |                |              |
| held for sale .....            | 8.4            | 0.1          | 8.5                | 0.1          | —              | —            | —              | —            |
| Other liabilities .....        | 223.4          | 3.6          | 209.4              | 3.4          | 110.9          | 3.0          | 91.2           | 2.9          |
| <b>Total liabilities .....</b> | <b>6,228.6</b> | <b>100.0</b> | <b>6,164.5</b>     | <b>100.0</b> | <b>3,712.7</b> | <b>100.0</b> | <b>3,105.9</b> | <b>100.0</b> |

## Customer Deposits

Customer deposits represented 55.2%, 58.3%, 57.8% (59.6% including TCB) and 50.5% of total liabilities as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively.

The Group's customer deposits decreased by RUB 158.4 billion, or 4.4%, to RUB 3,438.3 billion as of June 30, 2012 from RUB 3,596.7 billion as of December 31, 2011, mainly attributable to repayment of deposits from Russian government bodies upon maturity, and partially offset by an increase in deposits from individuals. The amount as at December 31, 2011 increased by RUB 1,383.8 billion, or 62.5%, from RUB 2,212.9 billion as at December 31, 2010 (including TCB), which was in turn an increase of 41.1%, from RUB 1,568.8 billion in customer deposits as at December 31, 2009. The decreased balance of customer deposits as of June 30, 2012 reflected principally the repayment of deposits from the Russian Federation Ministry of Finance on maturity.

## Debt Securities Issued

Debt securities issued include promissory notes, deposit certificates, debentures and bonds issued in the international capital markets and in the Russian Federation. The Group issues debt securities to fund the ongoing growth of its business. Debt securities issued represented 14.3%, 10.8%, 16.5% (16.0% including TCB) and 15.6% of total liabilities as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively

The following table sets forth the principal components of the Group's debt securities issued.

|                                           | As of June 30, |              | As of December 31, |              |
|-------------------------------------------|----------------|--------------|--------------------|--------------|
|                                           | 2012           | 2011         | 2010               | 2009         |
|                                           | (unaudited)    |              | (audited)          |              |
|                                           | (RUB bln)      |              | (RUB bln)          |              |
| Bonds .....                               | 554.0          | 457.5        | 470.6              | 346.0        |
| Promissory notes .....                    | 338.7          | 206.1        | 122.2              | 139.3        |
| Deposit certificates .....                | 0.1            | 0.9          | 0.3                | 0.4          |
| <b>Total debt securities issued .....</b> | <b>892.8</b>   | <b>664.5</b> | <b>593.1</b>       | <b>485.7</b> |

As of June 30, 2012, debt securities issued by the Group amounted to RUB 892.8 billion, reflecting an increase of 34.4%, or RUB 228.3 billion, from RUB 664.5 billion as of December 31, 2011, mainly attributable to a growth in promissory notes issued to Russian corporate customers, as well as the increased activity on financial markets. Total debt securities issued as of December 31, 2011 was RUB 664.5 billion, an increase of RUB 71.4 billion, from RUB 593.1 billion as of December 31, 2010 (including TCB), in turn an increase of RUB 107.4 billion, from RUB 485.7 billion as of December 31, 2009, primarily attributable to the issuance of new bonds.

During the financial year ended December 31, 2009, the Group bought-back bonds with a carrying value of RUB 20.2 billion, which resulted in the recognition of a gain on the extinguishment of a liability of RUB 3.3 billion for the period.

## Amounts Due to Other Banks

Amounts due to other banks represented 10.1%, 11.4%, 11.4% (11.4% including TCB) and 9.2% of the Group's total liabilities as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively.

The following table sets forth the principal components of the Group's amounts due to other banks.

|                               | As of June 30, |       | As of December 31, |       |
|-------------------------------|----------------|-------|--------------------|-------|
|                               | 2012           | 2011  | 2010               | 2009  |
|                               | (unaudited)    |       | (audited)          |       |
|                               | (RUB bln)      |       | (RUB bln)          |       |
| Term loans and deposits ..... | 298.4          | 369.2 | 161.6              | 111.6 |

|                                                                    | As of June 30,           | As of December 31, |                        |              |
|--------------------------------------------------------------------|--------------------------|--------------------|------------------------|--------------|
|                                                                    | 2012                     | 2011               | 2010                   | 2009         |
|                                                                    | (unaudited)<br>(RUB bln) |                    | (audited)<br>(RUB bln) |              |
| Correspondent accounts and overnight deposits of other banks ..... | 305.5                    | 310.6              | 226.7                  | 174.1        |
| Sale and repurchase agreements with other banks .....              | 26.8                     | 19.9               | 9.0                    | 1.3          |
| <b>Total due to other banks .....</b>                              | <b>630.7</b>             | <b>699.7</b>       | <b>397.3</b>           | <b>287.0</b> |

Amounts due to other banks decreased by 9.9%, or RUB 69.0 billion, to RUB 630.7 billion as of June 30, 2012 from RUB 699.7 billion as of December 31, 2011, mainly due to a decrease in term loans and deposits. Amounts due to other banks increased by RUB 302.4 billion, or 76.1%, to RUB 699.7 billion as of December 31, 2011 from RUB 397.3 billion as of December 31, 2010. This was attributable to a RUB 207.6 billion, or 128.5%, increase in term loans and deposits, a RUB 83.9 billion, or 37.0%, growth in correspondent accounts and overnight deposits of other banks and a RUB 10.9 billion, or 121.1%, increase in sale and repurchase agreements with other banks.

As of December 31, 2010 amounts due to other banks increased by 33.0% to RUB 381.7 billion (RUB 397.3 billion including TCB) from RUB 287.0 billion as of December 31, 2009. This was driven primarily by 30.8% growth in term loans and deposits and 30.2% growth in correspondent accounts and overnight deposits.

#### **Other Borrowed Funds**

Other borrowed funds amounted to 12.5% of total liabilities as of June 30, 2012 and 11.9%, 5.3% (5.0% including TCB) and 15.2% of total liabilities as of December 31, 2011, 2010 and 2009, respectively.

The following table sets forth the principal components of the Group's other borrowed funds.

|                                         | As of June 30,           | As of December 31, |                        |              |
|-----------------------------------------|--------------------------|--------------------|------------------------|--------------|
|                                         | 2012                     | 2011               | 2010                   | 2009         |
|                                         | (unaudited)<br>(RUB bln) |                    | (audited)<br>(RUB bln) |              |
| Funds from local central banks .....    | 402.0                    | 365.9              | 1.4                    | 107.5        |
| Syndicated loans .....                  | 113.7                    | 106.8              | 45.1                   | 49.4         |
| Other borrowings .....                  | 265.5                    | 261.9              | 139.2                  | 314.0        |
| <b>Total other borrowed funds .....</b> | <b>781.2</b>             | <b>734.6</b>       | <b>185.7</b>           | <b>470.9</b> |

Other borrowed funds include credit lines, syndicated loans and funds deposited by local central banks, including the CBR.

The Group's other borrowed funds increased by RUB 46.6 billion, or 6.3%, to RUB 781.2 billion as of June 30, 2012 from RUB 734.6 billion as of December 31, 2011, which is attributable to the increased volumes of funds from local central banks and a new syndicated loan guaranteed by a G7 country export credit agency. The amount as of December 31, 2011 was an increase of RUB 548.9 billion, or 295.6%, from RUB 185.7 billion as of December 31, 2010, which itself represented a decrease of RUB 295.0 billion, or 62.6% (including TCB, RUB 285.2 billion, or 60.6%), from RUB 470.9 billion as of December 31, 2009. The increase during 2011 was due to an increase in syndicated loans as a result of a loan from DIA under the plan for supporting the Bank of Moscow, as well as to funds attracted from local central banks.

The reduction of other borrowed funds during 2010 resulted from the significant decrease in funds placed by local central banks, from RUB 107.5 billion as of December 31, 2009, to RUB 1.4 billion as of December 31, 2010. These funds were replaced by other funding sources, which contributed to a greater diversification of VTB's funding base.

### *Subordinated debt*

During the six months ended June 30, 2012, subordinated debt remained relatively stable as compared to December 31, 2011, at the level of RUB 243.5 billion. As at December 31, 2011, subordinated debt had increased by RUB 35.6 billion to RUB 241.1 billion, compared to RUB 205.5 billion as of December 31, 2010 (including TCB), mainly reflecting the acquisition of the Bank of Moscow.

Subordinated debt decreased by 3.6%, or RUB 7.1 billion, to RUB 188.2 billion as of December 31, 2010 (excluding TCB) from RUB 195.3 billion as of December 31, 2009. This was largely due to the execution of a call option and early repayment in February 2010 of subordinated Eurobonds issued in 2005 with a carrying amount of RUB 9.7 billion as of December 31, 2009. Including TCB, subordinated debt increased by RUB 10.2 billion, or 5.2%, to RUB 205.5 billion as of December 31, 2010.

### **Other Liabilities**

Other liabilities include: primarily financial liabilities at fair value through profit or loss—held for trading (negative fair value of derivatives), amounts in the course of settlement, obligations to purchase non-controlling interests, amounts payable to employees, other liabilities related to non-banking activities, trade creditors and prepayments received.

During the six months ended June 30, 2012, other liabilities increased by RUB 14.0 billion, or 6.7%, to RUB 223.4 billion as of June 30, 2012, mainly due to development of the Group's insurance business. Other liabilities increased by RUB 98.5 billion, or 88.8%, to RUB 209.4 billion as of December 31, 2011 from RUB 110.9 billion as of December 31, 2010, mainly attributable to an increase in financial liabilities at fair value through profit or loss as a result of negative fair values of derivative transactions entered into by the Group. In addition, in July 2011 the Group recognized an obligation to purchase non-controlling interests of RUB 21.9 billion as a financial liability arising from a forward purchase agreement with a related party to the Group to acquire a non-controlling interest share in TCB held by this related party. In accordance with the forward purchase agreement, the future settlement amount to be paid by the Group is calculated in accordance with a formula specified in the forward purchase agreement. The determination of the fair value is based on discounted cash flows method, and key assumptions take into consideration the expected performance of TCB and the discount factor. The Group continues to recognize non-controlling interests in TCB over which the forward purchase agreement is concluded, as the non-controlling shareholder has a present ownership interest in the underlying shares. As of December 31, 2011, the carrying amount of the obligation to purchase non-controlling interests was RUB 21.1 billion, and as of June 30, 2012 it was RUB 20.2 billion. VTB completed its payment obligations under this agreement by September 30, 2012.

Other liabilities increased by 18.0% to RUB 107.6 billion (RUB 110.9 billion including TCB) as of December 31, 2010 from RUB 91.2 billion as of December 31, 2009, resulting primarily from increased amounts in the course of settlement.

### **Equity**

The following table sets forth the Group's equity as of the dates indicated.

|                                                                                      | As of June 30, | As of December 31, |           |       |
|--------------------------------------------------------------------------------------|----------------|--------------------|-----------|-------|
|                                                                                      | 2012           | 2011               | 2010      | 2009  |
|                                                                                      | (unaudited)    |                    | (audited) |       |
|                                                                                      | (RUB bln)      |                    | (RUB bln) |       |
| Share capital .....                                                                  | 113.1          | 113.1              | 113.1     | 113.1 |
| Share premium .....                                                                  | 358.5          | 358.5              | 358.5     | 358.5 |
| Treasury shares .....                                                                | (13.9)         | (0.6)              | (0.3)     | (0.4) |
| Unrealised gain on financial assets<br>available-for-sale and cash flow hedges ..... | 3.2            | 7.9                | 4.0       | 3.4   |
| Premises revaluation reserve .....                                                   | 9.8            | 11.4               | 11.4      | 11.8  |
| Currency translation difference .....                                                | 11.3           | 11.0               | 11.0      | 13.2  |

|                                 | As of June 30,           | As of December 31, |                        |              |
|---------------------------------|--------------------------|--------------------|------------------------|--------------|
|                                 | 2012                     | 2011               | 2010                   | 2009         |
|                                 | (unaudited)<br>(RUB bln) |                    | (audited)<br>(RUB bln) |              |
| Retained earnings .....         | 127.2                    | 102.2              | 56.6                   | 2.7          |
| <b>Total .....</b>              | <b>609.2</b>             | <b>603.5</b>       | <b>554.3</b>           | <b>502.3</b> |
| Non-controlling interests ..... | 20.2                     | 21.6               | 23.9                   | 2.6          |
| <b>Total equity .....</b>       | <b>629.4</b>             | <b>625.1</b>       | <b>578.2</b>           | <b>504.9</b> |

## Analysis by Segment

As discussed above, in the Interim Financial Statements, the Group has three reportable segments: Corporate-Investment Banking (CIB), subdivided into Investment Banking, Loans and Deposits and Transaction Banking subsegments; Retail banking; and Other. In the 2011 Annual IFRS Financial Statements, the Group also reported the CIS and Georgia segment. See “—Segmentation”.

The following tables set forth certain data for the Group for its operating segments as of and for the dates and periods indicated.

| As of and for the six months ended June 30, 2012 |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
|--------------------------------------------------|------------------------|-----------------------|-------------------------|-------------------------------|--------------------------|-------------------|--------------------|----------------------------------------------------------|---------------------------------------|
| Corporate-Investment banking (CIB)               |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
|                                                  | Investmen<br>t banking | Loans and<br>deposits | Transactio<br>n banking | Inter-CIB<br>elimination<br>s | Total CIB                | Retail<br>banking | Other              | Total<br>before<br>inter-segm<br>ent<br>elimination<br>s | Inter-seg<br>ment<br>elimination<br>s |
|                                                  |                        |                       |                         |                               | (unaudited)<br>(RUB bln) |                   |                    |                                                          |                                       |
| Total revenues .....                             | 62.6                   | 215.8                 | 23.5                    | (67.8)                        | 234.1                    | 117.1             | 24.6               | 375.8                                                    | (42.8)                                |
| Profit/(loss) before taxation .....              | 3.2                    | 15.5                  | 8.6                     | (0.5)                         | 26.8                     | 21.5              | (3.9)              | 44.4                                                     | (0.6)                                 |
| Segment assets .....                             | 1,144.8                | 4,475.7               | 561.4                   | (729.1)                       | 5,452.8                  | 1,671.6           | 251.1              | 7,375.5                                                  | (517.5)                               |
| Segment liabilities .....                        | 1,066.6                | 4,157.7               | 553.2                   | (726.7)                       | 5,050.8                  | 1,518.2           | 176.7              | 6,745.7                                                  | (517.1)                               |
|                                                  |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
| As of and for the six months ended June 30, 2011 |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
|                                                  |                        |                       |                         |                               | (unaudited)              |                   |                    |                                                          |                                       |
| Total revenues .....                             | 62.7                   | 151.1                 | 14.1                    | (45.2)                        | 182.7                    | 77.7              | 7.5                | 267.9                                                    | (24.3)                                |
| Profit/(loss) before taxation .....              | 24.0                   | 27.4                  | 5.8                     | (0.4)                         | 56.8                     | 17.8              | (6.0)              | 68.6                                                     | (0.2)                                 |
|                                                  |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
| As of December 31, 2011                          |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
|                                                  |                        |                       |                         |                               | (unaudited)              |                   |                    |                                                          |                                       |
| Segment assets .....                             | 1,147.8                | 4,596.3               | 516.8                   | (719.9)                       | 5,541.0                  | 1,530.5           | 222.1              | 7,293.6                                                  | (504.0)                               |
| Segment liabilities .....                        | 1,061.0                | 4,271.8               | 513.6                   | (719.6)                       | 5,126.8                  | 1,392.7           | 148.9              | 6,668.4                                                  | (503.9)                               |
|                                                  |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
| As of and for the year ended December 31, 2011   |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
| Corporate-Investment banking (CIB)               |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
|                                                  | Investmen<br>t banking | Loans and<br>deposits | Transactio<br>n banking | Inter-CIB<br>elimination<br>s | Total CIB                | Retail<br>banking | CIS and<br>Georgia | Other                                                    | Inter-seg<br>ment<br>elimination<br>s |
|                                                  |                        |                       |                         |                               | (RUB bln)                |                   |                    |                                                          |                                       |
|                                                  |                        |                       |                         |                               | (audited)                |                   |                    |                                                          |                                       |
| Total revenues .....                             | 96.2                   | 352.7                 | 31.5                    | (88.4)                        | 392.0                    | 174.8             | 2.8                | 20.4                                                     | (56.9)                                |
| Profit/(loss) before taxation .....              | 1.0                    | 64.0                  | 19.2                    | 0.2                           | 84.4                     | 38.8              | 0.2                | (7.9)                                                    | —                                     |
| Segment assets .....                             | 1,090.1                | 4,695.8               | 505.3                   | (752.5)                       | 5,538.7                  | 1,479.4           | 25.6               | 217.6                                                    | (471.7)                               |
| Segment liabilities .....                        | 1,006.1                | 4,375.7               | 504.8                   | (752.2)                       | 5,134.4                  | 1,344.0           | 20.7               | 137.1                                                    | (471.7)                               |
|                                                  |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
| As of and for the year ended December 31, 2010   |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
| Corporate-Investment banking (CIB)               |                        |                       |                         |                               |                          |                   |                    |                                                          |                                       |
|                                                  | Investmen<br>t banking | Loans and<br>deposits | Transactio<br>n banking | Inter-CIB<br>elimination<br>s | Total CIB                | Retail<br>banking | CIS and<br>Georgia | Other                                                    | Inter-segm<br>ent<br>elimination<br>s |
|                                                  |                        |                       |                         |                               | (RUB bln)                |                   |                    |                                                          |                                       |
|                                                  |                        |                       |                         |                               | (audited)                |                   |                    |                                                          |                                       |
| Total revenues .....                             | 92.0                   | 248.0                 | 21.2                    | (67.7)                        | 293.5                    | 118.7             | 2.4                | 13.0                                                     | (25.5)                                |
| Profit/(loss) before taxation .....              | 30.8                   | 13.5                  | 14.3                    | 0.1                           | 58.7                     | 21.2              | (0.1)              | (8.8)                                                    | 0.1                                   |
| Segment assets .....                             | 830.8                  | 2,893.5               | 338.2                   | (648.6)                       | 3,413.9                  | 953.8             | 18.1               | 161.9                                                    | (256.8)                               |
| Segment liabilities .....                        | 761.4                  | 2,562.9               | 338.2                   | (648.5)                       | 3,014.0                  | 854.9             | 13.4               | 87.0                                                     | (256.6)                               |

## Contingencies, Commitments and Derivative Financial Instruments

The Group enters into certain financial instruments with off-balance sheet risk in the ordinary course of business to meet its clients’ needs. These instruments, which include guarantees, letters of credit, undrawn credit lines and commitments to extend credits, involve varying degrees of credit risk and are not reflected in the Group’s consolidated statement of financial position. The Group uses similar credit approval policies in undertaking off-balance credit related commitments as it does for its on-balance sheet operations. See “Risk

*Management—Risk Management and Internal Control Systems—Credit Risk*”. A majority of the guarantees issued by VTB are not collateralised, but have guarantee or assurance arrangements and are issued within risk limits for off-balance-sheet instruments approved by VTB’s Credit Committee. Guarantees issued by other Group banks are subject to their respective credit approval procedures. See “*Risk Factors—Risks Relating to VTB’s and the Group’s Business and Industry—The Group has significant off-balance-sheet credit related commitments that may lead to potential losses*”.

The following table sets forth the Group’s credit related commitments as of the dates indicated.

|                                                              | As of June 30,                   | As of December 31, |                                |              |
|--------------------------------------------------------------|----------------------------------|--------------------|--------------------------------|--------------|
|                                                              | 2012<br>(unaudited)<br>(RUB bln) | 2011               | 2010<br>(audited)<br>(RUB bln) | 2009         |
| <b>Credit related commitments</b>                            |                                  |                    |                                |              |
| Guarantees issued <sup>(1)</sup> .....                       | 574.7                            | 510.9              | 216.5                          | 190.6        |
| Undrawn credit lines .....                                   | 40.9                             | 43.1               | 190.3                          | 197.0        |
| Import letters of credit .....                               | 42.8                             | 35.4               | 29.2                           | 29.9         |
| Commitments to extend credit <sup>(2)</sup> .....            | 32.0                             | 36.7               | 176.3                          | 97.4         |
| <b>Total credit related commitments</b> .....                | <b>690.4</b>                     | <b>626.1</b>       | <b>612.3</b>                   | <b>514.9</b> |
| Allowance for impairment on credit related commitments ..... | (0.9)                            | (1.1)              | (1.6)                          | (1.6)        |
| <b>Total</b> .....                                           | <b>689.5</b>                     | <b>625.0</b>       | <b>610.7</b>                   | <b>513.3</b> |

- (1) The guarantees issued include guarantees issued for an interrelated group of Russian companies amounting to RUB 26.7 billion, or 4.6%, of total guarantees issued, RUB 27.4 billion, or 5.4% of total guarantees issued, RUB 48.1 billion, or 22.2% of total guarantees issued (with no effect from the TCB acquisition) and RUB 27.3 billion, or 14.3% of total guarantees issued as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively.

Written undertakings by the Group on behalf of a client authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions. Commitments under import letters of credit and guarantees issued are collateralised by customer deposits of RUB 12.6 billion, RUB 11.9 billion, RUB 9.5 billion (RUB 9.6 billion including TCB) and RUB 9.4 billion as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively.

## SELECTED STATISTICAL AND OTHER INFORMATION

As discussed in “Business—Acquisition of TCB”, on December 31, 2010 the Group acquired control over TCB. Assets and liabilities of TCB were included in the Group’s consolidated statement of financial position as of December 31, 2010. The acquisition had no impact on the Group’s consolidated income statement for 2010. In the following section, TCB balances have been excluded from the calculation of average balances and rates for 2010.

As discussed in “Business—Acquisition of Bank of Moscow” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Results of Operations and Capital Structure—Acquisition of the Bank of Moscow”, on September 30, 2011 the Group acquired control over the Bank of Moscow. The assets and liabilities of the Bank of Moscow were included in the Group’s consolidated statement of financial position as of September 30, 2011. Accordingly, average balances and rates for 2011 have been calculated on the basis including the Bank of Moscow as at December 31, 2011, an average of the amounts including and excluding the Bank of Moscow as of September 30, 2011, and excluding the Bank of Moscow for all prior dates.

### Average Balances and Interest Rate Data

The following table sets forth the average balances of the Group’s assets and liabilities, the related interest income or expense, and the average rates for the periods indicated. For the purposes of the following table, the consolidated average assets and liabilities represent the average of the opening and closing balances for the relevant period. The acquisitions of TCB and the Bank of Moscow have been reflected as set forth above. Calculation of these average balances on an alternative basis, including a monthly or daily basis, could result in materially different results.

|                                                | For the six months ended June 30, |                             |                         |                 |                             |                         |
|------------------------------------------------|-----------------------------------|-----------------------------|-------------------------|-----------------|-----------------------------|-------------------------|
|                                                | 2012                              |                             |                         | 2011            |                             |                         |
|                                                | Average balance                   | Average rate <sup>(1)</sup> | Interest income/expense | Average balance | Average rate <sup>(1)</sup> | Interest income/expense |
|                                                | (RUB bln, except percentages)     |                             |                         |                 |                             |                         |
| <b>Assets</b>                                  |                                   |                             |                         |                 |                             |                         |
| Due from other banks <sup>(2)(3)</sup>         | 501.4                             | 2.8%                        | 7.0                     | 457.8           | 1.9%                        | 4.3                     |
| Loans and advances to customers <sup>(3)</sup> | 4,710.5                           | 10.0%                       | 235.4                   | 3,135.0         | 10.2%                       | 159.3                   |
| Securities <sup>(4)</sup>                      | 438.2                             | 7.6%                        | 16.6                    | 357.2           | 7.3%                        | 13.0                    |
| <b>Interest-earning assets</b>                 | 5,650.1                           | 9.2%                        | 259.0                   | 3,950.0         | 8.9%                        | 176.6                   |
| Non interest-earning assets                    | 1,292.4                           |                             |                         | 816.9           |                             |                         |
| Less allowance for impairment                  | 305.3                             |                             |                         | (280.5)         |                             |                         |
| <b>Total assets</b>                            | <u>6,637.2</u>                    |                             |                         | <u>4,486.4</u>  |                             |                         |
| <b>Liabilities and equity</b>                  |                                   |                             |                         |                 |                             |                         |
| Due to other banks and other borrowed funds    | 1,305.0                           | 4.6%                        | 30.1                    | 567.0           | 2.4%                        | 6.9                     |
| Customer deposits                              | 3,425.3                           | 4.8%                        | 81.9                    | 2,406.9         | 3.9%                        | 47.2                    |
| Debt securities issued                         | 804.3                             | 6.2%                        | 25.1                    | 578.9           | 6.6%                        | 19.2                    |
| Subordinated debt                              | 240.9                             | 7.9%                        | 9.5                     | 205.9           | 8.0%                        | 8.2                     |
| <b>Interest-bearing liabilities</b>            | 5,775.5                           | 5.1%                        | 146.6                   | 3,758.7         | 4.4%                        | 81.5                    |
| Non interest-bearing liabilities               | 233.4                             |                             |                         | 135.6           |                             |                         |
| <b>Equity</b>                                  | 628.3                             |                             |                         | 592.1           |                             |                         |
| <b>Total liabilities and equity</b>            | <u>6,637.2</u>                    |                             |                         | <u>4,486.4</u>  |                             |                         |
| <b>Net interest income<sup>(5)</sup></b>       |                                   |                             |                         |                 |                             |                         |
| Net interest spread <sup>(6)</sup>             | 4.1%                              |                             |                         | 4.6%            |                             |                         |
| Net interest margin <sup>(7)</sup>             | 4.0%                              |                             |                         | 4.8%            |                             |                         |

(1) Represents interest income or interest expense divided by the average balance of respective item.

(2) Includes balances on correspondent accounts with other banks recorded under “Cash and short-term funds”.

- (3) Gross amount, before deducting allowance for loan impairment.
- (4) Excludes equity securities, as these securities are not interest-earning.
- (5) Net interest income before provision for impairment.
- (6) Represents the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities.
- (7) Represents the ratio of net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets.

For the purposes of the following table, the consolidated average assets and liabilities represent the average of the opening balance, and the March 31, June 30, and September 30 and closing balance, for the applicable year. The acquisitions of TCB and the Bank of Moscow have been reflected as set forth above. Calculation of these average balances on an alternative basis, including a monthly or daily basis, could result in materially different results.

|                                                      | For the year ended December 31, |                             |                         |                       |                             |                         |                       |                             |                         |
|------------------------------------------------------|---------------------------------|-----------------------------|-------------------------|-----------------------|-----------------------------|-------------------------|-----------------------|-----------------------------|-------------------------|
|                                                      | 2011                            |                             |                         | 2010 <sup>(1)</sup>   |                             |                         | 2009                  |                             |                         |
|                                                      | Average balance                 | Average rate <sup>(2)</sup> | Interest income/expense | Average balance       | Average rate <sup>(2)</sup> | Interest income/expense | Average balance       | Average rate <sup>(2)</sup> | Interest income/expense |
| (RUB bln, except percentages)                        |                                 |                             |                         |                       |                             |                         |                       |                             |                         |
| <b>Assets</b>                                        |                                 |                             |                         |                       |                             |                         |                       |                             |                         |
| Due from other banks <sup>(3)(4)</sup> .....         | 476.1                           | 1.8%                        | 8.8                     | 371.1                 | 1.9%                        | 7.1                     | 440.0                 | 2.5%                        | 11.1                    |
| Loans and advances to customers <sup>(4)</sup> ..... | 3,658.7                         | 10.3%                       | 376.7                   | 2,713.5               | 11.1%                       | 301.5                   | 2,704.7               | 12.7%                       | 343.9                   |
| Securities <sup>(5)</sup> .....                      | 398.9                           | 7.8%                        | 31.2                    | 252.6                 | 8.7%                        | 21.9                    | 190.3                 | 9.8%                        | 18.7                    |
| <b>Interest-earning assets</b> .....                 | <b>4,533.7</b>                  | <b>9.2%</b>                 | <b>416.7</b>            | <b>3,337.2</b>        | <b>9.9%</b>                 | <b>330.5</b>            | <b>3,335.0</b>        | <b>11.2%</b>                | <b>373.7</b>            |
| Non interest-earning assets .....                    | 984.8                           |                             |                         | 577.1                 |                             |                         | 512.2                 |                             |                         |
| Less allowance for impairment .....                  | (285.8)                         |                             |                         | (261.5)               |                             |                         | (178.8)               |                             |                         |
| <b>Total assets</b> .....                            | <b><u>5,232.7</u></b>           |                             |                         | <b><u>3,652.8</u></b> |                             |                         | <b><u>3,668.4</u></b> |                             |                         |
| <b>Liabilities and equity</b>                        |                                 |                             |                         |                       |                             |                         |                       |                             |                         |
| Due to other banks and other borrowed funds.....     | 810.9                           | 2.8%                        | 23.1                    | 576.5                 | 2.8%                        | 16.4                    | 986.5                 | 7.6%                        | 74.8                    |
| Customer deposits .....                              | 2,822.4                         | 4.0%                        | 112.6                   | 1,717.5               | 5.0%                        | 85.9                    | 1,394.7               | 6.4%                        | 89.9                    |
| Debt securities issued.....                          | 607.5                           | 6.1%                        | 36.8                    | 529.0                 | 7.6%                        | 40.1                    | 519.3                 | 7.3%                        | 38.1                    |
| Subordinated debt.....                               | 216.7                           | 7.9%                        | 17.2                    | 188.4                 | 9.0%                        | 17.0                    | 201.8                 | 9.3%                        | 18.7                    |
| <b>Interest-bearing liabilities</b> .....            | <b>4,457.5</b>                  | <b>4.3%</b>                 | <b>189.7</b>            | <b>3,011.4</b>        | <b>5.3%</b>                 | <b>159.4</b>            | <b>3,102.3</b>        | <b>7.1%</b>                 | <b>221.5</b>            |
| Non interest-bearing liabilities .....               | 171.6                           |                             |                         | 110.3                 |                             |                         | 131.8                 |                             |                         |
| <b>Equity</b> .....                                  | <b>603.6</b>                    |                             |                         | <b>531.1</b>          |                             |                         | <b>434.3</b>          |                             |                         |
| <b>Total liabilities and equity</b> .....            | <b><u>5,232.7</u></b>           |                             |                         | <b><u>3,652.8</u></b> |                             |                         | <b><u>3,668.4</u></b> |                             |                         |
| <b>Net interest income<sup>(6)</sup></b> .....       |                                 |                             | <b><u>227.0</u></b>     |                       |                             | <b><u>171.1</u></b>     |                       |                             | <b><u>152.2</u></b>     |
| Net interest spread <sup>(7)</sup> ...               |                                 | 4.9%                        |                         |                       | 4.6%                        |                         |                       | 4.1%                        |                         |
| Net interest margin <sup>(8)</sup> .....             |                                 | 5.0%                        |                         |                       | 5.1%                        |                         |                       | 4.6%                        |                         |

(1) Excludes amounts attributable to TCB.

(2) Represents interest income or interest expense divided by the average balance of respective item.

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

(4) Gross amount, before deducting allowance for loan impairment.

- (5) Excludes equity securities, as these securities are not interest-earning.
- (6) Net interest income before provision for impairment.
- (7) Represents the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities.
- (8) Represents the ratio of net interest income before provision for loan impairment expressed as a percentage of average interest earning assets.

### Net Changes in Interest Income and Expense: Volume and Rate Analysis

The following table sets forth the allocation of changes in the Group's interest income, interest expense and net interest income due to changes in average balances (volume change) and changes in average interest rates (rate change) for the periods indicated. Volume change is calculated as the change in average balances multiplied by the interest rate in the previous period, while rate change is calculated as the change in the average interest rate multiplied by the current period's average balance. For the purposes of the following table, for the six months ended June 30, 2012 and 2011 the average balances represent the average of the opening and closing balances for the relevant period, and for the years ended December 31, 2011, 2010 and 2009 the consolidated average assets and liabilities represent the average of the opening balance, and the March 31, June 30 and September 30 and closing balance, for the applicable year.

|                                                   | For the six months ended June 30,     |               |             | For the year ended December 31,       |               |             |                                       |               |               |
|---------------------------------------------------|---------------------------------------|---------------|-------------|---------------------------------------|---------------|-------------|---------------------------------------|---------------|---------------|
|                                                   | 2012 vs 2011                          |               |             | 2011 vs 2010                          |               |             | 2010 vs 2009                          |               |               |
|                                                   | Increase (decrease) due to changes in |               |             | Increase (decrease) due to changes in |               |             | Increase (decrease) due to changes in |               |               |
|                                                   | Volume                                | Rate          | Net change  | Volume                                | Rate          | Net change  | Volume                                | Rate          | Net change    |
|                                                   | (RUB bln)                             |               |             |                                       |               |             |                                       |               |               |
| <b>Interest income</b>                            |                                       |               |             |                                       |               |             |                                       |               |               |
| Due from other banks <sup>(1)</sup> .....         | 0.4                                   | 2.3           | 2.7         | 2.0                                   | (0.3)         | 1.7         | (1.7)                                 | (2.3)         | (4.0)         |
| Loans and advances to customers .....             | 80.0                                  | (3.9)         | 76.1        | 105.0                                 | (29.8)        | 75.2        | 1.1                                   | (43.5)        | (42.4)        |
| Securities .....                                  | 3.0                                   | 0.6           | 3.6         | 12.7                                  | (3.4)         | 9.3         | 6.1                                   | (2.9)         | 3.2           |
| <b>Total interest income</b> .....                | <u>83.4</u>                           | <u>(1.0)</u>  | <u>82.4</u> | <u>119.7</u>                          | <u>(33.5)</u> | <u>86.2</u> | <u>5.5</u>                            | <u>(48.7)</u> | <u>(43.2)</u> |
| <b>Interest expense</b>                           |                                       |               |             |                                       |               |             |                                       |               |               |
| Due to other banks and other borrowed funds ..... | 9.0                                   | 14.2          | 23.2        | 6.7                                   | —             | 6.7         | (31.1)                                | (27.3)        | (58.4)        |
| Customer deposits .....                           | 20.0                                  | 14.7          | 34.7        | 55.3                                  | (28.6)        | 26.7        | 20.8                                  | (24.8)        | (4.0)         |
| Debt securities issued .....                      | 7.5                                   | (1.6)         | 5.9         | 6.0                                   | (9.3)         | (3.3)       | 0.7                                   | 1.3           | 2.0           |
| Subordinated debt .....                           | 1.4                                   | (0.1)         | 1.3         | 2.6                                   | (2.4)         | 0.2         | (1.2)                                 | (0.5)         | (1.7)         |
| <b>Total interest expense</b> .....               | <u>37.9</u>                           | <u>27.2</u>   | <u>65.1</u> | <u>70.6</u>                           | <u>(40.3)</u> | <u>30.3</u> | <u>(10.8)</u>                         | <u>(51.3)</u> | <u>(62.1)</u> |
| <b>Change in net interest income</b> .....        | <u>45.5</u>                           | <u>(28.2)</u> | <u>17.3</u> | <u>49.1</u>                           | <u>6.8</u>    | <u>55.9</u> | <u>16.3</u>                           | <u>2.6</u>    | <u>18.9</u>   |

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

### Securities Portfolio

The following table sets forth information relating to the Group's financial assets at fair value through profit or loss for the periods indicated.

#### Financial assets at fair value through profit or loss

|                       | As of June 30, |            | As of December 31, |            |           |            |           |            |
|-----------------------|----------------|------------|--------------------|------------|-----------|------------|-----------|------------|
|                       | 2012           |            | 2011               |            | 2010      |            | 2009      |            |
|                       | (unaudited)    |            |                    |            | (audited) |            |           |            |
|                       | (RUB bln)      | % of total | (RUB bln)          | % of total | (RUB bln) | % of total | (RUB bln) | % of total |
| Corporate bonds ..... | 267.0          | 46.8       | 269.2              | 47.1       | 172.5     | 50.1       | 203.2     | 75.8       |

|                                                                          | As of June 30, |              | As of December 31, |              |              |              |              |              |
|--------------------------------------------------------------------------|----------------|--------------|--------------------|--------------|--------------|--------------|--------------|--------------|
|                                                                          | 2012           |              | 2011               |              | 2010         |              | 2009         |              |
|                                                                          | (unaudited)    |              |                    |              | (audited)    |              |              |              |
|                                                                          | (RUB bln)      | % of total   | (RUB bln)          | % of total   | (RUB bln)    | % of total   | (RUB bln)    | % of total   |
| Equity securities .....                                                  | 115.8          | 20.3         | 135.9              | 23.8         | 82.3         | 23.9         | 28.1         | 10.5         |
| State and municipal government bonds .....                               | 65.9           | 11.5         | 84.2               | 14.7         | 50.8         | 14.7         | 7.7          | 2.9          |
| Promissory notes .....                                                   | 3.2            | 0.6          | 3.3                | 0.6          | 0.1          | —            | 1.1          | 0.4          |
| Other .....                                                              | 118.9          | 20.8         | 78.9               | 13.8         | 38.9         | 11.3         | 27.8         | 10.4         |
| <b>Total financial assets at fair value through profit or loss .....</b> | <b>570.8</b>   | <b>100.0</b> | <b>571.5</b>       | <b>100.0</b> | <b>344.6</b> | <b>100.0</b> | <b>267.9</b> | <b>100.0</b> |
|                                                                          |                |              |                    |              |              |              | <b>0</b>     |              |

#### *Investment Securities Held to Maturity*

|                                                                 | As of June 30, |              | As of December 31, |              |             |              |             |              |
|-----------------------------------------------------------------|----------------|--------------|--------------------|--------------|-------------|--------------|-------------|--------------|
|                                                                 | 2012           |              | 2011               |              | 2010        |              | 2009        |              |
|                                                                 | (unaudited)    |              |                    |              | (audited)   |              |             |              |
|                                                                 | (RUB bln)      | % of total   | (RUB bln)          | % of total   | (RUB bln)   | % of total   | (RUB bln)   | % of total   |
| Bonds of Russian companies and banks .....                      | 32.7           | 95.1         | 32.8               | 95.3         | 32.6        | 90.1         | 11.1        | 79.9         |
| Bonds of foreign governments .....                              | 1.0            | 2.9          | 0.5                | 1.5          | 0.8         | 2.2          | 0.3         | 2.2          |
| Russian municipal bonds .....                                   | 0.4            | 1.2          | 1.0                | 2.9          | 2.4         | 6.6          | —           | —            |
| Bonds of foreign companies and banks .....                      | 0.2            | 0.6          | —                  | —            | 0.4         | 1.1          | 0.4         | 2.9          |
| Russian Federal loan bonds (OFZ) .....                          | 0.1            | 0.3          | 0.1                | 0.3          | —           | —            | —           | —            |
| Eurobonds of Russian companies and banks .....                  | —              | —            | —                  | —            | —           | —            | 2.1         | 15.1         |
| Promissory notes of Russian companies and banks .....           | —              | —            | —                  | —            | —           | —            | —           | —            |
| <b>Total gross investment securities held-to-maturity .....</b> | <b>34.4</b>    | <b>100.0</b> | <b>34.4</b>        | <b>100.0</b> | <b>36.2</b> | <b>100.0</b> | <b>13.9</b> | <b>100.0</b> |
| Allowance for impairment .....                                  | (2.1)          |              | (2.0)              |              | (2.0)       |              | (2.2)       |              |
| <b>Total investment securities held-to-maturity ....</b>        | <b>32.3</b>    |              | <b>32.4</b>        |              | <b>34.2</b> |              | <b>11.7</b> |              |

#### **Loan Portfolio**

The following tables set out the distribution of the Group's gross loans and advances to customers as of the statement of financial position dates set forth below, by area of operations and type of borrower.

#### *Area of operations*

The Group's loan portfolio includes loans to government bodies and other legal entities (together referred to as "corporate"), as well as to individuals. The Group classifies its loan portfolio by industry, and loans to individuals. The following table sets out the distribution of the Group's gross loans and advances to customers as of the statement of financial position dates set forth below.

|                                         | As of June 30, |            | As of December 31, |            |           |            |           |            |
|-----------------------------------------|----------------|------------|--------------------|------------|-----------|------------|-----------|------------|
|                                         | 2012           |            | 2011               |            | 2010      |            | 2009      |            |
|                                         | (unaudited)    |            |                    |            | (audited) |            |           |            |
|                                         | (RUB bln)      | % of total | (RUB bln)          | % of total | (RUB bln) | % of total | (RUB bln) | % of total |
| <b>Corporate</b>                        |                |            |                    |            |           |            |           |            |
| Finance <sup>(1)</sup> .....            | 593.3          | 12.8       | 619.6              | 13.5       | 382.3     | 12.5       | 359.0     | 14.1       |
| Building construction .....             | 580.5          | 12.5       | 530.7              | 11.6       | 303.2     | 9.9        | 278.6     | 10.9       |
| Manufacturing <sup>(2)</sup> .....      | 471.7          | 10.2       | 464.3              | 10.1       | 267.7     | 8.7        | 219.8     | 8.6        |
| Trade and commerce <sup>(3)</sup> ..... | 379.0          | 8.2        | 357.0              | 7.8        | 230.6     | 7.5        | 169.1     | 6.6        |
| Metals .....                            | 338.6          | 7.3        | 363.2              | 7.9        | 334.5     | 10.9       | 417.3     | 16.4       |
| Transport .....                         | 322.5          | 6.9        | 386.9              | 8.4        | 186.2     | 6.1        | 141.5     | 5.6        |
| Chemical .....                          | 212.8          | 4.6        | 214.9              | 4.7        | 226.6     | 7.4        | 28.6      | 1.1        |
| Government bodies .....                 | 189.5          | 4.1        | 248.8              | 5.4        | 115.4     | 3.8        | 70.3      | 2.8        |
| Energy <sup>(4)</sup> .....             | 147.1          | 3.2        | 145.7              | 3.2        | 97.8      | 3.2        | 88.6      | 3.5        |

|                                                           | As of June 30, |              | As of December 31, |              |                |              |                |              |
|-----------------------------------------------------------|----------------|--------------|--------------------|--------------|----------------|--------------|----------------|--------------|
|                                                           | 2012           |              | 2011               |              | 2010           |              | 2009           |              |
|                                                           | (unaudited)    |              |                    |              | (audited)      |              |                |              |
|                                                           | (RUB bln)      | % of total   | (RUB bln)          | % of total   | (RUB bln)      | % of total   | (RUB bln)      | % of total   |
| Oil and Gas .....                                         | 119.9          | 2.6          | 119.2              | 2.6          | 139.7          | 4.6          | 103.1          | 4.1          |
| Telecommunications and media .....                        | 94.9           | 2.0          | 69.5               | 1.5          | 23.6           | 0.8          | 17.9           | 0.9          |
| Food and agriculture.....                                 | 93.9           | 2.0          | 94.1               | 2.0          | 81.6           | 2.7          | 71.5           | 2.8          |
| Coal mining .....                                         | 43.5           | 0.9          | 58.0               | 1.3          | 55.6           | 1.8          | 73.7           | 2.9          |
| Aircraft .....                                            | 23.0           | 0.5          | 18.0               | 0.4          | 20.5           | 0.7          | 24.0           | 0.7          |
| Other .....                                               | 85.3           | 1.8          | 76.1               | 1.6          | 52.8           | 1.7          | 46.5           | 1.9          |
| <b>Total corporate loans and advances, gross .....</b>    | <b>3,695.5</b> | <b>79.6</b>  | <b>3,766.0</b>     | <b>82.0</b>  | <b>2,518.1</b> | <b>82.3</b>  | <b>2,109.5</b> | <b>82.9</b>  |
| Individuals .....                                         | 949.7          | 20.4         | 824.1              | 18.0         | 541.5          | 17.7         | 435.3          | 17.1         |
| <b>Total loans and advances to customers, gross .....</b> | <b>4,645.2</b> | <b>100.0</b> | <b>4,590.1</b>     | <b>100.0</b> | <b>3,059.6</b> | <b>100.0</b> | <b>2,544.8</b> | <b>100.0</b> |
| Allowance for impairment.....                             | 317.4          |              | (288.5)            |              | (274.2)        |              | (234.9)        |              |
| <b>Total customer loans and advances...</b>               | <b>4,327.8</b> |              | <b>4,301.6</b>     |              | <b>2,785.4</b> |              | <b>2,309.9</b> |              |

- (1) Includes loans issued to holding companies of industrial groups, mergers and acquisitions financing, and loans to leasing, insurance and other non-bank financial companies.
- (2) Includes all manufacturing industries, including without limitation machine building, automotive and shipbuilding.
- (3) Includes businesses in the retail, wholesale goods and services sectors.
- (4) Includes all businesses in the electric energy production and transportation areas, excluding oil and gas, which are classified separately.

The following discussion is based on gross loans and advances to customers, prior to the allowance for impairment.

Loans to individuals increased by 15.2% to RUB 949.7 billion as of June 30, 2012, compared to RUB 824.1 billion as of December 31, 2011, while total corporate loans and advances slightly declined by 1.9% to RUB 3,695.5 billion as of June 30, 2012 from RUB 3,766.0 billion as of December 31, 2011.

During 2011 loans to individuals increased by RUB 282.6 billion, or 52.2%, to RUB 824.1 billion, while total corporate loans and advances increased by RUB 1,247.9 billion, or 49.6%, to RUB 3,766.0 billion, as of December 31, 2011, primarily reflecting the consolidation of the Bank of Moscow. Loans to individuals increased by 10.2% to RUB 479.5 billion (including TCB to RUB 541.5 billion) as of December 31, 2010, compared to RUB 435.3 billion as of December 31, 2009, while total corporate loans and advances organically grew by 12.7% to RUB 2,376.5 billion (including TCB to RUB 2,518.1 billion) as of December 31, 2010, compared to RUB 2,109.5 billion as of December 31, 2009. The growth in loans to individuals during the period under review reflected the expansion of the Group's retail business.

The total outstanding gross loans and advances to customers issued by the Group to the ten largest groups of interrelated borrowers comprised RUB 990.2 billion, RUB 1,036.8 billion, RUB 643.7 billion and RUB 583.0 billion, or 20%, 22%, 21%, 23% of the gross loans and advances to customers, as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively.

## Customer status

The following table sets forth the composition of the Group's gross loans and advances to customers as of the statement of financial position dates set forth below.

|                                                    | As of June 30, |              | As of December 31, |              |                |              |                |              |
|----------------------------------------------------|----------------|--------------|--------------------|--------------|----------------|--------------|----------------|--------------|
|                                                    | 2012           |              | 2011               |              | 2010           |              | 2009           |              |
|                                                    | (unaudited)    |              |                    |              | (audited)      |              |                |              |
|                                                    | (RUB bln)      | % of total   | (RUB bln)          | % of total   | (RUB bln)      | % of total   | (RUB bln)      | % of total   |
| <b>Loans to legal entities</b>                     |                |              |                    |              |                |              |                |              |
| Current activity financing .....                   | 1,976.1        | 53.5         | 2,091.9            | 55.5         | 1,438.2        | 57.1         | 1,313.2        | 62.3         |
| Project finance and other .....                    | 1,347.2        | 36.5         | 1,314.7            | 34.9         | 888.9          | 35.3         | 666.6          | 31.6         |
| Finance leases .....                               | 247.7          | 6.7          | 244.1              | 6.5          | 142.2          | 5.6          | 105.9          | 5.0          |
| Reverse sale and repurchase agreements .....       | 124.5          | 3.4          | 115.3              | 3.1          | 48.8           | 1.9          | 23.8           | 1.1          |
| <b>Total loans to legal entities .....</b>         | <b>3,695.5</b> | <b>100.0</b> | <b>3,766.0</b>     | <b>100.0</b> | <b>2,518.1</b> | <b>100.0</b> | <b>2,109.5</b> | <b>100.0</b> |
| <b>Loans to individuals</b>                        |                |              |                    |              |                |              |                |              |
| Consumer loans and other .....                     | 525.2          | 55.3         | 436.2              | 52.9         | 268.4          | 49.6         | 182.9          | 42.0         |
| Mortgages .....                                    | 334.4          | 35.2         | 309.0              | 37.5         | 217.2          | 40.1         | 181.7          | 41.7         |
| Car loans .....                                    | 87.4           | 9.2          | 75.5               | 9.2          | 52.8           | 9.8          | 45.5           | 10.5         |
| Reverse sale and repurchase agreements .....       | 2.7            | 0.3          | 3.4                | 0.4          | 3.1            | 0.6          | 25.2           | 5.8          |
| <b>Total loans to individuals .....</b>            | <b>949.7</b>   | <b>100.0</b> | <b>824.1</b>       | <b>100.0</b> | <b>541.5</b>   | <b>100.0</b> | <b>435.3</b>   | <b>100.0</b> |
| Allowance for impairment .....                     | (317.4)        |              | (288.5)            |              | (274.2)        |              | (234.9)        |              |
| <b>Total loans and advances to customers .....</b> | <b>4,327.8</b> |              | <b>4,301.6</b>     |              | <b>2,785.4</b> |              | <b>2,309.9</b> |              |

(1) Represents portions of loans and advances where repayment is overdue by one day or more.

The majority of the Group's loan portfolio to legal entities consists of current activity financing, representing 53.5%, 55.5%, 57.1% and 62.3% of total gross loans and advances to legal entities as of June 30, 2012 and December 31, 2011, 2010 and 2009, respectively. In the six months ended June 30, 2012, the current activity financing decreased by 5.5% to RUB 1,976.1 billion, in line with the overall trend in loans to legal entities for the Group. As at December 31, 2011 current activity financing had increased by RUB 653.7 billion, or by 45.5%, to RUB 2,091.9 billion, compared to RUB 1,438.2 billion as of December 31, 2010. Current activity financing increased by 9.5% to RUB 1,438.2 billion as of December 31, 2010, from RUB 1,313.2 billion as of December 31, 2009.

The majority of the Group's loan portfolio to individuals consists of consumer loans, representing 55.3% 52.9%, 49.6%, 42.0% of total gross loans and advances to individuals as of June 30, 2012, December 31, 2011, 2010 and 2009, respectively. The growth of total loans to individuals in 2011 was primarily attributable to consumer loans, which increased by 62.5% to RUB 436.2 billion as of December 31, 2011 from RUB 268.4 billion as of December 31, 2010, which in turn was an increase of 46.7% from RUB 182.9 billion as of December 31, 2009. During the period under review, consumer loans increased from 42.0% of total loans to individuals as of December 31, 2009 to 55.3% of total loans to individuals as of June 30, 2012.

## Non-Performing and Past Due Loans

The following table sets forth the Group's non-performing loans and the coverage ratio for non-performing loans with allowance for loan impairment as of the statement of financial position dates indicated below.

|                                                          | As of June 30,                | As of December 31, |        |       |
|----------------------------------------------------------|-------------------------------|--------------------|--------|-------|
|                                                          | 2012                          | 2011               | 2010   | 2009  |
|                                                          | (RUB bln, except percentages) |                    |        |       |
| Non-performing loans.....                                | 271.2                         | 259.1              | 264.3  | 248.6 |
| Allowance for loan impairment/non-performing loans ..... | 117.0%                        | 111.3%             | 103.7% | 94.5% |

Non-performing loans represent impaired loans with repayments overdue by more than 90 days. During the period under review the allowance for loan impairment as a proportion of non-performing loans increased from 94.5% as of December 31, 2009 to 117.0% as of June 30, 2012.

The Group also classifies loans and advances to customers that are past due, but are not yet impaired, based on the number of days of delay in repayment. Past due loans and advances as set forth below include the entire outstanding amount of the loans, of which the current portion was RUB 0.5 billion, RUB 37.0 billion and RUB 44.5 billion as at December 31, 2011, 2010 and 2009, respectively, and of which the overdue portion was RUB 61.9 billion, RUB 54.5 billion and RUB 41.1 billion as of December 31, 2011, 2010 and 2009, respectively.

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class as of December 31, 2011 is presented in the table below.

|                                                                                  | From 1<br>to<br>30 days | From 31<br>to<br>60 days | From 61<br>to<br>90 days | From 91<br>to<br>180 days | From<br>181 days<br>to 1 year | More<br>than<br>1 year | Total       |
|----------------------------------------------------------------------------------|-------------------------|--------------------------|--------------------------|---------------------------|-------------------------------|------------------------|-------------|
|                                                                                  | (RUB bln)               |                          |                          |                           |                               |                        |             |
| <b>Loans to legal entities .....</b>                                             | <b>10.0</b>             | <b>1.8</b>               | <b>4.8</b>               | <b>12.2</b>               | <b>4.8</b>                    | <b>7.3</b>             | <b>40.9</b> |
| Finance leases .....                                                             | 5.6                     | 0.1                      | 0.9                      | 0.6                       | 0.8                           | 1.3                    | 9.3         |
| Current activity financing .....                                                 | 3.6                     | 0.9                      | 0.5                      | 3.1                       | 0.4                           | 4.4                    | 12.9        |
| Project finance and other .....                                                  | 0.8                     | 0.8                      | 3.4                      | 8.5                       | 3.6                           | 1.6                    | 18.7        |
| <b>Loans to individuals.....</b>                                                 | <b>17.8</b>             | <b>1.5</b>               | <b>1.2</b>               | <b>0.2</b>                | <b>0.1</b>                    | <b>0.7</b>             | <b>21.5</b> |
| Mortgages .....                                                                  | 4.8                     | 1.0                      | 1.1                      | 0.1                       | —                             | 0.2                    | 7.2         |
| Car loans .....                                                                  | 1.7                     | 0.1                      | —                        | —                         | —                             | 0.1                    | 1.9         |
| Consumer loans and other .....                                                   | 11.3                    | 0.4                      | 0.1                      | 0.1                       | 0.1                           | 0.4                    | 12.4        |
| <b>Total loans and advances to customers<br/>past due but not impaired .....</b> | <b>27.8</b>             | <b>3.3</b>               | <b>6.0</b>               | <b>12.4</b>               | <b>4.9</b>                    | <b>8.0</b>             | <b>62.4</b> |

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class as of December 31, 2010 is presented in the table below.

|                                                                                  | From 1<br>to<br>30 days | From 31<br>to<br>60 days | From 61<br>to<br>90 days | From 91<br>to<br>180 days | From<br>181 days<br>to 1 year | More<br>than<br>1 year | Total       |
|----------------------------------------------------------------------------------|-------------------------|--------------------------|--------------------------|---------------------------|-------------------------------|------------------------|-------------|
|                                                                                  | (RUB bln)               |                          |                          |                           |                               |                        |             |
| <b>Loans to legal entities .....</b>                                             | <b>2.2</b>              | <b>2.7</b>               | <b>3.2</b>               | <b>5.2</b>                | <b>21.7</b>                   | <b>17.7</b>            | <b>52.7</b> |
| Finance leases .....                                                             | 0.2                     | —                        | —                        | 0.3                       | 16.5                          | 1.2                    | 18.2        |
| Current activity financing .....                                                 | 1.8                     | 1.1                      | 2.4                      | 4.6                       | 5.2                           | 15.4                   | 30.5        |
| Project finance and other .....                                                  | 0.2                     | 1.6                      | 0.8                      | 0.3                       | —                             | 1.1                    | 4.0         |
| <b>Loans to individuals.....</b>                                                 | <b>13.0</b>             | <b>0.8</b>               | <b>1.3</b>               | <b>0.7</b>                | <b>3.5</b>                    | <b>19.5</b>            | <b>38.8</b> |
| Mortgages .....                                                                  | 5.0                     | 0.7                      | 1.2                      | 0.4                       | 1.1                           | 6.0                    | 14.4        |
| Car loans .....                                                                  | 1.2                     | —                        | —                        | —                         | 0.3                           | 1.5                    | 3.0         |
| Consumer loans and other .....                                                   | 6.8                     | 0.1                      | 0.1                      | 0.3                       | 2.1                           | 12.0                   | 21.4        |
| <b>Total loans and advances to customers<br/>past due but not impaired .....</b> | <b>15.2</b>             | <b>3.5</b>               | <b>4.5</b>               | <b>5.9</b>                | <b>25.2</b>                   | <b>37.2</b>            | <b>91.5</b> |

Ageing analysis of past due, but not impaired loans and advances to customers (gross) by class as of December 31, 2009 is presented in the table below.

|                                                                                  | From 1<br>to<br>30 days | From 31<br>to<br>60 days | From 61<br>to<br>90 days | From 91<br>to<br>180 days<br>(RUB bln) | From<br>181 days<br>to 1 year | More<br>than<br>1 year | Total       |
|----------------------------------------------------------------------------------|-------------------------|--------------------------|--------------------------|----------------------------------------|-------------------------------|------------------------|-------------|
| <b>Loans to legal entities</b> .....                                             | <b>12.9</b>             | <b>8.8</b>               | <b>2.3</b>               | <b>8.4</b>                             | <b>28.0</b>                   | <b>3.0</b>             | <b>63.4</b> |
| Finance leases .....                                                             | —                       | 4.2                      | 0.9                      | 3.8                                    | 20.8                          | —                      | 29.7        |
| Current activity financing .....                                                 | 12.0                    | 2.6                      | 1.3                      | 4.5                                    | 6.8                           | 2.8                    | 30.0        |
| Project finance and other .....                                                  | 0.9                     | 2.0                      | 0.1                      | 0.1                                    | 0.4                           | 0.2                    | 3.7         |
| <b>Loans to individuals</b> .....                                                | <b>10.4</b>             | <b>1.8</b>               | <b>1.0</b>               | <b>0.9</b>                             | <b>2.8</b>                    | <b>5.3</b>             | <b>22.2</b> |
| Mortgages .....                                                                  | 4.3                     | 1.1                      | 0.6                      | 0.3                                    | 1.1                           | 1.4                    | 8.8         |
| Car loans .....                                                                  | 1.1                     | 0.1                      | 0.1                      | 0.1                                    | 0.2                           | 0.5                    | 2.1         |
| Consumer loans and other .....                                                   | 5.0                     | 0.6                      | 0.3                      | 0.5                                    | 1.5                           | 3.4                    | 11.3        |
| <b>Total loans and advances to customers<br/>past due but not impaired</b> ..... | <b>23.3</b>             | <b>10.6</b>              | <b>3.3</b>               | <b>9.3</b>                             | <b>30.8</b>                   | <b>8.3</b>             | <b>85.6</b> |

### Maturities and Sensitivities of Loans to Changes in Interest Rates

The table below summarises the difference between the maturities of the Group's assets and liabilities, or repricing gaps, as of December 31, 2011.

|                                                                            | On<br>demand<br>and up to<br>1 month | From<br>1 month<br>to<br>3 months | From<br>3 months<br>to<br>6 months | From<br>6 months<br>to 1 year | From<br>1 year to<br>3 years | From<br>3 years to<br>5 years | More<br>than<br>5 years | Total          |
|----------------------------------------------------------------------------|--------------------------------------|-----------------------------------|------------------------------------|-------------------------------|------------------------------|-------------------------------|-------------------------|----------------|
| <b>Assets</b>                                                              |                                      |                                   |                                    |                               |                              |                               |                         |                |
| Correspondent accounts with<br>other banks .....                           | 94.9                                 | —                                 | —                                  | —                             | —                            | —                             | —                       | 94.9           |
| Corporate loans and advances to<br>customers .....                         | 396.7                                | 497.6                             | 430.2                              | 411.2                         | 871.6                        | 462.7                         | 119.4                   | 3,189.4        |
| Retail loans and advances to<br>customers .....                            | 14.1                                 | 21.2                              | 29.6                               | 60.2                          | 251.3                        | 157.0                         | 232.7                   | 766.1          |
| Due from other banks .....                                                 | 305.2                                | 18.9                              | 10.3                               | 9.6                           | 38.8                         | 5.7                           | 5.1                     | 393.6          |
| Reverse sale and repurchase<br>agreements .....                            | 64.8                                 | 50.7                              | 1.3                                | 31.1                          | —                            | —                             | —                       | 147.9          |
| Fixed income (quick assets) .....                                          | 0.6                                  | 5.4                               | 86.4                               | 14.5                          | 45.4                         | 51.6                          | 49.1                    | 253.0          |
| Fixed income (non liquid or<br>held-to-maturity financial<br>assets) ..... | 15.2                                 | 12.0                              | 8.1                                | 37.0                          | 25.5                         | 69.2                          | 340.0                   | 507.0          |
| FX swaps .....                                                             | 552.5                                | 161.2                             | 58.8                               | 54.6                          | 58.4                         | 34.0                          | 19.7                    | 939.2          |
| Interest rate derivative financial<br>instruments .....                    | 54.7                                 | 463.2                             | 17.5                               | 74.7                          | 197.1                        | 81.1                          | 55.1                    | 943.4          |
| Other interest-earning assets .....                                        | 0.2                                  | —                                 | 1.0                                | —                             | —                            | —                             | —                       | 1.2            |
| <b>Total assets</b> .....                                                  | <b>1,498.9</b>                       | <b>1,230.2</b>                    | <b>643.2</b>                       | <b>692.9</b>                  | <b>1,488.1</b>               | <b>861.3</b>                  | <b>821.1</b>            | <b>7,235.7</b> |
| <b>Liabilities</b>                                                         |                                      |                                   |                                    |                               |                              |                               |                         |                |
| Correspondent accounts and<br>overnight deposits .....                     | 262.2                                | 8.0                               | 2.7                                | 6.3                           | 6.3                          | 9.8                           | —                       | 295.3          |
| Current/settlement deposits .....                                          | 723.3                                | 0.3                               | 0.3                                | 0.2                           | —                            | —                             | —                       | 724.1          |
| Term deposits of legal entities<br>and government bodies .....             | 818.7                                | 433.6                             | 149.1                              | 222.0                         | 150.3                        | 8.6                           | 312.9                   | 2,095.2        |
| Term deposits of individuals .....                                         | 67.2                                 | 105.2                             | 123.2                              | 166.3                         | 383.5                        | 31.2                          | 12.9                    | 889.5          |
| Due to other banks .....                                                   | 323.9                                | 108.9                             | 235.6                              | 95.3                          | 86.0                         | 19.4                          | 242.6                   | 1,111.7        |
| Reverse sale and repurchase<br>agreements .....                            | 21.5                                 | 161.4                             | 0.5                                | —                             | —                            | —                             | —                       | 183.4          |
| Promissory notes issued .....                                              | 6.0                                  | 28.0                              | 72.3                               | 55.9                          | 2.9                          | 33.4                          | 0.8                     | 199.3          |
| Bonds issued .....                                                         | 2.6                                  | 7.2                               | 9.0                                | 104.5                         | 175.2                        | 120.4                         | 61.0                    | 479.9          |
| FX swaps .....                                                             | 550.6                                | 162.0                             | 62.1                               | 55.1                          | 52.2                         | 29.2                          | 16.1                    | 927.3          |
| Interest rate derivative financial<br>instruments .....                    | 8.0                                  | 481.8                             | 19.7                               | 64.1                          | 299.6                        | 28.7                          | 54.4                    | 956.3          |
| Other interest-bearing liabilities<br>.....                                | 1.7                                  | 0.9                               | 0.4                                | 0.1                           | 0.9                          | 1.0                           | 2.7                     | 7.7            |
| <b>Total liabilities</b> .....                                             | <b>2,785.7</b>                       | <b>1,497.3</b>                    | <b>674.9</b>                       | <b>769.8</b>                  | <b>1,156.9</b>               | <b>281.7</b>                  | <b>703.4</b>            | <b>7,869.7</b> |
| <b>Net repricing gap</b> .....                                             | <b>(1,286.8)</b>                     | <b>(267.1)</b>                    | <b>(31.7)</b>                      | <b>(76.9)</b>                 | <b>331.2</b>                 | <b>579.6</b>                  | <b>117.7</b>            | <b>(634.0)</b> |

## Deposits

The following table sets forth the Group's customer deposits by type of customer and product as of the statement of financial position dates set forth below. For a discussion of trends concerning customer deposits, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Total Liabilities—Customer Deposits".

|                                             | As of June 30, |               | As of December 31, |               |                |               |                |               |
|---------------------------------------------|----------------|---------------|--------------------|---------------|----------------|---------------|----------------|---------------|
|                                             | 2012           |               | 2011               |               | 2010           |               | 2009           |               |
|                                             | (unaudited)    |               | (audited)          |               |                |               |                |               |
|                                             | (RUB<br>bln)   | % of<br>total | (RUB<br>bln)       | % of<br>total | (RUB<br>bln)   | % of<br>total | (RUB<br>bln)   | % of<br>total |
| <b>Government bodies</b>                    |                |               |                    |               |                |               |                |               |
| Current/settlement deposits .....           | 35.6           | 1.0           | 38.0               | 1.1           | 14.0           | 0.6           | 7.7            | 0.5           |
| Term deposits .....                         | 222.5          | 6.5           | 482.1              | 13.4          | 83.6           | 3.8           | 101.1          | 6.4           |
| <b>Total government bodies .....</b>        | <b>258.1</b>   | <b>7.5</b>    | <b>520.1</b>       | <b>14.5</b>   | <b>97.6</b>    | <b>4.4</b>    | <b>108.8</b>   | <b>6.9</b>    |
| <b>Other legal entities</b>                 |                |               |                    |               |                |               |                |               |
| Current/settlement deposits .....           | 640.1          | 18.6          | 610.8              | 17.0          | 475.7          | 21.5          | 464.5          | 29.6          |
| Term deposits .....                         | 1,220.1        | 35.5          | 1,296.3            | 36.0          | 882.0          | 39.9          | 515.7          | 32.9          |
| <b>Total other legal entities .....</b>     | <b>1,860.2</b> | <b>54.1</b>   | <b>1,907.1</b>     | <b>53.0</b>   | <b>1357.7</b>  | <b>61.4</b>   | <b>980.2</b>   | <b>62.5</b>   |
| <b>Individuals</b>                          |                |               |                    |               |                |               |                |               |
| Current/settlement deposits .....           | 265.1          | 7.7           | 254.7              | 7.1           | 142.6          | 6.4           | 84.5           | 5.4           |
| Term deposits .....                         | 1,048.8        | 30.5          | 906.1              | 25.2          | 605.3          | 27.4          | 392.0          | 25.0          |
| <b>Total individuals .....</b>              | <b>1313.9</b>  | <b>38.2</b>   | <b>1,160.8</b>     | <b>32.3</b>   | <b>747.9</b>   | <b>33.8</b>   | <b>476.5</b>   | <b>30.4</b>   |
| <b>Sale and repurchase agreements .....</b> | <b>6.1</b>     | <b>0.2</b>    | <b>8.7</b>         | <b>0.2</b>    | <b>9.7</b>     | <b>0.4</b>    | <b>3.3</b>     | <b>0.2</b>    |
| <b>Total customer deposits .....</b>        | <b>3,438.3</b> | <b>100.0</b>  | <b>3,596.7</b>     | <b>100.0</b>  | <b>2,212.9</b> | <b>100.0</b>  | <b>1,568.8</b> | <b>100.0</b>  |

## Currency Exposures

As at December 31, 2011, 2010 and 2009, the Group had the following exposures to currency risk, which include balance sheet positions and off-balance sheet foreign currency derivatives positions against rubles (open positions).

| Currency                                                          | Open positions, bln RUB |       |        |
|-------------------------------------------------------------------|-------------------------|-------|--------|
|                                                                   | December 31,            |       |        |
|                                                                   | 2011                    | 2010  | 2009   |
| USD .....                                                         | (27.1)                  | (8.2) | (6.6)  |
| EUR .....                                                         | (1.1)                   | (2.4) | (13.6) |
| GBP (the lawful currency of Great Britain) .....                  | 4.2                     | 0.2   | (1.1)  |
| CHF (the lawful currency of Switzerland) .....                    | (16.9)                  | (1.5) | (0.2)  |
| JPY (the lawful currency of Japan) .....                          | (0.8)                   | —     | (0.9)  |
| UAH (the lawful currency of Ukraine) .....                        | 41.9                    | 30.5  | 16.0   |
| GEL (the lawful currency of Georgia) .....                        | 2.7                     | 2.5   | 1.8    |
| A98 .....                                                         | 2.4                     | —     | 0.2    |
| AMD (the lawful currency of the Republic of Armenia) .....        | 1.6                     | 1.7   | 1.6    |
| AZN (the lawful currency of the Republic of Azerbaijan) .....     | 0.9                     | 0.9   | 0.8    |
| SGD (the lawful currency of the Republic of Singapore) .....      | 0.8                     | (0.2) | 0.2    |
| SEK (the lawful currency of the Kingdom of Sweden) .....          | (0.7)                   | —     | —      |
| RSD (the lawful currency of Serbia) .....                         | 0.7                     | —     | —      |
| CNY (the lawful currency of the People's Republic of China) ..... | (0.6)                   | 0.1   | —      |
| TRY (the lawful currency of the Turkish Republic) .....           | —                       | 0.6   | —      |
| BYR (the lawful currency of the Republic of Belarus) .....        | 0.5                     | 1.1   | 0.9    |
| AOA (the lawful currency of the Republic of Angola) .....         | 0.4                     | 0.2   | 0.2    |
| HKD (the lawful currency of Hong Kong) .....                      | 0.3                     | —     | —      |
| AUD (the lawful currency of the Commonwealth of Australia) .....  | (0.3)                   | (0.9) | 0.8    |

|                                                               | Open positions, bln RUB |             |            |
|---------------------------------------------------------------|-------------------------|-------------|------------|
|                                                               | December 31,            |             |            |
|                                                               | 2011                    | 2010        | 2009       |
| NOK (the lawful currency of Norway).....                      | 0.2                     | —           | —          |
| KZT (the lawful currency of the Republic of Kazakhstan) ..... | (0.2)                   | 0.4         | 0.3        |
| A99 .....                                                     | (0.1)                   | —           | —          |
| Other .....                                                   | 0.1                     | 0.1         | 0.1        |
| <b>Total</b> .....                                            | <b>11.1</b>             | <b>25.1</b> | <b>0.5</b> |
| <b>VaR, (10d, 99%)</b> .....                                  | <b>1.0</b>              | <b>3.9</b>  | <b>4.1</b> |

See “*Risk Management—Currency Risks*” for a description of the Group’s policies with respect to its foreign currency exposures.

## Cash Flows and Liquidity

As at December 31, 2011, the Group had the following cash flow, classed by remaining contractual maturities in billions of rubles.

| Time Band                     | Inflow  | Outflow   | Gap     | Gap Cumulative | FX Swap Cumulative | Dynamic Gap (total) Cumulative |
|-------------------------------|---------|-----------|---------|----------------|--------------------|--------------------------------|
| ruble positions               |         |           |         |                |                    |                                |
| Opening balance .....         | —       | —         | 285.9   | 285.9          | —                  | 285.9                          |
| Up to 1 month .....           | 358.8   | (879.9)   | (521.1) | (235.2)        | 105.5              | (129.7)                        |
| From 1 to 3 months .....      | 228.3   | (717.5)   | (489.2) | (724.4)        | 98.5               | (625.9)                        |
| From 3 months to 1 year ..... | 1,009.4 | (678.0)   | 331.4   | (393.0)        | 101.4              | (291.6)                        |
| From 1 to 3 years .....       | 1,396.8 | (486.9)   | 909.9   | 516.9          | 40.5               | 557.4                          |
| More than 3 years .....       | 1,852.6 | (891.0)   | 961.6   | 1,478.5        | 10.1               | 1,488.6                        |
| Other currency positions      |         |           |         |                |                    |                                |
| Opening balance .....         | —       | —         | 150.8   | 150.8          | —                  | 150.8                          |
| Up to 1 month .....           | 609.8   | (745.4)   | (135.6) | 15.2           | (108.1)            | (92.9)                         |
| From 1 to 3 months .....      | 213.8   | (227.7)   | (13.9)  | 1.3            | (101.3)            | (100.0)                        |
| From 3 months to 1 year ..... | 888.7   | (951.2)   | (62.5)  | (61.2)         | (106.7)            | (167.9)                        |
| From 1 to 3 years .....       | 1,278.0 | (1,178.1) | 99.9    | 38.7           | (46.6)             | (7.9)                          |
| More than 3 years .....       | 811.5   | (639.1)   | 172.4   | 211.1          | (8.8)              | 202.3                          |
| Total                         |         |           |         |                |                    |                                |
| Opening balance .....         | —       | —         | 436.7   | 436.7          | —                  | 436.7                          |
| Up to 1 month .....           | 968.6   | (1,625.3) | (656.7) | (220.0)        | (2.6)              | (222.6)                        |
| From 1 to 3 months .....      | 442.1   | (945.2)   | (503.1) | (723.1)        | (2.8)              | (725.9)                        |
| From 3 months to 1 year ..... | 1,898.1 | (1,629.2) | 268.9   | (454.2)        | (5.3)              | (459.5)                        |
| From 1 to 3 years .....       | 2,674.8 | (1,665.0) | 1,009.8 | 555.6          | (6.1)              | 549.5                          |
| More than 3 years .....       | 2,664.1 | (1,530.1) | 1,134.0 | 1,689.6        | 1.3                | 1,690.9                        |

(1) Represents highly liquid assets, which mostly consist of nostro accounts with other banks.

(2) Represents the difference between the “Inflow” and “Outflow” columns.

(3) Represents the cumulative gap.

(4) Represents the cumulative gaps on foreign exchange swaps.

(5) Represents the cumulative gap including “FX Swap Cumulative”.

The stable element of resources on demand is determined on the basis of statistical analysis of the dynamics of cumulative balances on these accounts. Although a considerable portion of customer liabilities mature in less than three months, VTB’s past experience shows that these liabilities are consistently renewed, and therefore can be considered as a stable source of funding. The currency structure of VTB’s liquidity position is hedged by conducting foreign exchange swaps.

## Allowance for Impairment

The following table sets forth the movements in the Group's allowance for impairment relating to loans and advances to customers during the periods indicated.

|                                                                  | Amount<br>(RUB bln) | % of gross loans<br>and advances to<br>customers |
|------------------------------------------------------------------|---------------------|--------------------------------------------------|
| <b>Allowance for impairment as of December 31, 2009</b> .....    | <b>234.9</b>        | <b>9.2%</b>                                      |
| Provision charge for impairment .....                            | 50.2                |                                                  |
| Write-offs .....                                                 | (12.1)              |                                                  |
| Recovery of amounts written-off in previous periods .....        | 0.9                 |                                                  |
| Currency translation difference .....                            | 0.3                 |                                                  |
| <b>Allowance for impairment as of December 31, 2010</b> .....    | <b>274.2</b>        | <b>9.0%</b>                                      |
| Provision charge for impairment .....                            | 31.9                |                                                  |
| Write-offs .....                                                 | (16.5)              |                                                  |
| Recovery of amounts written-off in previous periods .....        | 0.2                 |                                                  |
| Currency translation difference .....                            | (1.2)               |                                                  |
| Reclassification to assets of disposal group held for sale ..... | (0.1)               |                                                  |
| <b>Allowance for impairment as of December 31, 2011</b> .....    | <b>288.5</b>        | <b>6.3%</b>                                      |
|                                                                  |                     |                                                  |
|                                                                  | Amount<br>(RUB bln) | % of gross loans<br>and advances to<br>customers |
| <b>Allowance for impairment as of December 31, 2010</b> .....    | <b>274.2</b>        | <b>9.0%</b>                                      |
| Provision charge for impairment .....                            | 17.8                |                                                  |
| Write-offs .....                                                 | (7.9)               |                                                  |
| Recovery of amounts written-off in previous periods .....        | 0.1                 |                                                  |
| Currency translation difference .....                            | (3.8)               |                                                  |
| <b>Allowance for impairment as of June 30, 2011</b> .....        | <b>280.4</b>        | <b>8.6%</b>                                      |
| <b>Allowance for impairment as of December 31, 2011</b> .....    | <b>288.5</b>        | <b>6.3%</b>                                      |
| Provision charge for impairment .....                            | 32.3                |                                                  |
| Write-offs .....                                                 | (6.2)               |                                                  |
| Currency translation difference .....                            | 2.8                 |                                                  |
| <b>Allowance for impairment as of June 30, 2012</b> .....        | <b>317.4</b>        | <b>6.8%</b>                                      |

The Group's allowance for impairment of loans and advances to customers increased by 10.0% to RUB 317.4 billion as of June 30, 2012 from RUB 288.5 billion as of December 31, 2011, while the allowance for impairment as a percentage of total gross loans and advances to customers increased to 6.8% from 6.3% as at the same dates, due to countercyclical planning by management leading to an increase in reserves against corporate loans. The Group's allowance for impairment of loans and advances to customers increased by 5.2% to RUB 288.5 billion as of December 31, 2011 from RUB 274.2 billion as of December 31, 2010, while the allowance for impairment as a percentage of total gross loans and advances to customers decreased to 6.3% from 9.0% as at the same dates, due to outpacing loan portfolio growth accompanied by stable portfolio quality and the IFRS3 requirements to account for assets received through business combinations at the fair value without any allowance for impairment.

The Group's allowance for impairment of loans and advances to customers increased by 16.7% to RUB 274.2 billion as of December 31, 2010 from RUB 234.9 billion as of December 31, 2009, due to loan portfolio growth. Allowance for impairment as a percentage of total gross loans and advances to customers organically increased to 9.6% (or decreased slightly to 9.0% including TCB) from 9.2% as at the same dates.

## Capital Adequacy

### CBR N1 Ratio

The CBR has established capital adequacy and liquidity requirements for banks and, as the case may be, banking groups, in order to ensure the integrity of the banking system. Such requirements currently exist in the form of the relevant mandatory ratios (calculated in accordance with RAS) set out in Russian federal banking laws and regulations and, in particular, the CBR Instruction No. 110-I “On the Banks’ Mandatory Economic Ratios” of January 16, 2004, as amended (“**Instruction No. 110-I**”). See “*Banking Regulation in the Russian Federation—Mandatory Ratios*.” Each of VTB, Bank of Moscow, VTB24 and TCB is in compliance with the CBR’s capital adequacy requirements.

The following table sets forth the N1 capital ratio, calculated under the CBR’s requirements for VTB as a stand-alone entity, for the periods indicated, in accordance with Instruction No. 110-I. These amounts are calculated based on VTB’s RAS standalone financial statements. Amounts calculated under RAS differ materially from, and are not comparable to, IFRS.

|                             | As of period end              |                     |                     |                             |                           |                              |                                |                                |                             |                           |                                 |
|-----------------------------|-------------------------------|---------------------|---------------------|-----------------------------|---------------------------|------------------------------|--------------------------------|--------------------------------|-----------------------------|---------------------------|---------------------------------|
|                             | 2008 <sup>(1)</sup>           | 2009 <sup>(1)</sup> | 2010 <sup>(1)</sup> | 2011                        |                           |                              |                                |                                | 2012                        |                           |                                 |
|                             |                               |                     |                     | Marc<br>h 31 <sup>(2)</sup> | June<br>30 <sup>(2)</sup> | Augus<br>t 31 <sup>(2)</sup> | Decemb<br>er 31 <sup>(2)</sup> | Decemb<br>er 31 <sup>(1)</sup> | Marc<br>h 31 <sup>(2)</sup> | June<br>30 <sup>(2)</sup> | Septemb<br>er 30 <sup>(2)</sup> |
|                             | (RUB bln, except percentages) |                     |                     |                             |                           |                              |                                |                                |                             |                           |                                 |
| Core capital .....          | 344.6                         | 556.1               | 593.2               | 550.4                       | 587.7                     | 624.5                        | 624.5                          | 610.5                          | 612.1                       | 602.9                     | 674.4                           |
| Less: deductions from       | (136.                         | (200.               | (251.               | (320.                       | (321.                     | (359.                        |                                |                                | (359.                       | (369.                     |                                 |
| Core Capital .....          | 8)                            | 7)                  | 7)                  | 8)                          | 8)                        | 6)                           | (365.9)                        | (355.4)                        | 4)                          | 6)                        | (401.3)                         |
| Supplementary               |                               |                     |                     |                             |                           |                              |                                |                                |                             |                           |                                 |
| Capital.....                | 207.7                         | 228.3               | 206.7               | 229.6                       | 239.1                     | 218.4                        | 217.9                          | 217.9                          | 235.8                       | 232.4                     | 215.9                           |
| Less: other deductions      |                               |                     |                     |                             |                           |                              |                                |                                |                             |                           |                                 |
| from total capital .....    | (18.4)                        | (18.5)              | (18.5)              | (17.8)                      | (23.3)                    | (26.7)                       | (29.8)                         | (29.7)                         | (24.0)                      | (24.4)                    | (24.2)                          |
| <b>Total Capital .....</b>  | <b>397.1</b>                  | <b>565.2</b>        | <b>529.7</b>        | <b>441.4</b>                | <b>481.7</b>              | <b>456.6</b>                 | <b>446.7</b>                   | <b>443.3</b>                   | <b>464.5</b>                | <b>441.3</b>              | <b>465.1</b>                    |
| <b>Reported N1 (Total</b>   | 16.1                          | 23.8                | 22.6                | 18.0                        | 18.1                      | 13.5                         |                                |                                | 12.7                        | 11.9                      |                                 |
| <b>Capital) Ratio .....</b> | %                             | %                   | %                   | %                           | %                         | %                            | 11.2%                          | 11.0%                          | %                           | %                         | 12.1%                           |
| <b>Minimum N1</b>           | 10.0                          | 10.0                | 10.0                | 10.0                        | 10.0                      | 10.0                         |                                |                                | 10.0                        | 10.0                      |                                 |
| <b>Requirement .....</b>    | %                             | %                   | %                   | %                           | %                         | %                            | 10.0%                          | 10.0%                          | %                           | %                         | 10%                             |

(1) Calculated taking into account events after the reporting date affecting capital.

(2) Calculated without taking into account events after the reporting date affecting capital.

### Basel Capital Adequacy

While the Group is not required by law to report its Basel capital adequacy on a Group-wide basis, it is required to do so pursuant to certain covenants in its outstanding debt securities. The following table sets forth certain capital ratios of the Group for the periods indicated. The capital ratios have been calculated in accordance with the Basel Accord guidelines issued in 1988, with subsequent amendments, including the amendment to incorporate market risks prior to the introduction of Basel II, on the basis of the Group’s IFRS financial information. See Note 43 to the 2011 Annual IFRS Financial Statements and Note 32 to the Interim Condensed Consolidated IFRS Financial Statements.

| VTB Group Consolidated<br>Basel Capital Ratios | As of period end              |            |                  |                     |                 |            |                      |                     |                 |            |                      |                     |                 |            |
|------------------------------------------------|-------------------------------|------------|------------------|---------------------|-----------------|------------|----------------------|---------------------|-----------------|------------|----------------------|---------------------|-----------------|------------|
|                                                | 2009                          |            |                  |                     | 2010            |            |                      |                     | 2011            |            |                      |                     | 2012            |            |
|                                                | March<br>31                   | June<br>30 | Septem<br>ber 30 | Dece<br>mbe<br>r 31 | Mar<br>ch<br>31 | June<br>30 | Sept<br>emb<br>er 30 | Dece<br>mbe<br>r 31 | Mar<br>ch<br>31 | June<br>30 | Sept<br>emb<br>er 30 | Dece<br>mbe<br>r 31 | Mar<br>ch<br>31 | June<br>30 |
|                                                | (RUB bln, except percentages) |            |                  |                     |                 |            |                      |                     |                 |            |                      |                     |                 |            |
| Tier 1 .....                                   |                               | 348.       |                  | 493.                | 508.            | 512.       | 533.                 | 566.                | 589.            | 586.       | 613.                 | 613.                | 617.            |            |
|                                                | 367.5                         | 8          | 516.4            | 1                   | 7               | 4          | 9                    | 8                   | 4               | 2          | 9                    | 7                   | 9               | 619.6      |
| Less: deductions from                          |                               |            |                  |                     |                 |            | (12.2                | (19.9               | (19.9           | (20.1      | (101.                | (104.               | (105.           | (105.4     |
| Tier 1 capital .....                           | (7.9)                         | (7.9)      | (7.9)            | (7.9)               | (7.9)           | (7.9)      | )                    | )                   | )               | )          | 5)                   | 7)                  | 4)              | )          |
| Tier 2 .....                                   |                               | 209.       |                  | 207.                | 197.            | 198.       | 198.                 | 214.                | 214.            | 214.       | 246.                 | 245.                | 242.            |            |
|                                                | 210.8                         | 7          | 208.6            | 1                   | 4               | 1          | 0                    | 8                   | 1               | 1          | 7                    | 4                   | 9               | 243.0      |

| VTB Group Consolidated<br>Basel Capital Ratios | As of period end |                |                  |                 |                |                |                  |                 |                |                |                  |                 |                |                |
|------------------------------------------------|------------------|----------------|------------------|-----------------|----------------|----------------|------------------|-----------------|----------------|----------------|------------------|-----------------|----------------|----------------|
|                                                | 2009             |                |                  |                 | 2010           |                |                  |                 | 2011           |                |                  |                 | 2012           |                |
|                                                | March<br>31      | June<br>30     | Septem<br>ber 30 | Dece<br>mber 31 | Mar<br>ch 31   | June<br>30     | Sept<br>ember 30 | Dece<br>mber 31 | Mar<br>ch 31   | June<br>30     | Sept<br>ember 30 | Dece<br>mber 31 | Mar<br>ch 31   | June<br>30     |
| Less: deductions from<br>total capital.....    | (4.8)            | (4.7)          | (4.7)            | (4.9)           | (12.3)         | (13.7)         | (13.7)           | (21.7)          | (114.2)        | (113.4)        | (23.6)           | (21.0)          | (19.5)         | (20.3)         |
| <b>Total Capital.....</b>                      | <b>565.6</b>     | <b>545.9</b>   | <b>712.4</b>     | <b>687.4</b>    | <b>685.9</b>   | <b>688.9</b>   | <b>706.0</b>     | <b>740.0</b>    | <b>669.4</b>   | <b>666.8</b>   | <b>735.5</b>     | <b>733.4</b>    | <b>735.9</b>   | <b>736.9</b>   |
| <b>Risk Weighted Assets.....</b>               | <b>3,642.0</b>   | <b>3,306.2</b> | <b>3,644.1</b>   | <b>3,291.3</b>  | <b>3,091.2</b> | <b>3,567.7</b> | <b>3,751.1</b>   | <b>4,413.2</b>  | <b>4,319.1</b> | <b>4,720.6</b> | <b>5,577.9</b>   | <b>5,655.9</b>  | <b>5,364.6</b> | <b>5,773.0</b> |
| Tier 1 Capital Ratio.....                      | 9.9%             | 10.3%          | 14.0%            | 14.7%           | 16.2%          | 14.1%          | 13.9%            | 12.4%           | 13.2%          | 12.0%          | 9.2%             | 9.0%            | 9.6%           | 8.9%           |
| Capital Adequacy Ratio.....                    | 15.5%            | 16.5%          | 19.5%            | 20.9%           | 22.2%          | 19.3%          | 18.8%            | 16.8%           | 15.5%          | 14.1%          | 13.2%            | 13.0%           | 13.7%          | 12.8%          |

The Group's international risk-based capital adequacy ratio was 12.8% as of June 30, 2012 and 13.0%, 17.1% (16.8% including TCB) and 20.9% as of December 31, 2011, 2010 and 2009, respectively. These ratios exceeded the minimum ratio of 8.0% recommended by the Basel Accord.

## BUSINESS

### Overview

The Group is a leading Russian universal banking group offering a wide range of banking and other financial services and products across the Russian Federation and certain CIS countries. The Group also has operations in selected countries in Europe and elsewhere. The Group focuses on providing banking and other financial products and services to Russian, CIS and foreign clients through its Russian, CIS and foreign subsidiaries. According to VTB's estimates based on data published by the CBR, the Group ranked second in the Russian Federation in the following measures, with the indicated market share as of June 30, 2012: total corporate deposits, 19.1%, total corporate loans, 14.2%, total retail deposits, 9.1%, total retail lending, 13.4% and total assets, 15.4%. As of June 30, 2012, the Group had RUB 6,858.0 billion in total assets and RUB 629.4 billion in total equity (including non-controlling interests) and as of December 31, 2011 the Group had RUB 6,789.6 billion in total assets and RUB 625.1 billion in total equity (including non-controlling interests).

Since its establishment in 1990, VTB has, through organic expansion and selected acquisitions, transformed itself into a universal banking group with a strong presence in the Russian Federation and an expanding presence in the CIS. The Group operates outside the Russian Federation through 15 banking subsidiaries, which are located in the CIS (Armenia, Azerbaijan, Belarus, Kazakhstan and Ukraine), Europe (Austria, Cyprus, France, Germany, the United Kingdom and Serbia), Georgia and Africa (Angola). VTB also has a financial services and consulting company in Namibia, which is currently being liquidated, an associated bank in Vietnam, as well as representative offices in Italy and China, branches in India and China and branches of VTB Capital in Singapore and Dubai. The Group investment banking division also performs broker-dealer operations in the United States, securities dealing and financial advisory operations in Hong Kong and investment banking operations in Bulgaria. As of June 30, 2012, the Group operated its banking business in the Russian Federation through 1,394 branches.

The Russian Federation currently owns approximately 75.5% of VTB's ordinary shares and is the controlling shareholder of the Group. VTB's ordinary shares are traded on MICEX in the Russian Federation, and its GDRs are traded on the London Stock Exchange's regulated market.

During 2011, the Group implemented a number of strategic initiatives aimed at strengthening its position in the banking market and achieving key targets set out in the Group's 2010-2013 development strategy, including:

- completion of the consolidation of the Group's corporate and investment banking ("CIB") activities to provide its clients with a full array of banking services including sophisticated structured products;
- implementation of a matrix management system within newly established business lines in key Group subsidiaries to develop the global transaction banking product line, increase commission fees and the share of deposits, maintain loan portfolio volumes, improve results and enhance overall Group efficiency;
- introduction of a new system of client coverage including new principles for client segmentation for large, medium and small clients and dedicated client coverage teams with particular areas of expertise; and
- optimisation of key business processes, including improvement of lending procedures for large- and medium-sized corporate clients to reduce the length of time it takes to process credit decisions and improve overall efficiency; implementation of a new financial system of revenue, cost and capital allocation to facilitate transparency of business results by clients,

key business lines and products; and implementation of universal methods for evaluating and estimating large and medium corporate client credit risks based on best practices.

## **History**

VTB was established in the Russian Federation as the Bank for Foreign Trade of the Russian Federation on October 17, 1990, and received a general banking license from the CBR in January 1991. In 1994, VTB began several restructurings of its corporate legal structure, and VTB ultimately became an open joint-stock company in 1998.

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

The Group has undertaken a number of strategic acquisitions and other actions over its history to expand its business and geographical presence. In recent years, the Group's most significant acquisitions include those of the Bank of Moscow in 2011 and TCB in 2010. See “—*Organisation and Management of the Group—Acquisition of the Bank of Moscow*” and “—*Organisation and Management of the Group—Acquisition of TCB*”.

As a result of restructuring a number of problem loans owed to VTB by its clients, VTB has also acquired non-core assets, including a 19.9% stake in OTKRITIE Financial Corporation JSC; a 75% minus one share stake in “CJSC VTB Arena” and a 51.24% stake in Hals-Development (formerly Sistema-Hals). “CJSC VTB Arena” is engaged in the reconstruction and modernisation of sport complex “Dynamo” in Moscow, and Hals-Development specialises in the development of commercial and residential real estate. In addition, VTB and the beneficial owners of DON-Stroy signed a non-binding memorandum of understanding, under which VTB plans to acquire an equity stake in “ZAO DON-Stroy Invest”, a company specialising in residential real estate development.

## **Competitive Strengths**

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

### ***Significant scale and strong market position***

According to VTB's estimates based on data published by the CBR as of June 30, 2012, the Group was the second largest banking group in the Russian Federation by total corporate deposits, total corporate loans, total retail deposits, total retail lending and total assets. The Group believes that it has significant scale and a market leading position in each of its key segments of corporate, investment banking, and retail banking. The Group also believes it is well-positioned in the market due to its diversified and universal business model, as well as nearly 22 years of experience in Russian and international banking. The Group believes that it has been able to establish a leading banking franchise and strong banking culture since it was formed in 1990.

### ***Demonstrated ability to implement strategy and achieve superior growth***

The Group's total assets have increased since December 31, 2010, from RUB 4,290.9 billion to RUB 6,858.0 billion as of June 30, 2012. The Group has achieved this high level of growth by pursuing a strategy of aggressive growth and diversification. Organic expansion and selected acquisitions in the Russian Federation, the CIS, Europe and elsewhere have also significantly increased the breadth of the Group's

operations, both geographically and in terms of its product range, and transformed the Group from primarily a corporate bank into a full-service bank.

***Extensive distribution network, with broad coverage throughout the Russian Federation***

The Group's branch network is one of the largest in the Russian Federation and is significantly larger than the networks of most of its competitors, which is a significant advantage versus smaller Russian and foreign-controlled banks. As of June 30, 2012, the Group had 1,394 branches throughout the Russian Federation, and VTB had a presence in 74 of the 83 Russian regions, which cover more than 90% of the Russian population. The Group believes that its significant regional presence allows it to establish relationships with regional customers more effectively than most of its Moscow or St. Petersburg-focused competitors. The Group also believes it is uniquely positioned internationally relative to its Russian peers. The Group has significant banking operations in the CIS (Armenia, Azerbaijan, Belarus, Kazakhstan and Ukraine) and Georgia continue to serve both Russian and domestic corporate and retail customers as well as foreign customers doing business in these countries. The Group also has subsidiaries, associates, branches and representative offices in certain countries in Europe, Asia, Africa and the United States, primarily to serve international clients in these countries doing business in or with the Russian Federation and the CIS.

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

According to VTB's estimates based on data published by the CBR, the Group ranked second in the Russian Federation in total corporate deposits, with a market share of 19.1% as of June 30, 2012. The Group was second in total corporate loans, with a market share of 14.2% according to VTB's estimates based on data published by the CBR and Rosstat as of June 30, 2012. The Group has strong relationships with leading Russian companies across all sectors of the Russian economy and a more diversified customer base than many of its competitors. In addition, the Group was the largest underwriter of domestic corporate bonds in the Russian Federation in the first half of 2012 and each of the preceding four years, according to Cbonds.

***Strong franchise in investment banking***

The Group believes that since the beginning of its investment banking operations in 2008, VTB Capital, the Group's investment bank, has achieved significant results and has become one of the leaders in the Russian investment banking industry.

VTB Capital retained top positions in a number of industry league tables for 2011 and the first half of 2012, including as the leading Eurobond bookrunner in the CIS, Eurobond bookrunner in the Russian Federation and investment bank in the Russian domestic bond market, according to Dealogic and Cbonds, and leading bookrunner in the equity capital markets in the Russian Federation and the CIS, according to Dealogic. VTB Capital is also ranked second in Russian and CIS M&A deal volume by Dealogic for the first half of 2012. In 2011, VTB Capital's research team was named "Best Research Team in Russia" by Institutional Investor and Thomson Reuters Extel surveys. VTB Capital also won Mergermarket's European M&A Awards 2011 in the category "Best Investment Advisor in Russia and CIS" and Global Finance World's Best FX Providers award as the "Best FX Provider in Russia" and Euromoney's "Best Debt House in Russia" Award in the 2011 Euromoney Awards For Excellence.

***One of the leading providers of retail banking services in the Russian Federation***

According to VTB's estimates based on data published by the CBR, as of June 30, 2012, the Group ranked second in terms of retail deposits and lending in the Russian market. As a result, the Group believes that it is strongly positioned to compete in the Russian retail banking market and further increase its market share.

### ***Management team with extensive experience in the financial services sector***

The Group's senior management team has extensive experience in the financial services sector, with an average of more than ten years of relevant experience. VTB's President—Chairman of the Management Board, Andrei L. Kostin, has over 18 years of banking experience and VTB's CFO, member of the Management Board and Deputy Chairman, Herbert Moos, has over 16 years of experience as an international banking executive. The head of CIB, Yuri A. Soloviev, has over 16 years of investment banking experience and VTB24's CEO, Mikhail M. Zadornov, is the former Russian Minister of Finance with 19 years of experience in the finance sector. VTB was also ranked first in the 'Most Accessible Senior Management in CEE' category of Euromoney's 'Best Managed Companies in Central & Eastern Europe' annual survey in 2012. The Group believes that the experience of its senior management team is a key strength as it seeks to continue to improve its operating performance.

### ***Recognised and trusted brand***

VTB is a well-recognised and trusted brand, a result of its nearly 22 years of operating history in the Russian banking market and the support of the Government as its majority shareholder. VTB has won numerous awards, including being named 'Best Sub-Custodian Bank in Russia' by Global Finance in May 2011 and 'Bank of the Year 2011' by RBC in November 2011, and ranking first in Euromoney's survey "Best Managed Companies in Central & Eastern Europe" in May 2012.

### ***Strategy***

The Group's overall strategic goal is to leverage its existing scale in corporate, retail and investment banking services in the Russian Federation to focus on profitable growth and a consistent return on capital, as set forth in the strategy approved by the Supervisory Council in May 2010. According to this strategy, by the end of 2013, the key targets of the Group are to achieve:

- steady growth in net profit between 2010 and 2013, providing up to a 20% return on equity across the Group by 2013; and
- significant growth of market capitalisation.

To achieve these targets and maximise shareholder value, the Group seeks to:

#### ***Convert its unique strategic position into a consistent return on capital***

The Group intends to capitalise on its unique business model based on a strong corporate bank that has connections with the largest Russian corporates, a profitable retail banking operation and leading investment banking franchises and to convert that position into a consistent return on capital.

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

The Group aims to increase its market share of corporate banking revenues substantially. To achieve this goal, the Group intends to strengthen its transaction banking business and transform VTB into the main settlement bank for its customers, develop its integrated corporate and investment bank, increase the number of active customers in the higher-margin lower segment of large- and medium-sized corporate clients, increase its market share of all products in underpenetrated client segments and increase the profitability of servicing and share of large-scale corporate business through the cross-sale of its investment banking products.

#### ***Continue dynamic development of the retail business***

The Group conducts its retail business through its subsidiaries VTB24, TCB and the Bank of Moscow. The Group is the second-largest Russian retail bank by loans and deposits as of June 30, 2012

according to VTB's estimates based on data published by the CBR. The Group provides a range of banking services to small businesses and individuals, in particular, in the luxury retail segments. The key objectives for the retail business development under the 2010-2013 development strategy include a substantial growth in income through further economic development and increased business efficiency as well as enhancing market share and retail sector's share in the Group's portfolio. Key strategic initiatives include further developing the Group's branch network and alternative channels, shifting to a segment-oriented approach in serving customers to become the main retail bank for clients, improving the Group's IT platform and technologies, developing and expanding its credit card and other high-margin product lines and effectively marketing these products to current and future customers, increasing the quality of services and leveraging the Group's retail banking expertise and technologies to develop the retail business in the CIS.

#### ***Further develop a comprehensive range of investment banking products and services***

The Group aims to be a leader in a comprehensive range of investment banking products and services by leveraging its existing corporate customer relationships and strong capital base. The primary objectives for the investment banking sector under the 2010-2013 development strategy are building a fully integrated platform for sales of investment banking services to key customer segments within the Group, developing higher margin business lines (including asset management and private equity) and retail investment products, expanding business with existing clients beyond the Russian Federation, particularly in the CIS, and retaining the Group's ranking within the top three Russian banks in terms of major products and analytical support.

#### ***Develop subsidiary financial companies' businesses***

The Group intends to develop the business of its subsidiary financial companies, including leasing, factoring, insurance and pension services. These business lines create a range of competitive advantages for the Group, such as expanding its product range to provide the Group's clients with a full range of financial services, increasing the cost-effectiveness of client services, increasing the share of the Group's commission fees and raising stable long-term funding sources, in order to sustain strong market positions in the relevant segments.

#### ***Increase the efficiency of the Group's international network***

The Group intends to capitalise on being the first and one of the few Russian banking groups with a broad international network to support the needs of its Russian and CIS corporate clients and their counterparties in strategic countries that are involved in active trade and economic cooperation with the Russian Federation, while seeking actively to control the costs of its international operations and exit countries that the Group deems are not central to its strategy. The Group aims to strengthen its position in each of the markets in which it operates, and expand its operations in dynamic and high-margin markets (for example, the Group launched new investment banking offices in Hong Kong in 2011 and in New York and Sofia in 2012). The Group believes that, given recent positive economic developments, the CIS banking market represents a significant long-term opportunity, and the Group continues to view the CIS as a priority of the Group's international operations. Accordingly, the Group intends to develop its retail banking services in the CIS and to establish itself as a leader in servicing both Russian and local customers in this region.

#### ***Continue to integrate and enhance operating efficiencies within the Group***

The Group will continue to integrate and streamline its organisational structure and business practices, improve the Group's management system and enhance its corporate governance across the regions in which it operates, in order to maximise operational efficiency and achieve greater synergies across business lines, product divisions and geographies. The Group's risk management policies, asset and liability management, business planning, internal control systems and brand management are currently co-ordinated on a Group level through functional area coordination committees operating under the auspices of the Group Management Committee (the "GMC"). See "Management—GMC".

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

The Group plans to continue to centralise, rationalise and strengthen its IT systems to meet the needs of its growing business. The Group plans to significantly increase operational capability by streamlining automated business processes and integrating IT platforms and technologies across the Group. This includes, among other things, (a) development of a corporate reporting system to improve the quality, transparency and speed of managerial and financial reporting, enable the consolidation of financial, managerial and analytical information, provide accurate and up-to-date information to the Group's management necessary for quick and efficient managerial decisions and enable the business units to analyse profitability by client/product/company/business unit segments; (b) implementation of an integrated, Group-wide customer relationship management ("CRM") system and customer register to enable centralisation of information related to the Group's customers; (c) implementation of a Group-wide risk management system, including a system for centralised calculation of ratings and credit limits, to enable the centralised risk control for common clients, which aims to reduce risks at the Group level as well as in particular transactions at the subsidiary level; and (d) creation of a single IT infrastructure on the basis of centralised data processing centers, which will ensure business continuity and cost reductions resulting from the centralisation of various IT aspects and components. See "*—Information Technology*".

### ***Improve tax efficiency across the Group's international network***

The Group also plans to further centralise and strengthen its tax function in order to improve the overall tax efficiency of its operations across the various countries in which the Group operates. This includes, among other things, (a) development of a Group-wide tax strategy; (b) alignment and formalisation of internal policies and procedures for key processes within the tax function applicable across the Group; (c) development of Group-wide tax budgeting and tax forecasting; (d) refinement of methodology for projecting the effective tax rate at Group level; and (e) further implementation of a Group-wide transfer pricing policy.

### ***Organisation and Management of the Group***

The Group is centered on its Russian operations, which, following the acquisitions of Bank of Moscow and TCB, comprise 1,394 branches throughout the Russian Federation. These branches give the Group a presence in 74 of the 83 Russian regions, which account for more than 90% of the Russian population.

### ***Acquisition of the Bank of Moscow***

As discussed in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors Affecting Results of Operations—Acquisition of the Bank of Moscow*", on September 30, 2011, the Group obtained control over the Bank of Moscow, one of the leading Russian commercial banks and a former competitor of VTB, after increasing its share to 80.57% as at that date. By June 30, 2012, the Group increased its interest in the Bank of Moscow to 95.52%. See also "*Risk Factors—VTB faces risks in relation to its recently completed acquisitions*" and "*Risk Factors—The Group may fail to integrate acquired businesses properly, which could have an impact on reaching market and financial targets set out in the Group's strategy*".

The Bank of Moscow is one of the leading universal commercial banks in the Russian Federation (ranked sixth by total assets on the Russian market, according to INTERFAX-100 Russian Banks), with more than eight thousand employees and a wide regional network. The Group intends to develop the Bank of Moscow as an independent universal commercial bank within the Group. As part of this strategy, the Bank of Moscow's subsidiary banks and financial companies will be transferred to the Group, while the Bank of Moscow's investment business will be integrated into VTB Capital. The Bank of Moscow will service large

corporate clients in coordination with VTB and individual clients in coordination with VTB24. The Bank of Moscow will continue to service small- and mid-cap corporate clients independently.

The Bank of Moscow is particularly focused on developing business in Moscow and the Moscow region. Maintaining and strengthening business relations with the City of Moscow is therefore one of its key priorities. In addition to Moscow and the Moscow Region, the Group plans to develop the Bank of Moscow's regional network model to target a further 10 priority regions of Russia by the end of 2014.

### ***Acquisition of TCB***

The Group acquired a controlling interest in TCB with effect from December 31, 2010, further increasing its interest since that date. In September 2012, the Group acquired substantially all of the remaining interest in TCB from RZD, increasing its share to 99.7%. TCB's headquarters are in Moscow and its principal activities are corporate banking (which forms the core of TCB's business), retail banking and investment banking. TCB was ranked the twelfth largest Russian bank in terms of assets and total equity by SPARK/Interfax as of June 30, 2012. As of June 30, 2012, TCB had a nationwide network of 285 offices across the Russian Federation. As at June 30, 2012, TCB also had 2,508 ATMs and 5,672 point of sale terminals, making TCB's ATM network the seventh largest amongst Russian banks as of June 30, 2012, according to RBC Ratings.

In August 2011, the GMC approved the TCB Development Strategy and plan of integration. TCB's corporate and investment business is planned to be transferred to VTB by the end of the second quarter of 2013, and the remaining retail business of TCB is expected to be merged into VTB24 by the end of 2013. The integration process is expected to be completed by the end of 2013.

### ***Geographical Reach***

The Group holds a majority of the board seats on the governing boards, or can directly or indirectly appoint a majority of the members of the governing boards, of its subsidiary banks. The main sources of liquidity for the Group's subsidiaries are from VTB and customer deposits.

The Group conducts its foreign operations through subsidiary banks in thirteen countries, of which five are in the CIS, one is in Georgia, six are in Europe and one is in Africa. In addition, the Group conducts its services in other countries (including India, the United States, China, Italy, Singapore, Dubai, Hong-Kong and Bulgaria).

### **CIS and Georgia**

The Group endeavours to occupy a leading position in the CIS market by servicing foreign trade of Russian and CIS clients, as well as by strengthening its market position in the regional markets by offering corporate and retail banking services and products to local clients. As of June 30, 2012, the Group had 261 branches, over 600 ATMs and approximately 1.2 million regional clients in the CIS and Georgia, operating through VTB Ukraine, VTB Armenia, VTB Belarus, VTB Azerbaijan and VTB Kazakhstan. In addition, VTB operates in Georgia through VTB Georgia.

### **Europe**

The Group currently has six subsidiaries in Europe that specialise in offering financial services to Russian and CIS companies on the European markets, including servicing export and import transactions, as well as attracting and servicing clients such as European companies with business interests in the Russian Federation and the CIS.

*VTB Capital* (formerly VTB Europe) was established in 1919 in London, United Kingdom, as Moscow Narodny Bank. VTB acquired the bank from the CBR in December 2005, and it was renamed and rebranded as VTB Europe in 2006 to serve as the Group's headquarters for its European operations. In April

2008, VTB launched its investment banking business operations under VTB Europe. In January 2009, VTB Europe was renamed and rebranded as VTB Capital. As of June 30, 2012, VTB owned a 95.5% interest in VTB Capital, with minority holders owning the remaining 4.5%.

*VTB Austria* was established in 1974 in Vienna, Austria as Donau-Bank. VTB has owned 100% of Donau-Bank since December 2005, and it was rebranded as VTB Austria in 2006. VTB Austria specialises in participating in syndicated lending operations and credit services for Russian and CIS-related trading transactions. In 2011, VTB Austria opened a branch in Germany that conducts general banking operations.

*VTB France* was established in 1921 in Paris, France as La Banque Commerciale pour l'Europe du Nord (BCEN). After its acquisition by VTB in December 2005, BCEN was rebranded as VTB Bank (France) SA in October 2006. Since December 2, 2011, the Group owns 96.2% of VTB Bank (France), the principal business lines of which include corporate banking, loan syndications, capital markets and online retail banking.

*VTB Germany* was established in 1971 in Frankfurt am Main, Germany as Ost-West Handelsbank. VTB Germany is a 100% subsidiary of VTB Austria since March, 2008. Its principal activities include clearing and settlements for international trade transactions, corporate banking, syndicated lending operations, and money market and foreign exchange trading for its own account.

*RCB-Cyprus* was established in 1995 in Cyprus and is currently 60% owned by VTB. RCB-Cyprus's activities include back-to-back lending to companies doing business in the Russian Federation, secured lending, securities and currency trading and deposit taking.

VTB also has a subsidiary bank in Serbia.

## **The United States, Asia and Africa**

The Group's presence in Asia and Africa is principally through Vietnam-Russia Joint Venture Bank (or VRB) in Vietnam, Banco VTB Africa S.A., in Angola, and VTB Capital (Namibia) in Namibia (which is currently being liquidated). VTB also has branches in New Delhi, India and in Shanghai, China and a representative office in Beijing, China. VTB Capital launched new offices in Hong Kong and New York in 2011 and 2012, respectively, to expand its reach within the Asia Pacific region and America.

## **Principal Business Activities**

The Group operates in the corporate and investment banking, retail and other segments.

## **Corporate Banking**

### ***Overview***

The Group's corporate banking operations provide a broad range of banking services and products to large- and medium-sized corporate clients and financial institutions, as well as federal and municipal government bodies. Services for small businesses are offered separately by VTB24, TCB and the Bank of Moscow through the Group's retail banking business. The majority of the Group's corporate clients operate in the largest sectors of the Russian economy, such as oil and gas, metals and mining, state defence, retail trading, power and utilities, transport and infrastructure construction, telecommunication, media, IT, etc. The Group believes that there is potential for growth in many of these sectors. The Group aims to develop market-leading sales teams in order to enlarge its market share in those industries where the Group sees particular potential.

As of June 30, 2012, the Group's gross corporate loan and deposit portfolios amounted to RUB 3.7 trillion and RUB 2.1 trillion, respectively.

According to the principles of corporate client segmentation in the Group's 2010-2013 development strategy, "large clients" in the Russian Federation are defined as companies with annual revenues exceeding RUB 10 billion (as well as companies that are part of larger corporate groups with aggregate annual revenue exceeding RUB 10 billion). "Small businesses" are defined as companies with annual revenues of less than RUB 300 million. "Medium-sized clients" are defined as companies with annual revenues above predetermined thresholds that are not within the definition of "large clients" or "small businesses".

VTB services its large clients through tailored Client Divisions to improve industry expertise and take into account specific banking product and service requirements in different industries. Market sector clients are served by one Client Division that is split into industrial sectors (including metals and mining, oil and gas, chemicals, transport, telecom, media, IT, financial institutions, etc). The state sector and authorities of the Russian Federation, nuclear, defence, aerospace and health care companies are serviced by separate Client Divisions. All Client Divisions offer large corporate clients a full range of the Group's corporate and investment products and services, including products from VTB Capital, VTB24, VTB Leasing and VTB Factoring.

### ***Lending***

The Group's credit department offers a number of credit products in all major currencies, including loans and guarantees, to corporate clients. Loans to corporate clients are generally secured by collateral, often in the form of pledges over real estate, and guarantees. The Group's credit products for corporate clients are regularly reviewed and developed to remain competitive. Complex credit products, such as corporate structured repo, financial leasing (through VTB Leasing), factoring and refinancing of investment portfolios are also offered to clients.

The credit department focuses on servicing large and medium-sized clients from different industries with a tailored approach that aims to raise efficiency and improve the quality of the Group's overall credit portfolio. Large clients are serviced by Credit Divisions organised on an industry basis. The Group plans to develop its business with medium-sized clients in line with its strategy of providing tailored client service.

The Group also provides investment and project finance services to large and medium-sized corporate clients, as well as debt and equity financing and financial advisory services. Clients are offered debt financing on a recourse or non-recourse basis, and in certain circumstances the Group will join as equity partner in a project. The Group provides financial advisory services to clients in connection with structuring projects and raising limited recourse financing and equity, including from export credit agencies, multilateral institutions, commercial banks (Russian and foreign) and private and institutional investors. The Group is one of the few Russian banks to provide long-term project financing for regional projects. Services of this type are being offered to companies with a minimum of \$30 million in annual turnover. In 2011, VTB provided financing for projects involving Russian and CIS enterprises across a number of sectors.

### ***Global Transaction Banking***

#### ***Deposit and Cash Management Services***

VTB's bank accounts for corporate clients include current or settlement deposit accounts and term deposit accounts, predominantly in rubles, U.S. dollars and Euros. VTB provides payment and settlement services and corporate clients may invest in VTB's promissory notes and certificates of deposit.

In addition, the Group buys, sells, exchanges and collects foreign currencies, and provides multi-currency settlement, for corporate clients and provides advisory services relating to foreign currency operations and currency control services.

The Group provides a wide range of cash services, cash collection, acquiring services, and card solutions, as well as electronic banking, liquidity consolidation and treasury centralisation solutions.

### *Guarantee business*

The Group provides corporate clients with a range of bank guarantees, such as loan guarantees, performance guarantees, payment guarantees and others.

### *Trade and Export Finance*

The Group provides payment and settlement services for corporate clients in connection with import and export operations by issuing letters of credit and providing financing and related services. The Group also provides pre-export financing (financing used by a borrower to produce goods for export) and post-import financing (deferred payment letters of credit) for corporate clients. In addition, VTB acts as a currency control agent in accordance with Russian currency laws.

The Group, through VTB, provides structured import financing using funds from foreign banks and export credit agencies (“ECAs”). VTB was the first Russian bank to form relationships with foreign ECAs following the 1998 Russian banking crisis.

### *Factoring*

The Group offers factoring and ancillary services, including the management and collection of receivables and credit management, to corporate clients through its factoring company VTB Factoring, which acts through its own regional network as well as VTB’s branches.

### *Leasing*

Leasing services are provided through the Group’s leasing company VTB Leasing, which acts through its own offices in Russia and through subsidiaries in Ukraine and Belarus. VTB Leasing offers a wide range of leasing services with respect to immovable property and equipment, which include implementation of complex, structured transactions and long-term investment projects.

### **Investment Banking**

In April 2008, the Group launched its investment banking business, which operates as VTB Capital in London and from VTB’s Head Office in Moscow. The Group’s investment banking business targets both local and international clients operating in a range of business sectors and locations, including Russia, Ukraine, the United Kingdom, the United Arab Emirates, Singapore, China (Hong Kong), the United States, Bulgaria and Austria. VTB Capital is planning to extend its investment banking business platform across all banks of the Group in Europe. As part of its expansion strategy, VTB Capital launched new offices in Hong Kong in 2011 and in New York and Sofia in 2012 to expand its reach within the Asia Pacific region, America and Europe. As trade and portfolio flows between Asia and the Russian Federation/CIS countries grow, investor demand for both investment and hedging products will increase and VTB Capital aims to use its focus and expertise in the products and the region to facilitate the needs of the Asian client base. In September 2011, VTB Capital was granted a broker-dealer license by the United States Financial Industry Regulatory Authority, and in April 2012 VTB Capital opened an office in New York planning to act as a broker-dealer in corporate equity (OTC) and debt securities and participate in the private placement of Russia and CIS equity and debt securities to U.S. institutional investors. As part of its CEE expansion, in March 2012 VTB Capital opened an office in Sofia, Bulgaria.

VTB Capital currently provides a range of investment banking services, including, among others, sales and trading operations, research, debt and equity capital markets services (including arrangement and underwriting of securities offerings), structuring solutions (including asset securitisation), mergers and acquisitions (**M&A**) and advisory services, private equity operations and asset management.

## ***Sales and Trading***

The Group offers trading operations in debt and equity capital markets, including currency, interest rate and credit risk instruments, derivative products, hybrid instruments and market making on Russian and international exchanges.

The Group offers a full range of foreign exchange and interest rate risk management services, including risk hedging solutions, structured loans, deposits and notes. It also offers structured credit and hybrid products. The Group accounts for 31% of foreign exchange operations for Russian corporates (Euromoney foreign exchange survey). In 2011, VTB began providing ALM solutions for Russian Corporate clients in less frequently traded currencies (for example, CNH and INR), as well as liquidity in EUR-RUB, USD-RUB and RUB basket options to hedge funds. The Group also conducted the first-ever RUB-CNY swap. As of June 30, 2012, amounts due by the Group to corporate customers totalled RUB 2,123.3 billion.

The Group is one of the major traders in the over-the-counter markets for Government and corporate debt securities and on MICEX and one of the leading market-makers in the Russian fixed income markets. The Group conducts significant trading and investment activities in Government securities, including MinFin bonds, Federal loan bonds and Russian Federation Eurobonds. As of June 30, 2012, the Group's market share was up to 10% of both the ruble bond market and the Eurobond market (according to EMTA). In 2011, the Group commenced bonds trading operations in CEEMEA sovereigns, including Turkey, Poland, Croatia, Hungary, Lithuania, Romania, Bulgaria, South Africa, Abu Dhabi and Qatar. It also began trading key corporate and financial benchmarks in Turkey.

As of June 30, 2012, the Group's securities portfolio totalled RUB 1,029.7 billion, constituting 15.0% of the Group's total assets, compared to RUB 970.2 billion as of December 31, 2011, constituting 14.3% of the Group's total assets.

In the first quarter of 2012, VTB Capital accomplished several strategically important goals: it began operations on several new markets, including MENA markets and Turkey, and the equities team added a new sales-trading team in Dubai in 2012 in order to provide regional expertise; VTB Capital also plans to begin providing direct market access ("**DMA**") service to its clients; and VTB Capital Broker (the DMA Division of VTB Capital) plans to provide services to its existing clients as well as the clients of the Group.

In 2011, VTB Capital's Equities Sales team was ranked number one by both Institutional Investors (II) and Extel, while the Equity Repo team was identified as amongst the top three in repo operations on MICEX, according to MICEX. The Equity Derivatives team commenced trading and market making on EDX and is in the process of developing infrastructure for FORTS and Eurex market making.

During 2012, the Equities Department plans to continue its regional expansion (targeting Eastern Europe, Asia, South Africa and the CIS as part of the VTBC international strategy), launch DMA services in the Russian market, increase its market share on Russian and international markets and retain its number one position in ECM placements and with the International Investors (II) and Extel surveys.

## ***Debt and Equity Capital Markets***

The Group provides arrangement and underwriting services for debt and equity securities offerings by Russian companies, on both the Russian and international markets.

In the six months ended June 30, 2012, VTB Capital arranged 38 debt capital markets transactions, with an aggregate principal amount of approximately RUB 210 billion. VTB Capital is the leading arranger of both domestic bond issues by Russian companies by value and the #2 arranger for Eurobond issues for Russia and the CIS, according to Dealogic.

The Group has also participated in numerous equity placements, including the largest Russian IPO to date with a listing on the Hong Kong Stock Exchange (the IPO of UC RUSAL) and the IPO of Mail.ru

Group, the largest internet company in the Russian-speaking market, as well as several other IPOs and secondary placements. According to Dealogic, VTB Capital was the leading bookrunner in equity capital markets in 2011 in Russia and the CIS.

### ***M&A transactions and advisory services***

The Group provides advisory consulting, as well as strategic advisory services, on both the sale and buy side of M&A transactions, primarily to large clients. It particularly focuses on those operating in rapidly evolving or consolidating industry sectors, such as power and utilities, telecoms, transport, metals and mining and financial institutions. VTB Capital participated in several top-tier M&A transactions, including the \$23.9 billion merger of OJSC Silvit and OJSC Uralkali, the leading Russian producers of potassium fertilisers, and the \$4.9 billion merger of RTS and MICEX to develop the Russian stock market infrastructure for M&A transaction and advisory services. According to Dealogic, VTB Capital was the leading financial adviser in M&A for 2011 in Russia and the CIS.

### ***Research***

The Group employs a team of research specialists covering over 100 companies in all major industry sectors and, through VTB Capital, regularly produces independent research on the Russian fixed income and equity markets, as well as on the macroeconomic environment in the Russian Federation and globally. It also provides research support within the Group. In 2011 and 2012, VTB Capital's research team was ranked first in both the Thomson Reuters Eintel Survey and Institutional Investor All-Russia Investor Survey.

### ***Commodities Operations***

The Group, through VTB Capital's Commodities team, provides a full range of commodity risk management services, including risk hedging solutions, lending linked to commodity prices, hedging of security for debt restructuring and basis hedging. VTB Capital also offers structured investment instruments, including structured deposits and notes linked to commodity prices or commodity indices.

The Group purchased approximately 21.2 metric tons of gold and 108.1 metric tons of silver directly from producers in the first half of 2012. The Group's domestic clients in this area include over 30 precious metals producers, the CBR and a number of local and foreign commercial banks. VTB Capital has a dedicated research team that is regularly featured on key commodities business newswires. VTB Capital's commodities research reports cover its major markets: base and precious metals, energy and agriculture. VTB Capital traded approximately 60.5 million barrels of oil and 2.5 million metric tonnes of refined oil products and 850 thousand tons of coal in the first half of 2012. The Group also trades precious metals, primarily gold and silver, with legal entities in physical and book-entry form (including derivatives) and exports and sells gold on its own account and on behalf of banks and gold producers. In addition, purchasing precious metals allows the Group to provide short-term and medium-term (up to three years) financing and hedging products to gold producers.

### ***Custody Services***

The Group is one of the largest bank custodians in the Russian Federation and is licensed to provide a full range of custody services with respect to Russian and foreign corporate and governmental securities. The Group is an "Eligible Custodian" under Rules 17f-5 and 17f-7 of the U.S. Investment Company Act of 1940, as amended. According to the Emerging Markets Agent Bank Review published by Global Custodian magazine in 2011, the Group qualified for the Top Rated category by domestic clients for the fifth consecutive year and for the Commended category by cross-border clients.

### ***Asset Management***

VTB Capital Asset Management offers high quality asset management solutions on the Russian and foreign markets to satisfy investment needs of different types of clients. VTB Capital Asset Management has

successfully tendered for investment management mandates with a range of institutional and government clients.

During 2011, VTB Capital Asset Management signed investment management agreements with a number of non-state pension funds, including VTB Private Pension Fund, UGMK Private Pension Fund, Raiffeisen Private Pension Fund, Telecom-Soyuz Private Pension Fund and Sistema Private Pension Fund. VTB Capital Asset Management is among a number of companies that have entered into an agreement with the Pension Fund of the Russian Federation to manage the funded part of the state work pension.

VTB Capital Asset Management has a diversified line-up of mutual funds under the management of 15 open-end funds with varying investment strategies, including investments in foreign assets. In 2010, VTB Capital Asset Management launched a strategy to invest in assets from Brazil, India, China and the Russian Federation, allowing investors to access markets of rapidly growing economies. Since December 2010, one of VTB Capital Asset Management's open-end funds which tracks the MICEX index has operated on the MICEX stock exchange, while as of April 2011, four other open-end funds focusing on fixed income, equities, small cap and BRICs equities have traded on the MICEX stock exchange. In 2012, VTB Capital Asset Management launched a new dividend income investment strategy.

Assets under management increased from RUB 17.2 billion as at December 31, 2011, to RUB 82 billion as at June 30, 2012. The main source of growth was closed-ended funds, as well as a net inflow in assets from institutional investors. In 2011 and the first half of 2012, VTB Capital Asset Management continued to grow its high net worth individual business and its retail mutual fund business. Cooperation with agents, including VTB24, Citibank, OTP Bank, TCB and UBRB Bank, enables clients to carry out operations with unit investment funds of VTB Capital Asset Management at approximately 690 bank branches throughout the Russian Federation.

In 2007, VTB Capital Asset Management also launched its first venture fund, VTB Venture, within a programme sponsored by the Russian Venture Company, which is wholly owned by the Government. The first RUB 3.1 billion fund was incorporated in the Russian Federation and targets investment in innovative Russian companies. VTB contributed 50% of the fund's value, and VTB Capital Asset Management manages the fund's investments. By June 30, 2012, VTB Venture had provided financing to 15 companies engaged in the development of products in technological segments, including industrial innovations, telecommunications, optoelectronics, software security, satellite technologies and IT.

VTB Capital Asset Management has also established four regional venture closed-end mutual funds together with the Government to focus on investments in SMEs in select Russian regions. By June 30, 2012, regional venture funds had invested over RUB 1 billion in fourteen small-sized regional companies. In November 2011, the DFJ VTB Capital Aurora fund was launched, with an investment focus on Russian nanotechnology projects. The size of the first closing was \$100 million with VTB Capital and OJSC Rusnano as anchor investors. DFJ VTB Capital Aurora is the first Russian based DFJ Network fund. By June 30, 2012, DFJ VTB Capital Aurora had invested over RUB 210 million in two companies in nanotechnology sector. In December 2011, the legal documents of a new Russian-Kazakh Nanotechnology Fund were signed. The fund was launched in the second quarter of 2012. Fund commitment at first closing was \$51 million with Kazina Capital Management and OJSC Rusnano as anchor investors. This Fund is managed in cooperation with I2BF, an international fund management group focused on venture capital and public equity activities in the United States, Europe and Asia Pacific.

### ***Securitisation***

Prior to 2008, VTB and Moscow Narodny Bank (now VTB Capital) had originated and structured several securitisation deals for various assets of Russian banks. Among them was the first securitisation in the Russian Federation of an auto loan portfolio, for Bank Soyuz in 2005, the first Russian residential mortgage-backed securities issuance backed by VTB's own mortgage portfolio in 2006 and the organisation of warehouse funding facilities for City Mortgage Bank in 2006 and for Eurotrust Bank in 2007. Since the

establishment of VTB Capital as a platform for the Group's investment banking operations in 2008, VTB Capital has been involved in the execution of three securitisation transactions involving the mortgage portfolio of VTB24. One of the transactions was an off-shore transaction with a \$472 million portfolio of dollar-denominated mortgages and the others were domestic residential mortgage-backed securities and domestic covered bond issuances with an aggregate principal amount of approximately RUB 30 billion. VTB Capital is an active participant in government-sponsored programmes of domestic mortgage-backed securities purchases led by VEB and OJSC "Agency for Housing and Mortgage Lending".

### ***Other***

VTB offers brokerage services on all major Russian securities exchanges and the over-the-counter markets, and market making services relating to government, municipal and corporate securities (primarily Russian debt securities).

## **Retail Banking**

### ***Overview***

The Group's retail banking business in the Russian Federation focuses on deposits, lending and certain ancillary services to individuals and small businesses. These services are primarily provided by VTB24, the Group's specialised retail banking subsidiary, as well as by retail divisions of other Group members, such as the Bank of Moscow and TCB, both of which were acquired in stages over the course of 2010 and 2011. According to VTB's estimates based on data published by the CBR, the Group ranked second in total retail deposits and total retail lending as of June 30, 2012.

VTB24's goal is to maintain its position as a leader in the retail market in the Russian Federation, and to increase its market share in products offered to targeted market segments with a focus on high-margin products. In particular, VTB24 is focused on developing its presence among the upper class and affluent market segments and small businesses by offering a tailored, segment-oriented approach to customer service. As of June 30, 2012, VTB24 had 10.7 million individual clients and 268,000 small business customers (compared with 8.6 million individual clients and 222,000 small business customers as of June 30, 2011), of which 6.3 million and 128,000, respectively, were active.

The acquisition of the Bank of Moscow is expected to contribute to the strength of the Group's retail business. As of June 30, 2012, the Bank of Moscow's network comprised 296 offices, including 135 offices in the city of Moscow and Moscow region and 155 offices of regional network located in 90 cities throughout the Russian Federation, as well as six subsidiary banks located both in the Russian Federation and abroad. As of June 30, 2012, the Bank of Moscow was reported to be the sixth largest Russian bank by retail deposits, according to RBC Ratings. VTB plans to strengthen the Bank of Moscow's retail deposit portfolio and to enhance its retail lending product range.

The Group's acquisition of TCB is also expected to contribute to the strength of the Group's retail business. As of June 30, 2012, TCB was ranked as the twelfth largest bank in the Russian Federation by net assets (based on the RAS financial statements) according to Interfax and the eleventh largest bank by retail loans according to RBC Ratings. As of June 30, 2012, TCB had a nationwide network consisting of 285 offices across the Russian Federation.

The Bank of Moscow will service large corporate clients in coordination with VTB and individual clients in coordination with VTB24, and will continue to service small- and mid-cap corporate clients independently with a focus on developing business in Moscow and the Moscow region. In line with the integration plan approved in August 2011, TCB's corporate and investment business is planned to be transferred to VTB by the end of the second quarter of 2013, the remaining retail business of TCB is expected to be merged with VTB24 by the end of 2013 and complete integration is expected to be completed by the end of 2013. To support the growth of the TCB business, VTB granted two subordinated loans for a

total amount of RUB 8.5 billion to TCB in April 2011 and August 2011, each for a term of 10.5 years. In March 2012, TCB repaid the loan in amount of RUB 5.5 billion.

### ***Distribution Network***

The Group currently operates separate branch networks for each of VTB, VTB24, the Bank of Moscow and TCB. As of June 30, 2012, the Group's Russian branch network consisted of 1,394 branches. A region typically has one main branch and one or more sub-branches and outlets to supplement the main branch's operations.

Corporate and retail clients may conduct their banking in person at branches by using ATMs or by telephone. As of June 30, 2012, the total number of Group's retail outlets in Russia was 1,234 as compared to 1,242 as of December 31, 2011. In addition, VTB24 was one of the first Russian banks to offer banking services over the Internet. As of June 30, 2012, the combined number of VTB24, TCB and the Bank of Moscow ATMs exceeded 10,000.

As of June 30, 2012, VTB24's branch network consisted of 653 branches. VTB24 plans to continue network growth in accordance with the 2010-2013 development strategy. In addition to opening new branches, VTB24 intends to strengthen its distribution network by developing alternative and remote channels, such as ATMs and online banking.

While the continued expansion of VTB24's branch network is a key component of the new development strategy, its overall focus will shift from expansion to increasing the efficiency of VTB24's business lines and the profitability of its services. In particular, VTB24 intends to modernise and streamline its IT platform and to develop and expand its credit card and other high-margin product lines.

### ***Retail Products and Services***

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

#### ***Deposit Accounts***

The Group continues to develop its deposit account services with the aim of offering consumers a competitive array of products. As of June 30, 2012, the Group, primarily through VTB24, had RUB 1,313.9 billion of deposits from individuals, of which RUB 265.1 billion were current/settlement deposits and RUB 1,048.8 billion were term deposits. VTB24's retail deposit accounts include demand and term accounts denominated in rubles, U.S. dollars and Euros. As of June 30, 2012, over half of VTB24's total deposits were denominated in rubles. VTB, VTB24, TCB and the Bank of Moscow were accepted into the retail deposit insurance scheme established by the Deposit Insurance Law in 2005. See "*Banking Regulation in the Russian Federation—Russian Banking Regulation—Regulation of Retail Banking*".

#### ***Lending***

As of June 30, 2012, the Group had outstanding loans to individuals administered through a range of products offered amounting to RUB 949.7 billion.

#### ***Personal Loans***

VTB24 offered unsecured personal loans of up to RUB 3,000,000 for terms of six months to seven years.

The average size of VTB24's outstanding personal loans as of June 30, 2012 was approximately RUB 198,000. As of June 30, 2012, approximately 18% of VTB24's outstanding personal loans had originated in Moscow and the Moscow region, and approximately 98% of its outstanding personal loans

were unsecured. As of June 30, 2012, the Group's consumer loans were RUB 525.2 billion, up 15.2% since December 31, 2011.

### *Mortgages*

Mortgages are available at 156 of VTB24's branches in 115 cities across the Russian Federation. As of June 30, 2012, VTB24 had 194,000 mortgage loans (including KIT Finance Investment Bank (JSC)), the majority of which were issued to customers located in the regions outside Moscow. As of June 30, 2012, the average size of VTB24's outstanding mortgages was approximately RUB 1.4 million. As of June 30, 2012, mortgage loans increased by 8.2% to RUB 334.4 billion since December 31, 2011 and the share of mortgage loans declined to 35.2% from 37.4% during the same period.

In 2011, VTB24 bought the mortgage portfolio of KIT Finance Investment Bank (JSC) for approximately RUB 30 billion. This transaction, together with the acquisition of the Bank of Moscow and TCB, allowed the Group to expand its customer base and strengthen its position in both the mortgage and customer loan markets.

The Group aims to differentiate its suite of mortgage products from its competitors by providing higher quality customer service, a faster loan approval process and higher credit limits.

All mortgage loans must be secured by the relevant residence and are on average extended for 70% of the purchase price. Borrowers of all mortgage types are also required to obtain life insurance and to insure the relevant property purchased.

### *Auto Loans*

The Group offers a range of auto loans in rubles, U.S. dollars and Euros, primarily through VTB24, with a minimum 10% deposit required, each secured by a pledge over the vehicle. As of June 30, 2012, the Group's car loans reached RUB 87.4 billion, up 15.8% since December 31, 2011.

### *Debit and Credit Cards*

VTB24, the Bank of Moscow and TCB issue VISA<sup>™</sup> and MasterCard<sup>™</sup> debit and credit cards. In addition, the Bank of Moscow also issues Union Card and Diner's Club International cards, while TCB offers credit cards and debit cards with overdraft facilities (which are not material). As of June 30, 2012, VTB24, the Bank of Moscow and TCB had approximately 6.0 million, 1.3 million and 2.2 million active cards, respectively.

### *Small Business Loans*

In line with the Group's strategy to expand services to small businesses in the Russian Federation, VTB24 operates a Small Business Services Department and offers small business loans of up to \$5 million (or equivalent) for terms of up to ten years in a majority of its branches. As of June 30, 2012, VTB24 had approximately 270,000 small business customers, of which approximately 130,000 were active.

In 2011, VTB24 expanded its product line through active promotion of overdrafts and revolving credit lines, which are tailored to the needs of particular borrowers. In 2012, VTB introduced a new credit product for standard segment customers (small business companies with annual revenue up to RUB 20 million) "Business-express", which offers a variety of loans within a credit limit up to RUB 4 million. Together with the "Kommersant" product (unsecured loan with a credit limit up to RUB 3 million for SME), VTB24 offers a full range of credit services for standard segment customers. VTB24's small business products and services also include account payment and settlement services, guarantees and deposits.

### ***New Retail Banking Project***

The Group, through the subsidiary of VTB24, Leto Bank, is launching a new retail business project, the “light bank”, targeting clients at average or below average income levels. This initiative will focus on making fast consumer loans available in retail shops and issuing cash loans and credit cards. Through this project, the Group is seeking to expand its retail client base, to increase the share of retail business in the Group’s profits, and to improve its capital efficiency as a result of the generally higher expected margins of this new business. A pilot project was launched in August 2012 and Leto Bank is expected to start issuing point-of-sale (“POS”) and cash loans in retail shops by the end of 2012. VTB plans to open up to 30 branches of the new “light bank” by the end of 2012, with an intention to have a fully operational network consisting of at least a thousand branches and several thousand POS terminals in shops, including national and local retail chains, in the next 5-7 years.

### ***Private banking***

As of June 30, 2012, VTB24 serviced 2,400 high net worth retail customers. The average deposit amount for this type of client is RUB 81 million in VTB24. VTB24’s private banking franchise was one of the key growth drivers during the first three months of 2012. VTB24’s key product is the prime package, which offers a full range of services to VIP customers. In November 2010 and then in December 2011, VTB24 private banking was recognised as the best Russian bank providing private banking and large-scale capital management services by the Spear’s Russia wealth management awards.

The Bank of Moscow provides a combination of banking products and large scale asset management, brokerage and basic concierge services offered by a designated private relationship manager.

### **Insurance**

The Group has developed and actively offers insurance products to both corporate and retail clients through its insurance company, VTB Insurance Ltd. The Group seeks to utilise its branch network in the Russian Federation for the distribution of these products.

### **Market Position of the Group**

According to VTB’s estimates based on data published by the CBR, the Group ranked second in the Russian Federation in total corporate deposits, total corporate loans, total retail deposits, total retail lending and total assets, each with a market share of 19.1%, 14.2%, 9.1%, 13.4% and 15.4%, respectively, as of June 30, 2012. The Group faces competition in substantially all of the areas and locations in which it operates. The Group’s principal competitors include:

- Corporate banking: Sberbank, Gazprombank and Alfa-Bank, as well as Western banks, each of which serves companies throughout the Russian Federation;
- Investment banking: Russian investment banks and finance companies, including Renaissance Capital and Sberbank CIB; Russian commercial banks, including Alfa-Bank, Gazprombank and Uralsib bank; and Russian subsidiaries of Western banks that offer investment banking services, including J.P. Morgan, Morgan Stanley, Citigroup, Goldman Sachs and Deutsche Bank; and
- Retail banking: Sberbank and Russian subsidiaries of Western banks that offer retail services, including Rosbank Group, Raiffeisenbank, OTP Bank, Absolut Bank, Unicredit and Citibank.

### **Information Technology**

The Group’s information technology (“IT”) systems are important to its business operations.

Currently, the banking subsidiaries of the Group each have separate IT systems, which are managed largely on an independent basis. Apart from the integration of the processing centers of VTB, VTB24, the Bank of Moscow and TCB there is currently no functional integration between the IT systems of the banks in the Group. The Group is in the process of gradually simplifying, rationalising and synchronising its multiple IT systems, in order to support its access to meaningful information, with the goal of coordinating activities and establishing a single corporate reporting framework. To increase the quality of analytical data and improve centralised data collection, the Group has created a central corporate reporting system (“**CRS**”), which is currently able to collect and consolidate certain financial and operational data from the Group’s operations and produce a number of report types critical to the Group’s management, organised by currency and type of financial instrument (with respect to the Group as a whole or any particular Group company). During 2012, a new IT system, VTB Group Portal, has been implemented within the Group. This system is a unified informational space organized for the purposes of communication between VTB, subsidiary banks and overseas branches. It contains regulation documents, instructions, notes, phone directory of the Group and other resources.

In addition, the Group ultimately expects that it will have a limited number of application packages with “best-in-class” functionality for its key business areas, which automate all core customer information management, accounting, oversight and other processes. As of the date of this Prospectus, VTB has implemented and is rolling out various application packages at the Group level, including a centralized budget planning and control system, centralized cost allocation system and centralized business planning system.

The following is a description of the IT systems supporting the operations of the principal Russian banks in the Group—VTB, VTB24, the Bank of Moscow and TCB. The Group believes that the legacy IT systems used in the Group’s European subsidiary banks, as well as in its CIS subsidiary banks, are sufficient to support the Group’s current banking operations in those jurisdictions.

VTB currently operates a core IT system developed in-house, which supports the key functions of its Head Office, such as accounting, financial reporting, transaction processing and settlement and accounting of treasury operations, as well as supporting Moscow branch offices.

VTB has two computer centers in Moscow; one to support the core IT system in its Head Office and Moscow branches and the other to serve as a back-up system. These centers are linked to allow all critical data to be replicated and backed up in real time. The major IT systems of all of VTB’s branches are now hosted centrally in Moscow-based computer centers, and a centralised core banking system is used to support the operations of all of VTB’s branches. The regional branches are connected to the Head Office by a wide area network allowing both real-time access of branches to the centralised IT resources, as well as the large scale exchange of information between the Head Office and regional branches.

VTB’s core information systems and hardware have operated without major disruptions since January 1, 2004.

VTB’s current IT project portfolio consists of about 35 major projects, including implementation of a centralised IT support system for credit transactions, implementation of systems for risk management and prevention of money laundering and terrorist financing and development of disaster-resistant IT infrastructure and data processing centers.

### ***Group IT Strategy***

The Group’s overall IT strategy is aimed at centralizing IT systems at the Group level, organisational transformation of IT support on the basis of the head offices of the banks, implementation of uniform IT management methods based on IT Infrastructure Library and project management, standardisation and unification of Group-wide services, consolidation of data at the Group level, and optimisation of the Group’s procurement policies.

The Group has developed a plan of action for 2011-2014 aimed at implementing the Group's IT strategy. Under the 2011-2014 plan of action, VTB plans to initiate and implement a number of large-scale projects (or complete the implementation of the projects started earlier) including the following:

- implementation of an integrated, Group-wide CRM System and Customer Register to enable centralisation of information related to the Group's customers;
- development of a CRS to improve the quality, transparency and speed of management accounting and financial reporting, enable the consolidation of financial, managerial and analytical information, provide accurate and up-to-date information to the Group's management and enable the business units to analyse profitability by client/product/company/business unit segments;
- implementation of VTB Group Portal, a unified informational space for communications between VTB and its subsidiary banks and overseas branches. It contains, inter alia, regulation documents, instructions notes and a phone directory for the Group;
- implementation of a risk management system, including a system for centralised calculation of ratings and credit limits, to enable the centralised risk control for common clients; and
- creation of a single IT infrastructure on the basis of centralised data processing centers.

The development and implementation of this Group-level strategy is the responsibility of the Group IT Committee (the "GITC"). The GITC includes representatives from all Group companies, including VTB, VTB24, VTB Capital, TCB and the Bank of Moscow.

## Employees

As of June 30, 2012, the Group had 71,602 employees, of whom 60,381 (or 84.3%) were located in the Russian Federation, 10,035 (or 14.0%) were located in other CIS countries and 1,186 (or 17%) were located in Europe and the rest of the world. The majority of the Group's employees are employed by VTB, VTB24, TCB and the Bank of Moscow, which accounted for 17.8%, 33.5%, 11.1% and 16.4% of the Group's total employees as of June 30, 2012, respectively.

In 2011, the number of employees within VTB24 increased significantly due to both post-crisis economic recovery and the development of VTB24's regional chain. As of June 30, 2012, the number of VTB24's employees was 23,958, as compared to 21,915 as of December 31, 2011.

The Russian market for qualified banking personnel is highly competitive. See "*Risk Factors—Risks Relating to VTB's and the Group's Business and Industry—The Group may be unable to recruit or retain experienced and/or qualified personnel*". As part of the 2010-2013 development strategy, the Group has sought to ensure that it is able to attract and develop a high calibre personnel and management team. To achieve this, VTB has developed a comprehensive training programme, which provides for both internal and external professional training of employees at all levels, including the use of remote access training systems. The Group also operates a corporate university, which offers professional development training to its junior and mid-level managers.

The Group regularly implements new, and develops existing, motivational programmes, including competitive compensation packages and employee social programmes. The Group believes that its current compensation packages are generally competitive relative to those offered by other major Russian banks. In the six months ended June 30, 2012, the Group's staff costs amounted to RUB 42.8 billion compared to RUB 36.4 billion in the six months ended June 30, 2011. The Group focuses on the social protection of its personnel. The compensation package is based on principles shared among each company of the Group. The compensation package varies depending on different factors, including country and regional features, legal

requirements, and commonly includes medical insurance, non-state pension plans, additional family leave and financial assistance. The employees of VTB, VTB Capital, VTB NPF and VTB Leasing, as well as the subsidiary banks of VTB in Austria, Germany, UK and Cyprus, enjoy non-state pension schemes. There are plans for these to be extended to the personnel of other VTB subsidiaries. These Group initiatives aim to produce a more productive, motivated and dedicated work force.

A significant portion of employees within VTB currently belong to a trade union. VTB cooperates with trades union in accordance with the Russian legislation requirements. Trade union membership is also common among employees of foreign banks within the Group. The Group seeks to maintain good relations with its employees and has not, to date, experienced any strikes, work stoppages, labour disputes or actions that have had a material effect on the operation of its business.

## **Litigation**

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

In July 2012, VTB became aware that a claim against, amongst others, VTB, had been filed in the Moscow Arbitrazh Court challenging the contribution of 46.48% of the shares in Bank of Moscow to OJSC TsTK and the subsequent acquisition of these shares by VTB from OJSC TsTK. In the hearing on September 4, 2012, the Moscow Arbitrazh Court rejected the claim. On October 17, 2012, an appeal of this decision was filed with the court of higher instance, and the appeal hearing is scheduled for November 20, 2012. VTB intends to continue vigorously defending against the claim.

## RISK MANAGEMENT

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

### Overview of Risk Management of the Group

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

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

The risk management procedures for VTB and the other Group banks are discussed below under sections “*Risk Management Policies for the Russian Group Banks*” and “*Risk Management Policies of Other Group Banks/Companies*”.

Following the acquisition of each of its subsidiaries, VTB has implemented a process of integrating management activities across the Group, including the adoption of Group-wide strategy statements with respect to each area of risk management. The Group has created a number of sub-committees and commissions under the GMC, a high level body that first met in March 2006. Among the GMC’s main activities are the co-ordination of information gathering and analysis across the Group, and harmonization of Group-wide risk management policies and procedures.

As part of the Group-wide risk management reorganization, in April 2012 the Group Risk Committee (“**GRC**”) was created under the GMC (replacing the former Risk Management Sub-Committee (“**RMC**”), which has been abolished). The principal tasks of the GRC include, among others, analysing the current risk management systems across the Group, initiating proposals on unified principles, standards and approaches with respect to risk management, approving core documents, participating in determining risk-appetite parameters and establishing aggregate portfolio limits, approving risk management development plans and reviewing performance reports.

Concurrent with the creation of the GRC, the Commission on the Implementation of Risk Management Methods was created under the GRC in order to co-ordinate work on implementing methods and procedures for risk management of the Group, including unifying risk management principles, standards, systems and limits, coordinating practical work, as well as monitoring the realisation of practical measures by Group companies. This commission will also ensure the escalation of information to the GRC, implementation of measures aimed at increasing efficiency of decision making and feedback within the GRC and initiating proposals on the establishment of a general information and methodological platform for risk management operating processes at the Group.

It is intended that the composition of the Commission on the Implementation of Risk Management Methods will remain generally the same as the composition of the former RMC and will include chief risk officers of the principal subsidiary banks and/or companies, as well as representatives of those of VTB’s units involved in risk control.

The existing Group-wide Asset and Liability Coordination Committee is authorised to implement policies and supervise Group banks with respect to currency, liquidity and interest rate risks, funding of the Group and financial risk transfers within the Group. This committee is run by the head of VTB Treasury Department. A Group-wide Internal Audit Coordination Committee, run by VTB's head of Internal Control Department ("**ICD**"), oversees internal control in all of the Group's subsidiaries. A Group-wide Anti-Money Laundering Commission, run by VTB's head of Anti-Money Laundering Division, oversees Group policies regarding the prevention of money laundering and terrorist financing. This commission shares blacklists and supervises the implementation of unified policies and procedures (as necessarily modified by individual jurisdictions according to local regulations). Each of the Group-wide Asset, Liability Commission and Internal Audit Coordination Committee include senior representatives from most of the Group banks. As an additional measure of integration, representatives from VTB sit on the supervisory council of each Group bank and company.

The GMC is also responsible for approving Group-wide risk management standards and approaches. In particular, the GMC, at the suggestion of the GRC, periodically adopts the "Basic Principles and Provisions of VTB Group Credit Policies", which maps out approaches for the Group's credit risk management. The CEOs of the Group banks and companies are required to implement the policies of the GRC and the GMC at the Group banks and other companies. The Group also recognises that consistent risk information gathering from the Group banks and non-banking financial companies is essential, and therefore the GRC has formalised policies and guides with respect to such risk information gathering from these entities.

The Group develops and introduces additional consolidated risk management procedures under the "VTB Group Consolidated Risk Management Concept", as adopted by the GMC. Since 2008, the Group has expanded its basic regulations on credit risk control (with respect to country and industry risks for operations with corporate clients and bank-counterparties). In order to realize the Group-wide policy of controlling the credit risk concentration, the Group created the Group Credit Committee ("**GCC**"), a permanent body under the GMC. The GCC currently consists of 11 members whose primary responsibilities are to supervise the credit operations of the Group banks and companies and to consider and approve large scale transactions that exceed the internal risk limits determined by the GMC for a particular Group bank or company. This is designed to enable the Group to monitor exposures to single borrowers or groups of related borrowers across all of the Group banks and companies. The Group Credit Committee establishes consolidated credit risk limits in respect of common individual counterparties or groups of related counterparties, such as large corporate clients and financial institutions, as well as countries and certain industries.

The main method used throughout the Group to control risk concentrations and exposures is setting limits on a consolidated basis, whether of a quantitative or other nature.

The Consolidated Risk Analysis Department ("**CRAD**") and the Risks Strategy and Management Department ("**RSMD**") were created by VTB to ensure the efficient functioning and development of consolidated risk analysis and management systems at the Group level as well as to elaborate upon and develop the conceptual and methodological bases of such systems.

VTB monitors the risk policies, procedures and performance of its subsidiaries through VTB's representatives on the Supervisory Councils (Boards of Directors) of Group companies. Periodic inspections of subsidiaries are carried out by VTB's CRAD and RSMD (jointly with the internal control unit). A standard inspection procedure includes consideration of the adequacy of local risk management practices and policies. Following the inspection, recommendations to the subsidiaries will be prepared. VTB has also taken steps towards installing automated systems to enhance the risk management of the Group, including Reuters Kondor Global Risk, a credit, market and risk management system, (including Limit Server); implementation of the Kamakura Risk Manager, software which helps to assess and control market and ALM risks; a VTB corporate data warehouse ("**DWH**") which is expected to collect and store material information on a regular (daily) basis about all of VTB's transactions and operations; and the CRS, which is designed to collect and store on a regular (monthly) basis relevant data from the Group's subsidiaries pertaining to the Group's

transactions, results of operations and financial reporting, and launch of an Operational risk project. Kamakura Risk Manager software is designed to use the data provided by the DWH and CRS to perform multi factor and multi dimensional risk modelling to help the Group conduct objective analytics, make informed decisions and improve risk management. In November 2009, the first stage of CRS was implemented. Currently it collects and stores the credit transactions of all the Group's subsidiaries. The first stage of the DWH project was completed in the second quarter of 2010 and is currently being tested with a view to achieving the desired quality.

## **Management Policies for the Russian Group Banks**

### ***Overview***

As of June 30, 2012, the aggregation of the consolidated assets of sub-holdings of VTB24, TCB, Bank of Moscow, and VTB's stand-alone assets (before Group consolidation eliminations) accounted for 74.6% of the Group's total assets, and liabilities calculated in the same way accounted for 73.2% of the Group's total liabilities, compared to 76.5% and 75.6% as of December 31, 2011, respectively.

Risk management at the Russian Group Banks operates within the common framework of Russian legislation and the requirements and supervision of the CBR (while also taking into account recommendations of the Basel Committee and generally accepted international norms), and the Group believes it is presently better coordinated than is the case for the non-Russian Group Banks.

### ***VTB***

The Management Board has overall responsibility for risk management at VTB. As per the Group's standards, a number of committees and departments are established within VTB to co-ordinate day-to-day risk management. The Assets and Liabilities Committee (the "**ALCO**") establishes major balance sheet parameters for use in asset and liability management and monitors compliance within VTB with the assistance of VTB's Risk Department (the "**RD**"). The ALCO, VTB's Credit Committee (the "**CC**"), the RD and the Treasury Department carry out risk management functions with respect to credit, market (interest rate, currency and securities portfolio) and liquidity risks. CRAD coordinates the operational risk management function within VTB.

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

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

## **Credit Risk Management**

### ***Introduction***

Credit risk is the risk that a counterparty will not be able to meet its obligations in full when due. VTB is primarily exposed to credit risk through its loan portfolio, securities portfolios, guarantees, commitments and other on and off-balance sheet credit exposures. VTB manages its credit risk by establishing limits in relation to single borrowers, groups of connected borrowers, industries, regions and foreign countries, which are set and regularly reviewed by the RD within VTB and by CRAD at the Group level, approved by the CC/other authorized bodies and comply with exposure limits established by the CBR. See "*The Banking Sector in the Russian Federation*" and "*Banking Regulation in the Russian Federation—Regulation of the Russian Banking Sector—Mandatory ratios*".

VTB attempts to reduce credit risk by conducting a thorough investigation of each prospective borrower to determine its ability to repay its debt. The Group management bodies monitor the Group's loan and securities portfolios on a regular basis. In addition, assessing potential borrowers' credit quality and risk of default is difficult in the Russian Federation, since many borrowers do not have credit histories or financial statements audited in accordance with United States Generally Accepted Auditing Standards or International Standards on Auditing. See *“Risk Factors—Risks Relating to VTB's and the Group's Business and Industry—The size of the Group's loan portfolio has increased its credit exposure, which may result in increased non-performing loans despite risk management strategies as a result of the unpredictability of the economic conditions in the Russian Federation and abroad”* and *“Risk Factors—Risks Relating to VTB's and the Group's Business and Industry—The Group could face increased loan losses and decreased demand for its services from both corporate customers and individuals who have been affected by the global economic crisis”*. Letters of credit, guarantees and other commitments to extend credit are generally subject to the same credit review procedures as loans. VTB's policies and procedures for evaluating the credit standing of corporate customers are discussed below. For a discussion of Group's policies and procedures with respect to retail loans, see *“—VTB24”*.

## ***Credit Policies and Procedures***

### ***Credit Origination Analysis***

A prospective borrower typically makes a loan application through a client manager and must include information on the prospective borrower's business, the purpose of the loan and the proposed collateral, guarantee or other assurance arrangements. Once a loan application is received by the client manager it is further directed to the Credit Division of the Bank.

The Credit Division conducts an investigation based on the loan application, publicly available information and information contained in VTB's databases. The process is usually as follows:

- the Credit Division will undertake an evaluation of the financial position and solvency of the client (and any guarantor), and will look at the client's cash-flow statement, level of existing indebtedness, credit and debt service history with VTB and other banks, purpose for seeking the loan, current market positioning, business performance (including potential future developments) and adequacy of financial inflows for debt repayment;
- the Credit Division determines the client's credit rating and preliminary credit limit, and ascertains whether they are at an acceptable level of credit risk for VTB in accordance with methods and requirements stated by VTB's regulations. Further evaluation is carried out in order to ensure that all critical factors (both financial and non-financial in nature) are taken into account. A revised credit rating will be assigned at the end of this process;
- the Credit Division makes a draft decision on the expediency of the credit deal/credit limit arrangement and works out further measures of credit risk minimization (including large and affiliated parties' credit risks);
- the Credit Division evaluates the collateral (pledge) by examining, inter alia, the existence of any limitations on the transfer of the assets subject to the pledge, the conditions of the pledge, the pledge value, the feasibility of insuring the pledge and the pledgor's financial position;
- the Credit Division estimates the full amount of the client's current and contingent indebtedness, as well as that of its affiliates, in order to calculate the credit limits available for the deal;

- depending on the type and volume of the credit deal, the Credit Division identifies the authorized body or person entitled to make a decision on allocation of a credit limit to a particular client and/or transaction;
- the Credit Division provides suggestions on the credit deal structure and conditions, including applicable cost conditions and relevant financial covenants;
- the Credit Division draws up a draft resolution on the credit deal and initiates further scrutiny of the credit deal conducted by other divisions of VTB's Head Office (RD, Pledge Division, Security Department, Legal Department) in their respective areas of expertise. The list of issues demanding further analysis from the respective divisions may vary according to the type/scale of credit deal/limit, nature of changes to existing conditions, etc.);
- the Legal Department considers any legal restrictions to execution of the credit deal, establishes the conformity of credit deal conditions with applicable laws and regulations, ensures any statutory filings and submissions are made, determines the legal capacity of credit deal parties, confirms the property right of the pledgor over the collateral, etc;
- the RD performs the overall appraisal of the credit deal/credit limit, verifies (or amends) the conclusions on the financial position, business performance, cash-flow adequacy and credit rating of the client reached by the Credit Division, and corroborates or revises proposed credit deal/limit conditions and covenants. In addition, the RD assesses the effect of the loan on VTB's loan portfolio concentration and credit risk levels. In the case of loans given by VTB's regional branches, the analysis is carried out by relevant branch divisions as the branch director may direct, including the initiation division, security department, credit/pledge operations and risk analysis division and/or legal division. Certain loans require approval from the head office's credit committee, in which case the relevant departments in the head office will perform their own loan analysis;
- the Security Department investigates the prospective borrower's shareholders and management for any evidence from public sources of any criminal or material civil charges which have been brought against them; and
- if the sum of operations on a given credit transaction or credit limit exceeds 1% of VTB's capital (according to RAS), the ICD will participate in the examination of the credit transactions or credit limits.

#### *Interest Rate Determination*

VTB's policy for determining the standard interest rate for initial applications is dependent on the following components:

- the internal transfer pricing rate for transactions undertaken between the Group banks and other Group companies, which is set by the ALCO, for different currencies and maturities;
- the credit risk premium and economic capital premium set by the CC, which are dependent on internal credit ratings, maturity and collateral; and
- the direct and indirect expenses margins set by the ALCO to cover the transaction costs.

VTB's standard loan agreement also includes an option to change the fixed interest rate in the event of a change in key target interest rates by central banks, such as the Federal Reserve, ECB or CBR.

## *Exposure Limits*

VTB implements exposure limits relative to Russian regions, countries (other than the Russian Federation), sectors of the Russian economy and individual customers and their subsidiaries and affiliates, taking into account any relevant CBR regulations. Compliance with these limits and actual exposures are monitored by the RD.

The system of country risk control has five levels of risks depending on the country's ranking: low, moderate, medium, high and maximum. Ranking of countries is based on the level of sovereign ratings (in compliance with ratings generally accepted in international banking practice) assigned by the international rating agencies Moody's, S&P and Fitch. In addition, another criterion for assigning a country to a particular system of risk is by using the method of deviation analysis of rates of credit default swap ("**CDS**"). Country limits are defined as a percentage of capital for VTB for each risk level.

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

According to VTB's internal regulations, the recommended share of unsecured loans in VTB's corporate loan portfolio is approximately 40%. The share of fully unsecured loans issued to corporate borrowers with a credit rating under VTB's internally developed scale of C2 or less as of the date of issuance should not exceed 15% of VTB's corporate loan portfolio. The share of fully unsecured loans issued to constituent entities of the Russian Federation and municipal entities should not exceed 20% of VTB's corporate loan portfolio.

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

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

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

In order to limit exposures to the fluctuations in the budgets of various public authorities, VTB also sets exposure limits with respect to regional budgets. Regional budget exposure limits are set on the basis of the sum of the budgets of all the levels of a region's government. The regional budget scoring system takes

into account ratings assigned by Moody's, S&P and Fitch, the volume of payments made into a regional budget (excluding federal assistance), the region's public debt burden, the ratio of payment deficiencies to incoming payment volume and the current condition of the budget.

### *Credit Approval Process*

At the stage of credit approval the results of the credit deal/credit limits analysis are reflected in the final conclusions of the Credit and Initiating Division, which will also contain an examination of the reasonableness of the credit deal and suggestions on the credit deal terms. The Initiating Division performs the final structuring of the credit deal/credit limit, takes into account the comments of expertise departments and coordinates any variations of the deal conditions with the client. The Credit Division and Initiating Division make the changes to the Credit conclusion.

Once the decision draft is complete, the loan application is presented to the appropriate authorized body (the Management Board of VTB, the CC, the Small Credit Committee of VTB (the "**Small Credit Committee**"), the Credit Committee of the Moscow region, the Credit Committee of North-West Regional Center (ex-VTB North-West), the Credit Committee of the Branch), or the relevant person authorized to grant the approval. The list of entitled persons and authorized bodies is restricted by VTB's internal regulations and depends on the size and/or term of the credit deal/credit limit. At the decision making stage, the authorized body or person announces either (a) that the credit deal may be executed on the established conditions; (b) that follow-up revision of the proposed conditions should be performed or (c) that the loan application is rejected.

According to internal bank regulations, the CC and the Small Credit Committee are entitled to approve deals and limits established up to RUB 5,000 million and RUB 900 million, respectively, or its equivalent denominated in any other currency. The Credit Committee and the Small Credit Committee of North-West Center are entitled to approve deals and limits established up to RUB 5,000 million and RUB 900 million respectively regardless of the deal term. The Credit Committee of the Moscow region is empowered to approve operations carrying credit risk of up to RUB 500 million or its equivalent denominated in any other currency with respect to transactions with terms of up to 36 months, including the limits set for single borrowers or for groups of connected borrowers.

The authority of the Branches' Credit Committees depends on the Branch classification group (based on the branch operational results, the loan portfolio quality, etc) authorized volume of the deal which may vary up to RUB 800 million, including the limits set for a single borrower or a group of connected borrowers. The maximum term of operation varies from 12 to 60 months depending on the type of credit deal. The authority of the Branches' Credit Committees is revised on a semi-annual basis.

Credit committees also have the right to approve the issuance of guarantees, establish limits for the guarantees and change conditions such as the schedule of the loan's issue and repayment, collateral assessment, etc. A meeting of the relevant credit committee is quorate when it is attended by at least two thirds of its members. The decision of the credit committee is accepted when it is voted on by more than 50% of attendees. Where there is less than two-thirds of affirmative votes, approval from the upper level body will be required.

All credits (eg, loans, letters of credit, guarantees) must be approved by one of the credit committees (ie, no individual employees have credit approval authority). However, certain exceptions apply. In particular, the Head of the RD and the Head of the Governmental Entities and Agencies Lending Division of the Credit Department have the authority to jointly approve credit transactions with subjects of the Russian Federation and municipalities. Two managers of the Transactional Business Department and managers of the 30 best-rated branches of VTB are authorised to approve guarantees under RUB 50 million, which must be fully collateralized by cash or VTB's promissory notes. The list of such managers is approved by the CC decision and enacted by the decree of VTB's President—Chairman of the Management Board.

## *Monitoring Process*

VTB monitors the financial condition of its borrowers and, where relevant, guarantors, throughout the life of the loan. This is done through branches, which monitor the loans that they originate, and the RD, which reviews borrowers' financial statements on a quarterly basis and, in cases of deterioration in financial condition, determines whether additional assurance, collateral or a guarantee should be requested or repayment demanded. The RD and branches also monitor the value of the collateral throughout the life of the relevant loan and regularly revalue collateral based on market research from the relevant industry segment. In addition, VTB periodically makes on-site monitoring inspections of pledged property pursuant to VTB's *Instruction on Procedure of Pledge Transactions*, which provides for inspection of equipment, construction in progress and real estate at least semi-annually, transportation vehicles at least quarterly and inventory at least monthly.

VTB has increased its credit portfolio monitoring, which is intended to provide an early indication of possible repayment problems by corporate borrowers. In 2009, VTB adopted a day-by-day monitoring system of the credit risk factors of VTB's borrowers and is currently in the process of implementing a credit risk database, which has allowed a more flexible and timely interaction with VTB's clients. Depending on the analysis, the RD may suggest adjusting a borrower's repayment schedule and may explore refinancing options, typically if, despite high debt, the borrower has further sources of payment for the loans. In October 2008, VTB created the Committee on Credit Portfolio Monitoring, which was formally established in April 2009 by a VTB Management Board resolution. The Committee consists primarily of representatives from VTB's Risk, Legal and Security Departments. The role of the Committee on Credit Portfolio Monitoring primarily comprises the following:

- monitoring VTB's loan transactions, analysing those in which credit risk factors had been identified and assessing the impact of such factors on the potential non-performance (or improper performance) of the client's obligations under the applicable loan transaction;
- mitigating or eliminating credit risk factors revealed in the course of monitoring loan transactions and preventing potential non-performance (or improper performance) of the client's obligations under a loan transaction, by, for instance, increasing security or collateral or adjusting the principal amount or repayment schedule; and
- supervising the fulfilment, by VTB's subdivisions and branches, of measures aimed at mitigating or eliminating credit risk factors revealed in the course of monitoring loan transactions and preventing potential non-performance (or improper performance) of the client's obligations under a loan transaction.

VTB implements similar control procedures at the regional sub-division level for loans not considered large loans and the RD consolidates the appropriate information on the basis of the branches' reporting.

The RD accumulates and analyses credit risk information on the credit portfolio of the branches on a daily basis.

VTB manages loss provisioning for purposes of its CBR reporting based on the five categories implemented by the CBR. See *"Banking Regulation in the Russian Federation—Provisioning and Loss Allowances"*.

Based on the monitoring of the credit portfolio, RD assesses the loan loss allowance under IFRS in accordance with the internal guide for assessing IFRS loan loss allowance.

## ***Liquidity Risk Management***

Liquidity risk is the risk resulting from the inability of the Group to meet its obligations in full when they come due without borrowing funds at higher than market rates. The Group's exposure to liquidity risk arises due to a mismatch of the maturities of its assets and liabilities.

Liquidity risk management within the Group is carried out at three main levels:

- each bank of the Group manages its liquidity on an individual basis to meet its commitments and to comply with the requirements of its national regulator. The banks manage their liquidity in line with the recommendations of VTB;
- VTB manages the liquidity of the Group by coordinating the redistribution of funds within the Group by borrowing from and lending to the banks of the Group; and
- the Group's programme of medium and long-term funding is established under the supervision of VTB.

The tools used by VTB for measurement, management and mitigation of liquidity risk include:

- contractual maturity analysis and cash flow projection (gap analysis), analysis of deposit base concentration and stresstest analysis;
- setting of internal limits, including (1) the minimum amount of highly liquid assets needed to cover possible outflows of resources on demand in one day, as well as other short-term liabilities (up to 30 days); and (2) treasury portfolio limits, which are monitored on a daily basis;
- allocation and utilisation of securities from the treasury portfolio, which provide financing from the CBR through reverse repo operations and help manage short-term liquidity; and
- development of emergency plans (funding contingency plans).

VTB and other banks of the Group are also subject to liquidity requirements set by regulatory authorities, including those set by the CBR in the form of prudential ratios.

The RD analyses the liquidity position of the Group and prepares liquidity forecasts and recommendations for the ALCO on a monthly basis or more frequently in times of substantial capital inflows or outflows. Forecasts include:

- planned transactions;
- forecast roll-overs of clients' funds (deposits and promissory notes); and
- possible outflow of unstable "on-demand" funds (on clients' current accounts).

In addition, the RD conducts hypothetical scenario analysis (stress testing), assessing risk factors liable to influence VTB's forecast liquidity, as well as consideration of a Group bank's ability to mobilise liquid assets in order to alleviate a lack of liquidity.

VTB's Treasury Department manages short-term liquidity on an ongoing basis through its cash position and treasury portfolio of highly liquid securities within the limits approved by the ALCO, while it assesses medium and long term liquidity and reports to the ALCO on a weekly basis.

The Group's medium-term liquidity needs are managed through customer deposits and the instruments offered by the CBR in the form of repo agreements and collateralised loans (against corporate loans or securities) within the limits set up by the CBR to fill negative medium-term liquidity gaps.

The Group's cash flows classed by remaining contractual maturities in billions of rubles as at December 31, 2011, are presented in tabular format under "*Selected Statistical and other Information – Cash Flows and Liquidity*".

The stable element of resources on demand is determined on the basis of statistical analysis of the dynamics of cumulative balances on these accounts. Although a considerable portion of customer liabilities mature in less than three months, VTB's past experience shows that these liabilities are consistently renewed, and therefore can be considered as a stable source of funding. The currency structure of VTB's liquidity position is hedged by conducting foreign exchange swaps.

### **Market Risk Management**

Market risk is the exposure to adverse changes in the value of trading portfolios as a result of changes in market prices or volatility. VTB is exposed to market risks which arise primarily from its securities portfolio and open currency positions, all of which are exposed to market fluctuations. In particular, VTB is exposed to the following risks in each major market in which it trades: foreign exchange, interest rates, fixed income, equities and commodities. It is recognised that all trading activities contain calculated elements of risk-taking, and VTB manages these risks by accurately identifying, measuring and monitoring them against a series of limits. VTB operates a two-level limit system: framework and operating limits.

Framework limits are portfolio limits expressed in units of and value-at-risk (**VaR**) numbers (daily stress-test outcomes are also realised in VTB Capital's market risk limits). Where appropriate, these limits are supported by stop loss review points or triggers designed to ensure that risk level and loss tolerance remain in a consistent relationship with each other. Operating limits are a more detailed series of limits used to control the day-to-day risk taking activities of the various trading desks of VTB and are in addition to more specific and granular measures of risk associated with the amount of exposure to a single instrument or pricing parameter.

Limits are set by particular management bodies of each Group bank. For example, the VTB's ALCO sets market risk limits for VTB and VTB Capital's board of directors and Global Risk Committee set limits for VTB Capital's trading desks. On a Groupwide level, VTB's GMC sets high-level framework market risk limits for the Group and for each Group bank. VTB's Risk Department reports on a monthly basis to the VTB ALCO and on a quarterly basis to the GMC about the market risk exposures of the Group.

The ALCO sets VTB's policies for market risks, with the aim of limiting and reducing the amount of possible losses on open market positions, which may be incurred by VTB due to negative changes in currency exchange rates, interest rates and securities quotations. The RD monitors compliance with VTB's market risk limits on a daily basis. VTB measures market risks using a VaR methodology, which estimates the largest potential loss in pre-tax profit over a given holding period for a specified confidence level. Risks can be measured consistently across all markets and products, and risk measurements can be aggregated to arrive at a single risk measurement. As of December 31, 2011, the Group's VaR for its securities portfolio, calculated using the historic simulation method on a ten-day basis and at 99% confidence level, was equal to approximately RUB 19.0 billion.

VTB has implemented strategies to help reduce the risks associated with securities' portfolios in response to the deteriorating economic conditions. Such strategies include the reduction of investments in securities, the increase in hedge operations (mainly for equity portfolios) and, to the extent possible, the restructuring of bonds into secured loans.

## *Currency Risk*

VTB has assets, liabilities and other commitments in multiple currencies, and therefore it is exposed to currency risk through mismatches in the currency denomination of assets and liabilities and also through currency positions from transactions in foreign currencies. VTB manages its currency exposure risk by seeking to match the currency of its assets with that of its liabilities on a currency-by-currency basis within certain limits. The ALCO reviews the currency position and sets open currency position limits, which are monitored on a daily basis. The RD prepares a monthly Currency Risk Report for the ALCO. The report is based on a gap analysis and VaR and capital-at-risk (**CaR**) measurement. The Group's VaR for foreign currency exposures is calculated using the historic simulation method considering the correlation between currencies on a ten-day basis and at 99% confidence level. As of December 31, 2011, the Group's VaR for its currency risk was equal to RUB 1.0 billion, compared to RUB 3.9 billion as of December 31, 2010 and RUB 4.1 billion as of December 31, 2009. The VaR figures take into account all net foreign currency exposures over RUB 100 million based on management accounts. The Treasury hedges VTB's currency position by converting the currency of certain assets and liabilities, and by entering into foreign exchange spot, forward and options transactions. VTB is also subject to currency risk requirements set by the CBR. See *"Banking Regulation in the Russian Federation"*.

The Group strives to maintain all currency positions, except arbitrage, to be closed, and any arbitrage positions are strictly limited and controlled on a regular basis. There are no material unhedged currency mismatches of assets and liabilities as at the date of this Prospectus.

The Group's exposures to currency risk, including balance sheet positions and off-balance sheet foreign currency derivatives positions against rubles (open positions), are presented in tabular format under *"Selected Statistical and other Information – Currency Exposures"*.

## *Interest Rate Risk*

The Group is exposed to interest rate risk, which is the risk that the Group's interest income could decrease or its interest expense could increase based on adverse changes in market interest rates. The RD presents to the ALCO on a monthly basis a sensitivity analysis of the Group and of individual banks of the Group, including assets and liabilities, net present value sensitivity, VaR, CaR, Earnings-at-Risk and Net Interest Income analysis. To mitigate the interest rate risk, the ALCO set up CaR limitations to cover interest rate risk of the Group as well as individual banks of the Group. VTB Treasury manages and hedges VTB's exposures by entering into interest rate derivatives transactions within the limits and parameters set by the ALCO.

The Group's repricing gaps as of December 31, 2011 are presented in tabular format under *"Selected Statistical and other Information – Maturities and Sensitivities of Loans to Changes in Interest Rates"*.

## ***Basel II Requirements***

Currently, Russian legislation does not yet fully reflect Basel II standards. In particular, neither the Pillar 1 Internal Rating Based approach (IRB) nor the Pillar 2 internal capital adequacy estimation procedures are applied in the Russian Federation for regulatory purposes. Therefore, VTB is independently developing Basel II methods to evaluate capital adequacy by implementing an "economic capital" concept based on the so-called "advanced" approaches. A stage-by-stage implementation of such concept will allow VTB to assess more accurately a capital level and assumed risks ratio taking into account individual and business profiles that are unique to the Russian Federation. Moreover, VTB is part of the CBR pilot programme with the aim of using the IRB approach for regulatory purposes after 2015 when Basel II regulation will be in place for large Russian banks. In August 2012, the Group launched its work on implementing Basel II standards. In the first stage of the project, the Group is conducting an analysis of Basel II IRB compliance at VTB and VTB24. Subsequently, a plan for implementing Basel II standards at VTB and VTB24 will be prepared by the end of 2012. The Group will then develop procedures for

implementation of Basel II standards at other banks of the Group, including the Bank of Moscow, with the aim for the Group to be Basel II compliant by 2015.

### ***Operational Risk Management***

Operational risk is the risk of a loss resulting from the inadequacy or failure of internal processes, people and systems or from external events. The CRAD coordinates the operational risk management function within VTB. VTB's operational risk management strategy, developed by the CRAD (formerly, developed by the RD) and approved by the Management Board, provides for identification, assessment, monitoring and control of operational risks and allocates operational risk management responsibilities. For the purpose of quantitative analysis of VTB's operational risk, in early 2007 procedures were implemented for operational loss data collection within VTB using the risk event classifications that meet Basel II and CBR requirements. See "*—Basel II Requirements*". After a three-year use test, in 2010 this reporting framework was expanded to all Group banks. In April 2010, the GMC approved the policy "On Operational Risk Data Collection and Reporting of the VTB Group", which established uniform methodological and procedural guidelines for identification of operational risk events within the banking subsidiaries of the Group and monthly reporting to the CRAD of risk exposure and key risk and control indicators.

The CRAD is responsible for maintaining sufficient insurance coverage for VTB's estimated operational risk exposure, which is based on the likelihood and impact of loss. In addition to the Group-wide "umbrella" type insurance policies that are maintained by VTB centrally, each Group bank maintains its own supplemental policies with coverage that it deems to be appropriate and consistent with the actual operational risk exposure or likelihood and impact of loss. These insurance policies include financial institution's blanket bond policies covering losses resulting from employees' fraud, external fraud and electronic and computer crimes with the coverage of \$123 million in the aggregate, depositary insurance with maximum coverage of \$90 million for VTB's Moscow main vault and total maximum coverage of \$10 million elsewhere, insurance policies for cash, documentary securities and precious metals in transit, with the coverage of approximately \$1.5 billion in the aggregate, insurance policies for ATMs and currency exchange machines with the aggregate coverage of approximately \$2.3 billion and bank card fraud insurance policies with the coverage of approximately \$1.2 million in the aggregate. The total amount of the professional risk insurance coverage maintained by VTB and its subsidiary banks exceeds \$4.3 billion. VTB's operational and risk mitigation procedures are regularly assessed by independent surveyors appointed by insurance underwriters. See "*—Insurance Coverage*".

The Management Board is responsible for VTB's system of internal controls. ICD conducts an independent review of, and recommends improvements to, VTB's system of internal controls. ICD monitors the conformity of VTB's policies with current legislation and regulation and is also responsible for internal controls relating to operations, accounting practices, taxation, regulatory and documentary compliance, risk management and IT systems. It reviews banking operations, including lending and transactions in securities and foreign currency, to ensure that appropriate procedures and limits are complied with. The ICD also ensures that VTB's accounting practices comply with Russian accounting rules.

The main procedures used to reduce operational risks include the establishment and implementation of bank policies and procedures; maintaining multilevel preventive controls that combine different control features to reduce operational risks; the audit of bank operations and transactions consummated; limits on the functions, powers and responsibilities of employees; segregation of employees' duties and collective decision making; establishment of operational limits; automation of banking operations; implementation of measures ensuring information protection and limited access to informational systems; implementation of measures ensuring physical security of the premises and valuables of VTB and access control; reduction of operational risks connected with certain business processes by engaging appropriate outsourcing services; and reduction of employee related risks, including establishing criteria for employee hiring, background checks and staff training and development. VTB divides the responsibility for its core business practices between its front and back offices in order to eliminate the possibility that an operation is executed by an employee without proper review or supervision. To provide for solid operational control, 'risk sensitive'

transactions and operations are subject to a minimum of one or two independent reviews. Such transactions and operations may not be processed until a reviewer with appropriate authority has reviewed and “released” them. VTB maintains compulsory follow-up control procedures that involve independent verification by special VTB control units of all accounting and treasury operations on a day-delayed basis.

All core banking operations and trades, accounting and reporting procedures and risk-sensitive or critical internal processes are governed by written and comprehensive regulations, with which all relevant employees must be familiar. VTB ensures that these regulations are current and conform to Russian law and the requirements of the CBR, which are, in most instances, very detailed and, consequently, govern the processing of many types of transactions. To the extent feasible, VTB ensures its regulations and risk management procedures (including operational risk mitigation) conform to the requirements of the Basel Committee.

The ICD monitors internal control systems of the Head Office and VTB’s branches on a monthly basis, conducts comprehensive and topical audits of branches based on their risk profile at least once in every two years (more frequently in case of a high risk profile), conducts audits of policies and procedures performed at the Head Office on a regular basis. The head of the ICD reports directly to VTB’s President—Chairman of the Management Board and to the Supervisory Council (Audit Committee). The ICD’s representatives at VTB’s branches are independent of local management.

Upon completion of every audit visit to a business unit, the ICD prepares a report that denotes discrepancies or inefficiencies in the internal control system that have been discovered in the auditee’s processes and operations, and suggests appropriate corrective actions. Audit reports are submitted to VTB’s President—Chairman of the Management Board and to the auditee and affected business lines. The auditee is then required to prepare a corrective plan that is submitted to the ICD. The plan’s execution is monitored by the ICD and the supervising business division. The CBR also performs extensive and intensive audit examinations of VTB.

In order to further enhance the quality of the internal control system, VTB established the Compliance Control Division in 2011 to be responsible for minimising the risk of sanctions imposed by regulatory authorities and judicial bodies, as well as managing risks to VTB’s business reputation as a result of any non-compliance with laws, regulations, internal standards of VTB, standards of self-regulated organizations, and common business practices (hereinafter, the “**compliance risks**”).

The Compliance Department is in charge of general compliance matters including, but not limited to, insider trading, market manipulation, conflicts of interests, personal account dealing, dealing with customers, regulatory relationships and compliance training. These compliance related matters are regulated by the Compliance Policy, Compliance Department Regulations, the Anti-Bribery and Corruption Policy, the Code of Corporate Conduct and the Code of Ethics, Prevention of Insider Dealing and Market Manipulation Regulations; Personal Account Dealing, Whistleblowing and Conflicts of Interest processes are regulated in line with the law and best practices. A whistleblowing hotline was introduced at VTB in September 2012.

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

VTB has a designated Security Department that is responsible for the security of the premises and facilities; IT security; checks/screening and analysis of borrowers, counterparties and clients to the full extent allowed under Russian law; background/credentials checks of candidates for employment and current employees to the full extent allowed under Russian law; guard/assess control management; participation in internal investigations and police liaison. The Security Department reports directly to VTB’s President—Chairman of the Management Board.

VTB has implemented modern, layered security/surveillance systems throughout Head Office and branch facilities. These include: (a) guards/receptionists at entrances; (b) centrally monitored and recorded surveillance systems; (c) automatic fire-detection and suppression systems; (d) motion detection and contact triggers; and (e) restricted access to all employee work areas (with further access restrictions for ‘sensitive’ areas, *eg*, server/communication equipment rooms, trading rooms, vaults), which are controlled by PIN-pads and/or magnetic readers or card locking devices.

Information security procedures and requirements are set by policies and regulations that were developed in accordance with ISO/IEC 27001:2005 standards ‘Information technology—Security techniques—Information security management systems—Requirements’ and recommendations of the Basel Committee.

### ***Procedures for Prevention of Money Laundering and Terrorist Financing***

VTB’s anti-money laundering measures are based on relevant Russian legislation, and are designed to detect and prevent money laundering and terrorist financing. See “*Banking Regulation in the Russian Federation—Anti-Money Laundering Legislation*”. VTB’s Anti-Money Laundering Division is in charge of ensuring implementation of rules and procedures relating to the prevention of money laundering and terrorist financing throughout VTB, and is in charge of reporting to the Financial Monitoring Federal Service. All VTB’s branches have AML officers ensuring the implementation of and compliance with the VTB’s AML/CTF internal control rules on a daily basis. The head of the Anti-Money Laundering Division reports to VTB’s President—Chairman of the Management Board through the member of the board supervising the activities of the Anti-Money Laundering Division.

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

VTB’s procedures relating to the prevention of money laundering and terrorist financing include “know your customer” procedures which require clear identification of both Russian and foreign customers, verification of their identity and appraisal of the risk of their involvement in money laundering or terrorist financing; detection of transactions that the Russian anti-money laundering legislation places under compulsory control, as well as suspicious transactions and activities; reporting; record keeping; confidentiality and training of personnel. VTB’s “know your customer” procedures are designed to be consistent with sound business principles; help recognition of suspicious activity in a timely manner; minimise the risk that VTB will be used as a channel for illegal activities of any kind; prevent the establishment of banking relationships with customers until their true identity is known and identify unusual or suspicious transactions or transactions inconsistent with the information that VTB has about the customer or its regular business activities. See “*Risk Factors—Risks Relating to VTB’s and the Group’s Business and Industry—The Group’s banking business entails operational risks*”.

VTB maintains correspondent relations with more than 350 Russian credit institutions and more than 250 foreign banks. Transactions through all correspondent accounts are monitored on a daily basis. All transactions are screened through national and international sanctions lists in order to avoid provision of services to individuals, legal entities or countries included in these lists.

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

### ***Insurance Coverage***

VTB utilises a wide variety of professional risk insurance programmes available on the market to financial institutions. VTB's insurance policies include a financial institution's blanket bond covering losses from employee dishonesty, external fraud, electronic and computer crimes, depositary insurance for documentary securities, insurance of cash, documentary securities and precious metals in transit, insurance of ATMs, cash dispensers and currency exchange machines, buildings and property insurance, and bank card fraud insurance. Property insurance risks under these policies that exceed \$1.2 million are reinsured by major international reinsurance companies. In addition to the policies that are maintained by VTB centrally (eg those covering the risks of VTB as a standalone entity or are a Group-wide "umbrella" type insurance policy), each Group's bank maintains its own supplemental policies with coverage that it deems to be appropriate and consistent with its actual operational risk exposure or likelihood and impact of loss, eg, professional, public and employer's liability insurance. The total amount of the professional risk insurance coverage maintained by VTB and its subsidiary banks exceeds \$4.3 billion. In addition, VTB holds insurance programmes against natural disaster risks in relation to its property, buildings, offices and premises. The total amount of coverage under the insurance agreements is approximately RUB 29 billion. However, in respect of some of its existing insurance programmes, VTB may not carry insurance coverage at levels comparable to those customary in certain other countries for a bank of its size and nature and, under some circumstances, its insurance coverage may prove insufficient. See "*Risk Factors—Risks Relating to VTB's and the Group's Business and Industry—The Group's banking business entails operational risks*". This is partially the result of maximum limits placed by the insurance market on insurance exposure for Russian financial institutions. The same is true for many Russian banks, as the Russian insurance sector is not fully developed to provide Russian banking coverage against operational risk exposures in the volumes that banks request.

### ***Assurance, Collateral and Guarantees Appraisal***

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

An assurance arrangement is an agreement that a certain volume of a borrower's cash receivables flow through accounts over which VTB has a pledge that it can enforce if the borrower does not fulfil its obligations. In the case of collateral, acceptable collateral includes real property, land leasing rights, receivables, securities, industrial equipment, vehicles, airplanes, ships, precious metals, raw materials and inventory. VTB applies discount rates to collateral in assessing potential loan amounts by categorising the liquidity of the relevant collateral; the minimum discount rate is 15% (with the exception of VTB's bonds and promissory notes).

The value of collateral is first determined by a third party appraiser. The RD conducts an additional evaluation of the appraisal report. VTB also accepts third party guarantees as long as they fall within its exposure limits for the guarantor. A guarantor is evaluated in the same manner as a borrower.

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

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

#### *Problem Loan Recovery*

VTB’s Loan Recovery Division is responsible for monitoring and resolving problem loans. Problem loans are dealt with initially at the branch level under the procedures implemented by VTB across all branches, with monitoring and coordination by the Loan Recovery Division. Any events of substantial default upon payment obligations (normally, 30 days) and/or of other material factors of credit risk serve as a basis for assigning “problem loan” status to a respective deal, in accordance with the decision of VTB’s Committee on Credit Portfolio Monitoring, following which such deal will be referred to the Problem Loan Recovery Division. The Problem Loan Recovery Division evaluates all the available information and attempts to determine the reasons for the default. Subsequently, the Loan Recovery Division contacts the borrower and attempts to restructure the loan by, inter alia, rescheduling interest payments and extending the term of the loan in order to restore the borrower’s ability to resume interest payments or repay the loan. If a loan is restructured, the Loan Recovery Division monitors the borrower’s compliance with the terms of the restructured loan and may, among other things, attempt to obtain additional security with respect to the loan.

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

The status of the Group’s gross loans and advances to customers are presented on a consolidated basis for the periods indicated in tabular format under *“Selected Statistical and other Information – Non-Performing and Past Due Loans”*.

The Group makes accruals of interest on loans that are overdue for more than 30 days and assesses such accrued interest for impairment. VTB works out problem loans in accordance with local legal and regulatory requirements.

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

In December 2008, VTB established VTB Debt Center, a work-out unit created in response to the negative effects of the global financial crisis on the Russian Federation. VTB Debt Center’s primary functions are to improve the recovery of problem loans and manage the assets acquired by VTB from its defaulting customers and preserve and enhance their market value. To achieve its objectives, VTB Debt Center may engage in the following activities:

- providing services that are unrelated to the repayment of problem loans to financial institutions, insurance companies and entities selling goods on credit (on trust);
- selling and acquiring patents, licenses and technologies;
- investing funds into production, commercial and other activities;

- carrying out foreign trade activities;
- providing consulting services in various scopes of activity;
- providing intermediary services, performing marketing research and carrying out operations in the securities market;
- performing operations with real estate objects, including acquisition, lease and sale of land plots, buildings and structures; and
- participating in concession projects.

### ***Risk Management and Internal Control System***

VTB's internal control system aims to address risks at every stage of VTB's operations and to ensure that existing or potential problems are timely detected, identified and mitigated in the most effective way.

The ICD of VTB is responsible for the independent overview of internal control system of VTB and for the coordination of internal audit functions within the Group. The following key ICD procedures are implemented for the efficient monitoring of the internal control system:

#### *Preventive controls:*

- new instructions, rules or other regulating documents are reviewed by the ICD along with other expert departments (the RD, the CRAD, the Legal Department and the Security Department) before they are put in force;
- the ICD reviews and issues an opinion (for the attention of the CC) on each credit risk bearing transaction representing more than 1% of the capital of VTB according to RAS; and
- training and professional development of personnel.

#### *Current controls:*

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

#### *Subsequent controls:*

- reviews, audits and similar control procedures that are carried out at the Head Office, branches and at the subsidiary level, and recommendations are given based on the results of such reviews.

### ***VTB24***

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

small businesses are described below. Risk management, including credit, market and operational risk, is performed by an independent department and credit risk officer of VTB24 who is also a member of VTB24's management board and reports directly to VTB24's chief executive officer. Similarly, VTB24's audit committee supervises VTB24 operations through periodic branch audits and reports directly to VTB24's management board.

#### *Credit Risk*

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

Limits are established on VTB24's personal and car finance products. For its lending processes, VTB24 uses software developed by Experian. With respect to all retail loans, the loan approval process is automated. VTB believes that the standards used by VTB24 to analyse applications for loans are comparatively stringent in relation to the Russian banking industry as a whole. VTB24's credit risk management policies and procedures are periodically reviewed for potential updates or improvements.

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

#### *Credit Origination and Analysis*

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

For mortgage loans, VTB24's Mortgage and Consumer Lending Department and the relevant branch officers evaluate the prospective borrower's income, education, employment, employment history, existing indebtedness, the ratio of income to obligations (including rent, utility and other payments) and payment history for various obligations, such as mobile telephone and cable television payments, on the basis of the information provided by such prospective borrower. See *"Risk Factors—Risks Relating to VTB's and the Group's Business and Industry—The size of the Group's loan portfolio has increased its credit exposure, which may result in increased non-performing loans despite risk management strategies as a result of the unpredictability of the economic conditions in the Russian Federation and abroad"* and *"Risk Factors—Risks Relating to VTB's and the Group's Business and Industry—The Group could face increased loan losses and decreased demand for its services from both corporate customers and individuals who have been affected by the global economic crisis"*.

In order to control internal fraud, VTB24 has divided responsibility for many of its business practices among its front, back and middle offices. VTB24 also uses specific scoring cards which determine the probability of fraud. Other special control procedures include, for example, regular portfolio analysis by the RD and periodic internal audits by VTB's Audit Committee.

### *Credit Limit Calculation*

VTB24 has developed a scaling model that is applied to calculate the optimal credit limit for a client, which plays one of the key roles in risk reduction. The method is based on the comparison of two competing notions: (a) the potential increase of a client's credit limit resulting from the client's positive characteristics, such as solid income, good credit history, ownership of movable and immovable properties and (b) the potential decrease of a client's credit limit resulting from the probability of default, which is calculated from the client's credit score. This model is similar to the quantitative cause and effect model, which focuses on the final result without considering the dynamics of the process. Credit limit calculation involves analyzing clients' personal data, which requires approaching each client on an individual basis during credit limit allocations. The model's flexibility allows coefficient adjustments according to new statistical data. The model application presents a solution that allows for an increased credit portfolio where credit quality has been maintained.

Additionally, the payment to income ("PTI") model has been introduced. The model allows for controlling a client's paying capacity, which helps to reduce the probability of defaults.

VTB24 takes into account information regarding the credit histories of potential borrowers received from three credit bureaus—National Bureau of Credit Histories, Equifax Credit Services and Credit Bureau of Russian Standard Bank. In addition, VTB24 has implemented an automated internal credit scoring system, which was developed with the Experian Scorex system and adapted to Russian borrowers with respect to all VTB24 products, including mortgages. VTB24 uses internally developed scoring cards which take into account region specific metrics. The internal credit scoring system rates credit applicants for a given product and assigns a grade of "Yes", "No" or "requires further analysis". Loan applications which require further analysis typically arise with new customers who either do not exactly fit the profile set for a given product or existing borrowers who would exceed pre-approved amounts for borrowing, and who thus require expert attention to evaluate their credit worthiness.

### *Interest Rate Determination*

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

### *Collateral and Guarantees Appraisal*

VTB24's retail credit portfolio is comprised of both secured loan products (mortgage loans, car loans and secured consumer loans) and unsecured loan products (unsecured consumer loans and credit cards). Acceptable collateral includes real estate, personal property, securities, automobiles and other liquid assets. VTB24 applies discount rates to collateral in assessing potential loan amounts by categorising the liquidity of the relevant collateral.

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

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

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

#### *Credit Approval Procedures*

VTB24 has established standardised approval procedures with respect to mortgage loans, non-mortgage loans to individuals and small business loans. Based on the amount of a mortgage loan, the credit approval decisions are made by an individual loan analyst or jointly by a loan analyst and a risk manager. For all non-mortgage loans and certain mortgage loans, borrowers with clear credit evaluations (“white” and “black” zones) receive automated decisions, while borrowers with unclear evaluations (“gray” zone) require approval from a risk manager. Small business loan applications are subject to the authorisation of the credit committee at the appropriate level. The level of authorisation required depends on the size of the relevant loan, the type of loan product being offered and the collateral securing the loan.

#### *Monitoring*

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

#### *Problem Loan Recovery*

In general, loans to individuals are transferred to VTB24's Loan Recovery Division when payments are one day overdue; loans to small businesses are transferred at 21 days overdue; and mortgage loans are transferred at one day overdue. Generally, any loan that is 90 days overdue is considered defaulted for VTB24's internal risk management purposes. Once a loan is transferred to the Loan Recovery Division, it contacts the borrower and analyses the reasons for non-payment. If the borrower is not otherwise able to continue repayment of the loan, VTB24 may attempt to restructure the loan, including rescheduling of interest payments, extension of the term and other ways to restore the borrower's payment capacity so it can resume interest payments or repay the loan.

The work out of problem indebtedness is based on a three stage process. The first stage (soft-collection) starts when a payment is 60 days overdue, and representatives from VTB24's central office contact the client to make enquiries regarding the overdue payment and the planned repayment term. The second stage (hard-collection) starts when a payment remains unpaid after 60 days overdue, and representatives from VTB24 branch visit the borrower and the guarantor, if applicable, and continue to contact the client with the enquires regarding the planned repayment term. The third stage includes legal process, collection agencies and security management. For instance, if a loan restructuring is not possible or

not successful, VTB24 may bring legal action against the borrower and/or any guarantors, or may use the service of a third party, such as a collection agency.

In 2011, VTB24 sold 60,542 bad loans to collection agencies. These bad loans were overdue for more than 360 days and amounted in aggregate outstanding amount to approximately RUB 5 billion (principal and interest accrued and outstanding as of the date of sale). The net result of this sale was recorded as a profit of RUB 184 million in VTB24's IFRS financial statements as of December 31, 2011.

### *Operational Risk*

VTB24 is exposed to operational risk in the context of its business exposure. For identifying, controlling and mitigation of operational risk VTB24 has developed the Operational Risk Management System, which includes:

- the process of collecting, recording, analyzing and classifying of operational risk events;
- estimation of the key risk indicators to enable evaluation of the effect of operational risk on the processes and also to monitor the change of operational risk indicators and evaluate the efficiency of efforts directed to risk mitigation;
- the identification of zones of operational risk in order to develop tools to control and mitigate the identified risks; and
- analysis of the information, which is subsequently reported to the Management Board as a monthly operational risk report.

### **Risk Management Policies for VTB Capital**

The main risks faced by VTB Capital are credit risk, market risk, operational risk and, to a lesser degree, liquidity risk. Primary responsibility for management of these risks resides with the businesses that originate these risks; however, VTB Capital operates an independent centralised Risk Management Department (the “**RMD**”) which is responsible for all matters within VTB Capital relating to credit risk, market risk and operational risk. The RMD is responsible for ensuring appropriate assessment and monitoring of these risks. VTB Capital's Treasury manages liquidity risk. The RMD aims to identify, quantify and assess all risks and to set appropriate prudential limits consistent with the risk tolerance of the firm. The risk tolerance of VTB Capital is set by the board of directors and the principal governance body for risk, the Global Risk Committee, which approves risk policy and oversees the operation of the RMD. VTB Capital's risk management policies and practices are coordinated with those of the Group and significant credit risk decisions also require the approval of the Group Credit Committee. See “—*Overview of Risk Management of the Group*”.

### **Credit Risk**

Credit risk is defined within VTB Capital as the risk of financial loss as a result of the failure by an obligor to meet its contractual obligations, or the failure to do so in a timely manner. VTB Capital recognises that credit risk arises in both lending and trading, and that an element of credit risk also exists in its issuer risk taking activities. In the case of trading activities, credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract when settlement becomes due.

Accordingly, VTB Capital has established a framework for the identification, analysis and monitoring of the credit risks to which it is exposed. This framework sets out the foundations and principles for determining VTB Capital's credit risk appetite and ensures that the process of credit risk taking and credit risk management by VTB Capital is transparent and consistent across business types and products.

VTB Capital has also put in place a comprehensive set of risk management policies that form part of the framework and are designed to identify and analyse the risks that VTB Capital assumes, to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. VTB Capital regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

Significant changes in the performance of a counterparty, a country's economy, or in the health of a particular industry segment that represents a concentration in VTB Capital's portfolio, could result in losses that are different from those provided for at the balance sheet date. Therefore, VTB Capital restricts the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparty, geographical and industrial sector risks. Limits on the level of credit risk exposure by industry sector and by country are set by the RMD and reported monthly to the Global Risk Committee.

VTB Capital also adopted an approach of thorough due diligence in its credit assessment, rating and approval of limits to individual counterparties and groups of connected counterparties. Credit exposures are calculated, monitored and reported in a comprehensive manner on a timely basis and a series of controls are in place to monitor for any deterioration in credit quality.

The exposure to any one counterparty or group of counterparties is established within limits for both on-balance sheet and off balance sheet items, and, where relevant, VTB Capital also establishes daily settlement risk limits in relation to trading items such as foreign exchange contracts. Actual exposures against limits are monitored daily by the RMD.

VTB monitors its exposures to credit risk by conducting regular reviews at a minimum annually, of the ability of counterparties to meet their contractual obligations. In certain cases, exposure to credit risk is mitigated in full or in part by obtaining the assignment to VTB Capital by the counterparty of collateral, cash and/or corporate and personal guarantees.

VTB Capital further restricts its exposure to potential credit losses by entering into master netting arrangements and International Swaps and Derivatives Association ("ISDA") agreements with counterparties with which it undertakes transactions. In addition, VTB Capital makes extensive use of the ISDA Credit Support Annex ("CSA"), particularly with developed market counterparties. The CSA framework provides for the cash collateralisation of VTB Capital's mark-to-market exposures to its counterparties and vice-versa. It is an important tool for VTB Capital to mitigate its credit exposure to counterparties. Additionally, by allowing counterparties to mitigate their exposure to VTB Capital, the CSA arrangement provides access to counterparty trading lines for over-the-counter derivatives that might otherwise be unavailable.

With respect to traditional lending activity, impairment provisions are made for losses that have been incurred at the balance sheet date. With respect to VTB Capital's customer based trading book activities, counterparty risk is considered within the context of the fair value of such instruments through the use of counterparty valuation adjustments where appropriate.

### ***Operational Risk***

Operational risk is the risk arising from the execution of a company's business functions. VTB Capital defines operational risk as the risk of not achieving business objectives due to failed processes, people or systems, or due to external factors. This includes the failure or inadequate management of other types of risk. Oversight and governance for the setting and management of a robust operational risk management policy and culture are the responsibility of the board of directors and the RMC. VTB Capital has developed an operational risk framework that is designed to identify, assess, monitor and mitigate operational risks. It facilitates up-the-ladder reporting of information to ensure that the appropriate action can be determined. It is operated to ensure that there is the identification of strategic risks through the risk and control self assessment ("RCSA") process, the recording and analysis of operational risk events, the use of key risk indicators and a robust review process to ensure risks associated with new products are identified,

addressed or mitigated prior to implementation. The information is analysed and monitored against risk tolerances and is reported to the Global Risk Committee by way of a monthly operational risk report. In general, VTB Capital's operational risk profile has increased as a result of the growth and build-out of its business; however this is offset by the continuing development of the control environment.

### **The Bank of Moscow**

The Bank of Moscow was consolidated by the Group in 2011 and is currently being integrated into the Group, which includes conforming the Bank of Moscow's risk management procedures to the Group's risk management standards and principals. Risk management functions for the Bank of Moscow are undertaken by the Risk Department. The Head of the Risk Department reports to the Bank of Moscow's President Chairman of the Board. The Bank of Moscow is developing business with SMEs, in accordance with the Bank of Moscow's own development strategy.

### ***Credit risk***

The Bank of Moscow is changing its risk management framework to improve control procedures and unify its approaches with those of the Group. The decision making authorities for corporate and SMEs are now shared between the Management Board, CC, Small CC, branch CCs and head office executives, depending on the amount of credit (from largest to smallest):

- the absolute authority of the CEO with respect to the credit risk acceptance and allocation has been eliminated; and
- the lending process in branches is subject to control by head office.

VTB Debt Center is now working on those non-performing loans that are significant for the Bank of Moscow. The Bank of Moscow's retail credit procedure and risk management framework have also been reviewed by VTB24 to remove significant differences between the Bank of Moscow's standards and the Group's standards.

The Bank of Moscow has improved its internal credit ratings approach for corporate and SME clients and introduced risk-based practices consistent with VTB risk-management practices. The process of approval of a credit to corporate and SME clients is currently being revised to bring it in line with VTB's standards. The relevant functions will be split between several departments:

- Front office—responsible for new product development and sales;
- Credit Department—responsible for structuring credit deals;
- Risk Management Department—responsible for the independent appraisal of projects, products or clients; and
- Middle office—monitoring compliance with CC guidelines.

The Risk Management Department is now ultimately responsible for IFRS and RAS provisioning. IFRS provisioning for corporate and SME loans is based on risk premiums, which depend on which internal ratings group the loan falls into.

The Bank of Moscow has implemented an economic capital approach based on the Basel II standards which is also in line with the Group standards.

## ***Market and asset liability management risks***

The Bank of Moscow's risk profile has changed due to the reduction of proprietary trading risks on its trading book. The trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. The key market risks now are interest and currency risks of its banking book, as well as liquidity risk.

The following units are involved in market and asset liability risk management:

- ALCO—approves internal policies and methodology, sets market risk limits for certain types of transactions and/or positions, makes risk hedging decisions and ratifies new financial instruments which may be traded by the bank;
- Risk Department—develops and implements internal policies and methodologies and suggests appropriate limit levels;
- Treasury Department—manages risks of the banking book, including ALM risk following ALCO guidelines; and
- Business units—execute transactions within the set limits. Any such units responsible for the execution of transactions in the trading book are also responsible for interest, currency and price risk management.

The risk assessment process includes risk sensitivity analysis, statistical methods (VaR, etc) and stress testing.

The systems used by the Bank of Moscow to assess its risk with respect to a particular client and/or transaction includes limits on exposures, duration, risk factor sensitivity and VaR, stop-loss limits, discounts, margin calls, internal liquidity rates and responsibility levels.

The Bank of Moscow's transactional exposure is adjusted to market value. Quotes are obtained from sources that are independent from business units. The trading book limits are entered into the special databases to which the business units have no access until such access is granted by the authorised Risk Department officer.

## ***Operational risk***

### ***Identification, Assessment and Monitoring***

The Bank of Moscow's new and changing workflows are subject to a pre-launch operational risk review that aims to reveal areas of weakness and enables the development of appropriate actions to prevent or mitigate risk. The Bank of Moscow's policy requires a clear and unambiguous description of each transaction and the related decision making process.

The Bank of Moscow has introduced a new RCSA framework and plans to conduct RCSA exercises on a regular basis using custom designed software. The Bank of Moscow has been collecting data on operational losses since 2003 and has established a framework for systematically tracking and analysing relevant information on individual loss events. During 2012 to 2013, the Bank of Moscow will implement the following improvements:

- decentralization of operational risk data collection;
- new practices to encourage improved tracking of loss event;

- “event based” vs. “loss-based” tracking of operational risk: linking multiple losses caused by single event and tracking the significant potential losses; and
- automated data imports from corporate data stores.

### ***Control and Mitigation***

The Bank of Moscow has limited the authority of its sole executive body and its collegial body. It has implemented IT solutions to mitigate human errors. In 2009, it introduced a dedicated anti-fraud system to mitigate internal fraud. In addition, the active involvement of Audit, Legal, Security, IT and Anti Money Laundering Departments in monitoring of day-to-day activities of the banking operations contributes to the identification and mitigation of operational risks.

The Bank of Moscow utilises a variety of insurance programmes which include Bankers Blanket Bond (BBB), Electronic and Computer Crime (ECC) and Professional Indemnity (PI) policies, as well as ATM, cash, assets and property insurance. The insurance coverage under these programmes is deemed by the Bank of Moscow to be appropriate and consistent with its actual operational risk exposure. The total amount of professional risk insurance maintained by the Bank of Moscow exceeds \$30 million.

## **TCB**

### ***Overview of Risk Concentration Areas***

The key financial risks connected with the business of TCB are credit risks, liquidity risks, interest rate risks, risk of financial instruments, exchange rate risks and operational risks.

### ***Credit Risks***

A key credit risk that TCB is subject to is the risk that TCB’s counterparties may be unable to duly and fully repay their indebtedness. In 2011, TCB’s corporate credit portfolio experienced growth with a simultaneous decrease of the overdue debt. Based on the credit risk assessment methodologies and systems of credit rating allocations used by TCB, it believes that all of its counterparties were allocated correct credit ratings, and accordingly the relevant provisions for potential losses have been adequately formed.

### ***Credit Risk Analysis***

TCB’s internal rating methodology is implemented through the review of various types of counterparties (including resident banks, non-resident banks political subdivisions of the Russian Federation and insurance companies). The rating methodology is continually being improved and adapted to the needs of TCB’s divisions, changes in the CBR policy and worldwide trends in risk management.

Through use of the ABFI (Analysis of Bank and Financial Information) software, TCB has developed a unified database of financial statements and expert reviews of dealings with counterparties (including credit institutions, federal subdivisions, municipalities and insurance companies) that may pose a credit risk for TCB. The implemented technology ensures centralised storage, accurate calculations and timely updates of information used to determine the estimated reserves, in accordance with the requirements of the CBR Regulations No. 254-P and 283-P. It also provides for regular reviews and updates of threshold values in calculating financial ratios and deciding upon an expert review, which is necessary to enhance the flexibility and adaptivity of the bank’s internal model of counterparty rating. This technology is expected to help avoid screening errors and therefore mitigate the loss of prospective clients, whilst enabling TCB to accept controlled risks with clients whose initial analysis had identified certain “red-flags”.

TCB updates its reserves rates for various rating groups using the analytical probability of default software, “RiskCalc Russia v.3.1”, which is developed by Moody’s Analytics.

### ***Determination of Limits***

Credit risk limits are determined by looking at risk concentration and the volumes of economic capital required to cover the aggregate loss under the credit risk. Such analysis is undertaken through use of the methods recommended by the Basel Committee. As per the current internal regulation on risk management, TCB regularly evaluates its compliance with its capital requirements, established by the Basel Committee, to cover aggregate losses connected with the credit risk. Based on the results of such evaluation, the Financial Committee establishes a system of limits restricting losses under each of the sub-portfolios comprising the aggregate credit risk portfolio.

The level of risk in connection with certain borrowers, including banks and brokers, is also restricted through the imposition of additional limits covering off-balance risks and liabilities, to be approved by the CC and Small Credit Committee, each of which meets twice a week. Actual risks are compared against the established limits and are monitored daily. Credit risk is evaluated regularly: in respect of individuals and legal entities, evaluation is carried out at least once every quarter, while in respect of credit institutions, evaluation is carried out every month.

### ***Decision Making Procedure***

TCB's Credit Committee approves the calculation of reserves to cover credit losses, security amounts accepted to guarantee extended loans, the borrower's internal credit rating and other calculations under loan products. Credit risk limits under corporate instruments, as well as credit limits for banks and insurance companies, are established by the CC. The financial position of borrowers that are insurance companies, or companies with a credit rating lower than sovereign are reviewed quarterly, and the financial positions of banking institutions are reviewed monthly. Actual risks of all counterparties are monitored against the established limits on a daily basis, and insurance companies are monitored against established limits on a monthly basis.

### ***Credit Retail Risk***

TCB offers standard lending products for retail clients. These standard products are available in any given market segment. If a particular loan does not fall within the terms of the standard lending products, it will need to be approved on a case-by-case basis by TCB's Credit Committee.

In order to forecast any possible losses under loans extended to individuals TCB uses a so-called Migration Matrix and Roll Rate Technologies. The reserves formed by TCB to cover possible losses under loans extended to individuals are believed to be of an adequate level and exceed the overdue indebtedness.

### ***Monitoring***

The Risk Management Department and the Retail Risk Directorate of TCB regularly monitor the financial position of various types of counterparties in accordance with the CBR requirements. This analysis is based on a number of sources, including the foundation documents of TCB's counterparties, their accounting, tax, statistical and other records and mass media reports.

### ***Dealing with Overdue Indebtedness***

TCB is subject to the risk of potential losses in respect of uncalled commitments to provide certain bank products with certain credit risks, at an amount equivalent to the aggregate value of all such commitments. However, in practice the probable loss is less than the aforementioned amount, because the majority of commitments are dependent on certain protective conditions specified in the relevant loan agreements.

TCB's Credit Committee approves a list of non-standard loans each month based on internal regulations. Each troubled loan is addressed in a special "action plan" approved by the TCB's management,

with subsequent progress reports on the performance of each troubled loan. Based on the progress reports on the performance of the troubled loans and analysis of the financial stability of each defaulting borrower, TCB prepares repayment schedules for non-standard loans and the writing off of bad loans.

### ***Market Risks***

TCB also faces market risks connected with its open positions in financial and currency instruments, the value of which are subject to general and specific market fluctuations. TCB manages its market risks through the following methods: (a) by establishing limits for potential losses under trading portfolios, through use of VaR methodology; (b) by establishing limits for the maximum permissible actual losses under TCB's trading portfolios (stop-loss, stop-out and negative income limits); and (c) by establishing and complying with the requirements in respect of collateral which could be accepted as security over a particular type of transaction (such as a mortgage, guarantee or pledge) in order to compensate for possible losses under those trading operations that are subject to market risk.

### ***Currency Risks***

TCB is subject to foreign exchange rate fluctuations, which affect its financial position and cash flows. Due to structural deviations between positions in assets and liabilities, and due to commercial operations, the Financial Committee of TCB establishes certain limits for currency risks in order to control its currency position. This currency risk management is based on the limitation of maximum permissible losses of TCB caused by negative exchange rates dynamics. Such possible losses are evaluated through the employment of VaR technology, which allows TCB to monitor, and ensure consistency between, the actual currency risk assumed by it compared to its ability to assume such currency risk (by reference to its available capital), on a daily basis. New volatility values and currency rate correlation matrices are updated once a month, which is broadly in line with standard market practice.

### ***Interest Rate Risks***

Interest rate risks arise due to possible changes in the price of the debt raised or debt offered in the market. In respect of financial instruments, interest rate risks are caused by a change in the prevailing interest rates. TCB's policy in respect of interest rate risk contemplates determination of limits for structural risks connected with changes in interest rates, which are derived from the deviations between the amounts of assets and liabilities, and the limits for fixed income portfolios. TCB's Financial Committee continuously monitors the observance of the above limits. Where necessary, the Financial Committee will reallocate economic capital in order to cover all categories of risks, in particular interest rate risks. TCB regularly monitors the state of interest rates to limit the associated risks.

### ***Liquidity risk***

Liquidity risk is connected to the availability of funds sufficient for TCB to pay back deposits and perform obligations under other financial instruments as they fall due. TCB manages its liquidity risk by monitoring on a daily basis the projected movement of funds in its client and banking operations, as part of its general asset and liabilities management.

The Financial Committee establishes the limits for the minimum level of available funds that can be used to cover withdrawn deposits, as well as the minimum level of interbank and other sources of lending that TCB requires in order to ensure sufficient liquidity. Instant liquidity is managed through the liquidity cushion. The liquidity cushion ratios are evaluated statistically.

Currently, the minimum size of the treasury portfolio required to cover short-term (14-days) GAP is used to determine the minimum available funds. It is evaluated statistically and reviewed quarterly.

## ***Operational Risk***

TCB is subject to operational risk factors that affect the value of the TCB's assets and may lead to an increase in its current costs. Material factors include, for example, unintentional or wilful actions of legal entities and individuals to TCB's detriment, irregularities of its internal processes, hardware and/or software failures and adverse external factors.

As part of the measures to neutralize the negative effect of its operational risk factors, TCB maintains the procedures for double verification for all operations, implements the principles of shared responsibility, has implemented collective decision making procedures, employs information security technologies, has established decision making limits, insures its property and maintains the equipment reserve fund.

TCB is currently developing a unified operational risk management system. This system will be based on recommendations supplied by the Basel Committee and the CBR, as well as the experience of international and Russian banks in the organisation of operational risk management system. The events undertaken in this regard include collection of data on the occurrence of operational risks and the use of an information system for operational risk management. The recording and classification of each incident of operational risk is being continuously undertaken by all units of TCB in order to create a statistical database for further calculations of the operational risk values, in accordance with Basel II. TCB is also developing a methodology for analysing the collected data and applying the resultant analysis to management's decision making process. In addition, TCB undertakes research on the operational risk profiles affecting its various units and business processes, and is actively pursuing the creation of a process to manage such risk profiles.

## ***Risk Management Policies of Other Group Banks/Companies***

The risk management system for each non-Russian Group Bank (other than VTB Capital, which is described above), is structured with due regard for the specifics of the jurisdictions in which such banks operate (CIS, Europe, Asia and Africa), accounting primarily for variations in regulation of bank activities and compliance with the applicable regulators of the financial markets and bank systems in which they participate, as well as applicable laws and regulations. For example, VTB Austria operates under the rules and standards of the FMA (Financial Markets Authority) and therefore its risk management system is tailored, inter alia, to applicable FMA requirements.

VTB currently monitors risk management procedures, policies and performance of its foreign subsidiary and associate banks through the GRC and the other Group level commissions, and through VTB's representatives on the supervisory boards of subsidiary and associate banks. Each Group bank is expected to adopt and revise its credit risk management policy on a regular basis in compliance with the oversight and regulatory requirements of the country in which it operates, in line with the GRC's Main Principles and Provisions of the Group's Credit Policy approved by the GMC, and other risk management policies promulgated by the GRC from time to time, subject to applicable law.

The main non-banking financial subsidiaries, such as VTB Leasing, apply the same key conceptual approaches to risk management. The degree of co-ordination of the risk management activities of the subsidiary company may vary depending on the activity profile of the subsidiary company, its development phase, exposure to concrete risk types and other potential factors.

## MANAGEMENT

### Introduction

In accordance with VTB's charter and Russian legislation governing joint stock companies, VTB is principally governed by its shareholders through their annual and extraordinary meetings (each a "**General Shareholders' Meeting**"), its Supervisory Council, its Management Board and a chief executive officer (the "**President—Chairman of the Management Board**").

### *General Shareholders' Meeting*

The General Shareholders' Meeting is VTB's highest governance body. An annual General Shareholders' Meeting must be held every year and extraordinary General Shareholders' Meetings can be called by the Supervisory Council, the Statutory Audit Commission, VTB's independent auditor or shareholders holding not less than 10% of the voting shares of VTB. Each ordinary share of VTB carries the right to cast one vote at any General Shareholders' Meeting.

The following summarises certain key decisions that must be taken by VTB's General Shareholders' Meeting:

- the alteration of VTB's charter and material bylaws regulating the activities of the General Shareholders' Meeting, Supervisory Council, Management Board and Statutory Audit Commission;
- the alteration of the size and composition of VTB's authorised share capital, excluding share capital increases by issuance of additional ordinary shares or securities convertible into ordinary shares constituting 25% or less of the number of issued ordinary shares by means of an open subscription;
- the election and early termination of powers of the members of the Supervisory Council;
- the approval of certain major transactions and interested party transactions;
- the reorganisation or liquidation of VTB;
- the approval of VTB's independent auditor;
- the approval of VTB's statutory annual financial statements;
- the approval of dividends; and
- certain other matters provided for by law and VTB's charter.

### *Supervisory Council*

The Supervisory Council is responsible for overseeing VTB's general management and establishing VTB's strategy, excluding those matters that, pursuant to VTB's charter and internal regulations, must be decided at the General Shareholders' Meeting. Members of the Supervisory Council are elected at the General Shareholders' Meeting and serve until the next annual General Shareholders' Meeting, and they may be re-elected an unlimited number of times. VTB currently has 11 members on its Supervisory Council, five of whom are independent representatives. A meeting of the Supervisory Council may be called by the Chairman of the Supervisory Council at his own initiative, at the demand of a member of the Supervisory Council or the Statutory Audit Commission or at the demand of VTB's independent auditor, the

Management Board, or the President—Chairman of the Management Board. The Supervisory Council typically meets once every two months or more often as required.

The last election of members of the Supervisory Council at an Annual General Shareholders' Meeting was on June 8, 2012. The name, first year of appointment and position for each member of the Supervisory Council are set out below.

| <b>Name</b>               | <b>Year of Appointment</b> | <b>Position</b>      |
|---------------------------|----------------------------|----------------------|
| Sergey K. Dubinin.....    | 2011                       | Chairman             |
| David Bonderman.....      | 2011                       | Member (independent) |
| Andrei L. Kostin.....     | 2002                       | Member               |
| Alexey L. Savatyugin..... | 2006                       | Member               |
| Alexei V. Ulyukaev.....   | 2002                       | Member               |
| Nikolai M. Kropachev..... | 2008                       | Member (independent) |
| Matthias Warnig.....      | 2007                       | Member (independent) |
| Leonid A. Kazinets.....   | 2012                       | Member (independent) |
| Leonid A. Melamed.....    | 2012                       | Member (independent) |
| Gennadiy G. Melikyan..... | 2012                       | Member               |
| Alexey K. Uvarov.....     | 2012                       | Member               |

*Sergey K. Dubinin* (b. 1950) was elected to the Supervisory Council in June 2011 and elected Chairman in the same month. Since 2008, Mr. Dubinin has been a member of the Board of Directors of CJSC VTB Capital. Mr. Dubinin currently serves as a member of the Supervisory Council of AK Alrosa (OJSC) and as a member of the Boards of Directors of OJSC FC Otkritie, CJSC VTB Capital, VTB Capital IB Holding Ltd., CJSC VTB Capital Holding and OOO VTB Capital I2BF Innovation Partners. Mr. Dubinin is also a member of the Committee for Investment Strategy under the Supervisory Council of OJSC RUSNANO. Mr. Dubinin is a member of the Monetary Policy and Banking Regulation Consulting Committee under the Chairman of the CBR. Mr. Dubinin was a member of the Management Board of RAO UES from 2001 to 2008, serving as Chief Financial Officer from 2005 to 2008 and as Deputy Chairman of the Management Board from 2001 to 2004. From November 1995 to September 1998, Mr. Dubinin was the Chairman of the CBR. In September 1995, he was appointed member of the Management Board of OJSC Gazprom, serving as Deputy Chairman of the Management Board from October 1998 to September 2001. From November 1994 to August 1995, Mr. Dubinin served as First Deputy Chairman of the Management Board of Imperial Commercial Bank. From January to October 1994, Mr. Dubinin was Acting Minister of Finance of the Russian Federation, having been the First Deputy Minister of Finance of the Russian Federation from March 1993 to January 1994. From 1992 to 1993, Mr. Dubinin was Deputy Chairman of the Russian State Committee for Economic Co-operation with the CIS countries. In 1991, Mr. Dubinin was the Economics Expert at the Executive Office of the President of the USSR. Mr. Dubinin graduated with honours from the Moscow State University in 1973 and received his Ph.D. in economics in 1977 and a doctorate in economics in 1990.

*David Bonderman* (b. 1942) was elected to the Supervisory Council in June 2011. Mr. Bonderman is a founding partner of TPG Capital, one of the largest private equity investment funds globally. Currently, Mr. Bonderman is also a member of the Boards of Directors of a number of public companies, including Armstrong Worldwide Industries, Inc., CoStar Group, Inc., and General Motors Company. He is also the Chairman of the Board of Directors of Ryanair Holdings, plc. Mr. Bonderman also serves on the boards of The Wilderness Society, The Grand Canyon Trust, The University of Washington Foundation and The American Himalayan Foundation. Prior to forming TPG in 1992, Mr. Bonderman was Chief Operating Officer of Robert M. Brass Group, Inc. (currently known as Keystone, Inc.). Before he joined Robert M. Brass Group, Inc. in 1983, Mr. Bonderman was a partner in the law firm of Arnold & Porter LLP in Washington, D.C., where he specialised in corporate, securities, bankruptcy and antitrust. From 1969 to 1970, Mr. Bonderman studied Islamic Law as a postgraduate in the American University in Cairo, where he specialised in Foreign and Comparative Law under a joint program with Harvard University. From 1968 to

1969, Mr. Bonderman was a special assistant to the U.S. Attorney General in the Civil Rights Bureau. From 1967 to 1968, Mr. Bonderman was an assistant professor at Tulane University School of Law, New Orleans. Mr. Bonderman graduated from University of Washington, Seattle in 1963 and cum laude from Harvard Law School in 1966.

*Andrei L. Kostin* (b. 1956) has served as a member of the Supervisory Council of VTB since 2002. Mr. Kostin has been the President—Chairman of the Management Board of VTB since 2002. Mr. Kostin serves as the Chairman of the Supervisory Councils of VTB24 and VTB Ukraine and the Chairman of the Board of Directors of the Bank of Moscow. He is also a member of the Boards of Directors of CJSC VTB Capital, CJSC VTB Capital Holding, VTB Capital IB Holding Ltd. and is the President of the CIS Finance and Banking Council. Mr. Kostin also serves as a member of the Managing Bureau of the Russian Union of Industrialists and Entrepreneurs and as a member of the Council of the Association of Russian Banks. From 1996 to 2002, Mr. Kostin served as the Chairman of VEB. From 1993 to 1995, he served at various Russian financial and banking organizations, such as National Reserve Bank, Imperial Bank and Russian Investment and Finance Company. From 1979 to 1992, Mr. Kostin held various positions at the Russian Ministry of Foreign Affairs, in particular at the USSR Embassies located in Australia and Great Britain. Mr. Kostin graduated with honours from the Economics Department of Moscow State University in 1979. He holds a Ph.D in economics. Mr. Kostin was awarded with the “For Services to the Fatherland” Award (III and IV Degree) for his significant contributions to the development of the Russian banking sector, as well as the Medal of Honor and the Order of Merit (France).

*Alexey L. Savatyugin* (b. 1970) has served as a member of the Supervisory Council of VTB since 2006. Mr. Savatyugin has served as a Deputy Minister of the Ministry of Finance of the Russian Federation since January 2010. Mr. Savatyugin was the Director of Financial Policy Department at the Ministry of Finance of Russia from 2004 through 2009. From 1992 to 2004, he held the positions of faculty assistant and senior faculty member at St. Petersburg State University. Mr. Savatyugin is a member of the Board of Directors of the DIA. Mr. Savatyugin graduated from St. Petersburg State University in 1992 with a specialisation in economics.

*Alexei V. Ulyukaev* (b. 1956) has served as a member of the Supervisory Council of VTB since 2002. Since 2004, Mr. Ulyukaev has served as First Deputy Chairman of the CBR. He also serves as a Deputy Chairman of the Supervisory Council of Sberbank. From 2000 to 2004, Mr. Ulyukaev served as First Deputy Minister of Finance of Russia and Full State Counsellor 1st Class of the Ministry of Finance of Russia. From 1999 to 2000, Mr. Ulyukaev served as Deputy Director of the Fund “Institute for Economy in Transition”. From 1998 to 1999, he served as a Deputy Head of the Institute of the Problems of Economy in Transition. From 1996 to 1998, Mr. Ulyukaev was a member of the Moscow City Duma. Mr. Ulyukaev graduated from the Economics Department at Moscow State University in 1979. He received a doctorate in economics in 1998.

*Nikolai M. Kropachev* (b. 1959) was elected to the Supervisory Council in June 2008. Mr. Kropachev has been a Professor in the Criminal Law Department of St. Petersburg State University since 2003, and has served as the Head of the Criminal Law Department of the Faculty of Law since 2000 and as the Dean of the Faculty of Law since July 1998. Since May 2008, he has served as Rector of the St. Petersburg State University, having previously served as the Acting Rector from February 2008 to May 2008 and the First Pro-rector from October 2006 to February 2008. From September 2000 to September 2005, Mr. Kropachev served as the President of St. Petersburg Statutory Court. From 1993 to 1998, Mr. Kropachev served as the Deputy Dean of the Faculty of Law of St. Petersburg State University and he previously served in a number of teaching and research positions at St. Petersburg State University. Mr. Kropachev graduated from Leningrad State University (now St. Petersburg State University) in 1981 and holds a Juris Doctor degree.

*Matthias Warnig* (b. 1955) has served as an independent member of the Supervisory Council since April 2007. Mr. Warnig is currently the Managing Director of Nord Stream AG (formerly the North European Gas Pipeline Company) and a member of the Board of Directors of OJSC Commercial Bank

“ROSSIYA”. Since July 2011 Mr. Warnig has served as the Chairman of the Board of Directors of OJSC Transneft. Mr. Warnig also currently serves as Independent Director and the Member of the Board of Directors of OJSC Rosneft and the Chairman of the Board of Directors of JC RUSAL. Mr. Warnig serves as Chairman of the Administration Council at Gazprom Schweiz AG, and he is a member of the Supervisory Council at Verbundnetz Gas AG (Germany). Mr. Warnig served as Chairman of the Board of Directors of ZAO Dresdner Bank from 2005 to 2006. He was the Chairman of the Management Committee of Dresdner Kleinwort for the Russian Federation and the CIS from 2004 to 2005, as well as the President of ZAO Dresdner Bank from 2002 to 2004. Prior to that, he was Chief Co-ordinator of the Dresdner Bank Group in the Russian Federation from 2000 to 2002. Mr. Warnig was the General Director of the St. Petersburg Branch of BNP-Dresdner Bank (which was later renamed ZAO Dresdner Bank) from 1999 to 2000, after serving as the deputy manager of the Moscow Branch of BNP-Dresdner Bank from 1997 to 1999. Mr. Warnig was previously an advisor on CIS states to the Management Board of Dresdner Bank AG, and co-ordinated the establishment of a subsidiary bank in St. Petersburg—BNP-Dresdner Bank (Russia)—one of the first Russian banks with 100% foreign capital. From 1981 to 1990, Mr. Warnig served in the Ministry of Foreign Trade and the Cabinet Council of the German Democratic Republic. He was an officer with the German Main Intelligence Directorate, from which he retired in 1989 at the rank of major. Mr. Warnig graduated from the Higher School of Economics (Berlin) in 1981 with a specialisation in economics of the national economy.

*Leonid A. Kazinets* (b. 1966) was elected to the Supervisory Council in June 2012. Mr. Kazinets currently serves as a Chairman of the Board of Directors of CJSC “Barkli”. In 2008 he served as President (Chief Executive Officer) of CJSC Barkli, and previously served as General Director of construction company “Barkli” from 1993 to 2008. Mr. Kazinets also serves as Chairman of the Expert Council under the Russian Government on price determination in the Moscow construction sphere; a Board Member and Co-Chairman of the Russian Union of Industrialists and Entrepreneurs; Head of the Task Force under the Strategic Initiative Agency, implementing simplification procedures for obtaining building permits as part of a national business initiative to improve the investment climate in the Russian Federation; Project Co-ordinator for training anti-corruption business representatives and their professional associations within the framework of the International Anti-Corruption Academy; Deputy Chairman of the Social Council under the Ministry for Regional Development of the Russian Federation; and a member of the Council on Housing Construction and Housing Complex Development Issues under the Chairman of the Council of the Russian Federation. Mr. Kazinets has also been named an Honorary Constructor of the Russian Federation. Mr. Kazinets graduated from the Moscow State University of Geodesy and Cartography (“**МИИГАиК**”) in 1989, received an MBA from INSEAD Business School in Paris in 2009, and a Ph.D in economics, Housing and Road Construction from the Moscow State University of Civil Engineering in 2010.

*Leonid A. Melamed* (b. 1967) was elected to the Supervisory Council in June 2012. Mr. Melamed currently serves as Chairman of the Board of Directors of CJSC “Drive Management”. From 2011 to 2012, he served as Deputy Chairman of the Board of Directors of JSFC Sistema, and Head of Sistema Nomination, Remuneration and Governance Committee, and from 2008 to 2011 as President, Chairman of the Management Board and a member of the Board of Directors of JSFC Sistema. From 2010 to 2012, he served as Chairman of the Board of Directors of Russneft, and from 2006 to 2008 President, Chairman of the Management Board and a member of the Board of Directors of OJSC MTS. From 1991 to 2006, Mr. Melamed worked at ROSNO including serving as General Director and Chairman of the Management Board from 2003 to 2006. From 2004 to 2006, Mr. Melamed also served as the Head of the Expert Council on Insurance Legislation in the State Duma Committee on Credit Institutions and Financial Markets. Mr. Melamed has also received numerous awards for leadership and management. Mr. Melamed received an M.D., Doctor of Medicine from Sechenov Moscow Medical Academy in 1992.

*Gennadiy G. Melikyan* (b. 1947) was elected to the Supervisory Council in June 2012. Since 2012 he has served as a member of the Advisory Council under the Chairman of the CBR, and from 2003 to 2011 served as Deputy Chairman of the CBR, including First Deputy Chairman from 2007 to 2011. From 1997 to 2003, he served as Deputy Chairman of the Management Board of Sberbank of Russia. From 1992 to 1997, Mr. Melikyan was Minister of Labour of the Russian Federation, since 1996 he was Minister of Labour and

Social Development of the Russian Federation, and also served as a member of the State Duma of the Federal Assembly of the Russian Federation from 1993 to 1995. Mr. Melikyan has also served in various positions in the Cabinet (Council) of Ministers of the USSR. Mr. Melikyan received a degree in economics from Moscow State University in 1974, and a Ph.D in economics from Moscow State University in 1977.

*Alexey K. Uvarov* (b. 1975) was elected to the Supervisory Council in June 2012. Since 2008, he has served as Director of Department of the Ministry of Economic Development of the Russian Federation. From 2004 to 2008, Mr. Uvarov was Head of Division for the Federal Property Management Agency. From 2002 to 2004, Mr. Uvarov was Deputy Head of Division, and from 2000 to 2002 Unit Head, for the Ministry of Property Relations of the Russian Federation. Mr. Uvarov graduated from the Academy of the Federal Tax Police Service of the Russian Federation, Russian Academy of State Service. Mr. Uvarov was awarded with the “For Services to the Fatherland” Medal to Award (II Degree).

The business address of Messrs Dubinin, Kostin and Melikyan is Presnenskaya Emb. 12, Moscow 123100, Russian Federation. The business address of Mr. Bonderman is Smolenskaya Sq. 3, Smolensky Passage, 7th Floor, Office 730, Moscow 121099, Russian Federation. The business address of Mr. Savatyugin is 9 Ilyinka Street, Moscow 109097, Russian Federation. The business address of Mr. Ulyukaev is 12 Neglinnaya Street, Moscow 107016, Russian Federation. The business address of Mr. Kropachev is 7-9 Universitetskaya Embankment, St. Petersburg 199034, Russian Federation. The business address of Mr. Warnig is Grafenauweg 2, 6304, Zug, Switzerland. The business address of Mr. Kazinets is 1st Verhniy Mihailovskiy proezd, h.2, bld. 1, Moscow, 115419, Russian Federation. The business address of Mr. Melamed is 1st Brestkaya Street, h.29/22, Moscow, 125047, Russian Federation. The business address of Mr. Uvarov is 1st Tverskaya Yamskaya Street, h. 1, 3, Moscow, 125993, Russian Federation.

### **Management Board**

The Management Board, VTB’s collective executive body, and the President—Chairman of the Management Board, VTB’s chief executive officer, are elected by the Supervisory Council and are responsible for the day-to-day management and administration of the Group’s activities. Members of the Management Board serve for a period prescribed by the Supervisory Council, which may not exceed five years. Members may be re-elected an unlimited number of times. The Management Board meets as necessary, but not less than once a month, and makes its decisions by a simple majority vote, provided that a quorum of at least half of the elected members is present. In case of a tie vote, the President—Chairman of the Management Board casts the tie-breaking vote. A meeting of the Management Board may be convened at the request of the Supervisory Council.

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

| <b>Name</b>                 | <b>Year of Appointment</b> | <b>Position</b>       |
|-----------------------------|----------------------------|-----------------------|
| Andrei L. Kostin.....       | 2002                       | President—Chairman    |
| Yuri A. Soloviev.....       | 2011                       | First Deputy Chairman |
| Vasily N. Titov .....       | 2007                       | First Deputy Chairman |
| Herbert Moos.....           | 2009                       | Deputy Chairman       |
| Andrei S. Puchkov.....      | 2008                       | Deputy Chairman       |
| Mikhail E. Oseevskiy .....  | 2012                       | Deputy Chairman       |
| Valeriy V. Lukyanenko ..... | 2008                       | Member                |
| Erkin R. Norov .....        | 2009                       | Member                |
| Victoria G. Vanurina .....  | 2011                       | Member                |
| Denis A. Bortnikov.....     | 2011                       | Member                |
| Igor I. Piun.....           | 2012                       | Member <sup>(1)</sup> |
| Chaba Zentai.....           | 2012                       | Member                |

(1) Subject to CBR approval.

*Andrei L. Kostin* has served as the President—Chairman of the Management Board of VTB since June 2002, and was reappointed to another five-year term in 2007 and further in 2012. See “—*Supervisory Council*”.

*Yuri A. Soloviev* (b. 1970) was appointed First Deputy Chairman of the Management Board of VTB in May 2011. Since March 2008, Mr. Soloviev has served as President of CJSC VTB Capital and Head of the Investment Business of VTB Group. Mr. Soloviev also serves as Chairman of the Boards of Directors of OJSC VTB Leasing, CJSC VTB Capital Holding and VTB Capital IB Holding and as a member of the Board of Directors of CJSC VTB Capital, JSC TCB and JSC Bank of Moscow. Mr. Soloviev also currently serves as a member of the Board of Directors of OJSC United Aircraft Corporation. From October 2006 to March 2008, Mr. Soloviev served as Managing Director and Head of Global Markets Russia & CIS at Deutsche Bank Ltd. and was also the First Deputy Chairman of the Board of Deutsche Bank Ltd. From February 2004 to October 2006, he served as Managing Director and Head of Global Markets Russia & CIS at Deutsche Bank AG, London Branch and as Director and Head of Local Markets Eastern Europe from May 2002 to February 2004. From 1996 to 2002, Mr. Soloviev served in Analyst, Director and Executive Director positions in the Emerging Markets and Foreign Exchange Joint Venture, Fixed Income Division at Lehman Brothers International (Europe), London and from 1994 to 1996 he served in Dealer and Senior Dealer positions at the Government Desk of the International Fixed Income Division of Inkombank, Moscow. Mr. Soloviev holds an Executive MBA from the London Business School and a masters degree in International Economic Relations (with honours) from the Moscow G. V. Plekhanov Russian Economic Academy.

*Vasily N. Titov* (b. 1960) has served as First Deputy Chairman of the Management Board of VTB since August 2009, as a Deputy Chairman of the Management Board of VTB since June 2007 and as a member of the Management Board since December 2004. From 1998 to 2002, Mr. Titov was a Deputy Head of the Administrative Department, PR Director and Head of the Information and External Affairs Department of Vnesheconombank. From 1996 to 1998, he served as a Deputy General Director of JSC Russian Automobile Alliance. Mr. Titov serves as Chairman of the Boards of Directors of VTB Belarus and CJSC FC Dinamo Moscow and as Chairman of the Supervisory Board of VTB Austria and Bank VTB (Georgia). In addition, Mr. Titov serves as a Deputy Chairman of the Supervisory Council of VTB Ukraine, as a member of the Supervisory Board of VTB24, and as a member of the Supervisory Council of JSCB Evrofinance Mosnarbank and also as a member of the Boards of Directors of JSC Roskino and the White Nights Foundation of America. He graduated from Leningrad State University in 1983 and from the Finance Academy of the Government of the Russian Federation in 2002.

*Herbert Moos* (b. 1972) was appointed Chief Financial Officer, Deputy Chairman of the Management Board of VTB in November 2009. Mr. Moos serves as a member of the Supervisory Board of VTB24 and VTB Ukraine and as a member of the Boards of Directors of VTB Factoring, OJSC VTB Leasing, CJSC VTB Capital, CJSC VTB Capital Holding, VTB Capital IB Holding, Ltd, JSC TCB, LLC VTB Debt Center, JSC Hals-Development and the Bank of Moscow. Prior to this appointment, Mr. Moos was Chief Executive Officer of VTB Capital, from August 2008, and he continues as a non-executive director and Chairman of the Board of VTB Capital. Prior to joining the Group, Mr. Moos was Chief Financial Officer for Asia-Pacific ex-Japan and also Treasurer, Asia-Pacific at Lehman Brothers, based in Hong Kong and Tokyo. Mr. Moos joined Lehman Brothers in 1995 in London. He holds a Masters in Finance from the London Business School (2002).

*Andrei S. Puchkov* (b. 1977) has served as Deputy Chairman of the Management Board of VTB since December 2008 and has served as a member of the Management Board of VTB since June 2007 and as a Senior Vice-President and the Head of the Legal Department since 2005. He currently serves as Chairman of the Board of Directors of VTB Debt Center and JSC Hals- Development, as Chairman of the Supervisory Council of VTB Development, and is a member of the Supervisory Councils of VTB Ukraine and VTB24. Mr. Puchkov also serves as a member of the Boards of Directors of the Bank of Moscow, LLC “VTB DC” and RBCCyprus. From 1999 until joining VTB in 2002, Mr. Puchkov was a member of the Moscow Bar. Mr. Puchkov graduated from the Law Department at Moscow State University in 1998.

*Mikhail E. Oseevskiy* (b. 1960) was appointed as Deputy Chairman of the Management Board of VTB in August 2012. He also serves as a member of the Supervisory Board of VTB24. Since the end of 2011, Mr. Oseevskiy has served as Deputy Minister of Economic Development of the Russian Federation. From 2003 to 2011, Mr. Oseevskiy served as Vice Governor of St. Petersburg. Previously, he held various management positions at the OJSC Industry & Construction Bank and Saint Petersburg Currency Exchange. Mr. Oseevskiy graduated from the M.I. Kalinin Leningrad Polytechnic Institute and holds a Ph.D in economics. Mr. Oseevskiy has been awarded with the “For Services to the Fatherland” Medal to Award (II Degree) and the Order of Friendship.

*Valeriy V. Lukyanenko* (b. 1955) has served as a member of the Management Board of VTB since December 2008 and as a Senior Vice-President and Head of the First Corporate Block of VTB since August 2007, a Senior Vice President, Head of the of the Medium sized Client Corporate Block Fourth Department from 2006 to 2007 and a Senior Vice-President of the Corporate Block from 2005 to 2006. He was a Vice-President of VTB from 2003 to 2005 and held the position of Vice-President, Head of the Large Client Corporate Block Fourth Department in 2005. From 2002 to 2003, he served as Counsellor of the President-Chairman of the Management Board. Prior to joining VTB, Mr. Lukyanenko was Chairman of the Project Financing Prognosis Evaluation Expert Committee at AKB Lanta Bank, Moscow from 2001 to 2002 and from 1994 to 2001 he worked at the Presidential Property Management Department where he served in a number of executive management roles. He also served as Director, Chairman of the Industrial Investment Center for OJSC Gagarinstroi from 1993 to 1994. Mr. Lukyanenko currently serves as a member of numerous intragovernmental commissions on trade. Mr. Lukyanenko graduated from the Novosibirsk Agricultural Institute in 1982 and the Russian Academy of Public Administration under the President of the Russian Federation in 2005. He holds a Ph.D in economics.

*Erkin R. Norov* (b. 1954) has served as a member of the Management Board of VTB since August 2009 and has served as a Senior Vice President and Head of Internal Control Department since May 2009. Mr. Norov also supervises the anti-money laundering and compliance control divisions of VTB. He also serves as a member of the Board of Directors of the Bank of Moscow. From 2007 to 2009, Mr. Norov served as Senior Vice President and Member of the Board of OJSC Nomos-Bank. From 2002 to 2007, he held various positions at VTB, including Vice President, Senior Vice President and member of the Management Board of Vneshtorgbank (now VTB). From 1999 to 2002, Mr. Norov worked at VEB as, variously, Director for Development, Director of the Development and Strategic Planning Directorate and Director of the Development and Planning Directorate. In 1999, he also served as Head of the Department for Tax Base Calculation and Tax Revenues Planning at the Ministry of Russian Federation for Taxes and Charges. From 1992 to 1999, Mr. Norov held a number of positions at JSC AvtoVaz, including Director for Marketing and Commerce, General Director of the Economy and Finance Department, Vice President—Deputy General Director of the Finance, Economy, Marketing, Commerce and Car Maintenance Department and Vice President—Director of the Moscow Representative Office. Mr. Norov worked at the Central Economic and Mathematical Institute of the Academy of Sciences of the USSR from 1976 to 1992 and held various positions, including Senior Research Associate, Head of the Economic Growth Indicators and Institutional Statistics Laboratory and Head of the Laboratory for Industrial Growth Measuring and Modelling. Mr. Norov graduated from the Moscow State University in 1976 and the Academy of National Economy of the Government of the Russian Federation in 2001. He holds a Ph.D in economics from the Central Economics and Mathematics Institute of the Russian Academy of Science.

*Victoria G. Vanurina* (b. 1972) was appointed as a member of the Management Board of VTB in August 2011. From 2008 through 2011, she held various management positions at the Group, including Senior Vice President of VTB, Chief Operating Officer and Member of the Board of VTB Capital. From 1998 to 2008, Mrs. Vanurina worked at Deutsche Bank Ltd. where she held a number of management roles, such as Head of Operations, Vice-President and Head of Fixed Income Operations. From 1994 to 1998, Mrs. Vanurina served as Head of Back-Office at JCB “Autobank”. From 1992 to 1994, she was an economist at the Finance department of State Company Rosvooruzhenie (currently OJSC Rosoboronexport). She also serves as a member of the Board of Directors of CJSC VTB Capital Holding and CJSC VTB Specialised Depository. Mrs. Vanurina graduated from the Moscow State Institute of International Relations in 1995.

*Denis A. Bortnikov* (b. 1974) was appointed as a member of the Management Board in November 2011. Before that, Mr. Bortnikov has served as VTB's Senior Vice President and the Head of the North-West Center since March 2011. From February to March 2011, Mr. Bortnikov was the Chairman of the Management Board of OJSC VTB Bank North-West, from August 2010 to January 2011, he was the First Deputy Chairman of the Management Board of OJSC VTB Bank North-West and from February 2008 to August 2010, he served as a Deputy Chairman of the Management Board and the Head of the Department of OJSC VTB Bank North-West. From November 2007 to February 2008, Mr. Bortnikov served as a Deputy Chairman of the Management Board of OJSC VTB Bank North-West. From 2006 to 2007, Mr. Bortnikov served as Deputy Head of VTB's branch in St. Petersburg; from 2005 to 2006, he served as Deputy Head of CJSC Vneshtorgbank Retail Services; from 2004 to 2005, he served as adviser to the head of North-West branch of JSC Gута Bank, and from 1996 to 2004, he served in various positions at the OJSC Industry & Construction Bank. Mr. Bortnikov graduated from St. Petersburg State University of Economics and Finance in 1996.

*Igor I. Piun* (b. 1976) was elected as a member of the Management Board by the Supervisory Council on October 1, 2012. His appointment is subject to the approval of the CBR. Before that, he served as VTB's Senior Vice President and the Head of the Strategy and Corporate Development Department since July 2012. From 2010 to 2012, Mr. Piun served as Vice President and then as Director of Strategy of OJSC MICEX-RTS. From 2008 to 2010, he served as a Consultant and, later, a Director at LLC "Renaissance Capital – Financial Consultant". From 2003 to 2008, Mr. Piun held the positions of Analyst, Consultant and Project Manager at the Moscow office of McKinsey and Company, Inc. FSU. From 2001 to 2003, he served as a Junior Brand Manager and then a Brand Manager at CJSC "Reckitt Benckiser", and from 1998 to 2001, he served in various positions at LLC "Procter and Gamble" and LLC "Procter and Gamble Ukraine". Mr. Piun graduated from East Ukrainian National University in 1998. He holds an MBA from Northwestern University (2006).

*Chaba Zentai* (b. 1970) was appointed as a member of the Management Board in October 2012. Mr. Zentai has served as Senior Vice President and the Head of Regional Network Department of VTB since May 2011. From 2007 to 2011, Mr. Zentai served as head of the small and medium-sized business segment and then as head of the medium-sized and regional corporate business segment at OJSC Alfa-Bank. From 2000 to 2007, he worked at Citibank (Hungary), where he successively served as Director, a member of the Managing Committee of Corporate Banking, Head of Commercial Banking and a member of Citibank's top management. From 1998 to 2000, Mr. Zentai worked for ABN AMRO, where he successively served as Chairman of the Management Board of ABN AMRO Equipment Leasing (Hungary) and a member of the Board of Directors of ABN AMRO Pension Fund (Hungary). From 1995 to 1998 he worked at GE Capital in Hungary, where he served as a sales and product manager of the Hungarian leasing subsidiary, and later in the office of GE Capital in the United States. He also established a leasing branch of GE Capital in Hungary and was appointed as Deputy Chairman of the Hungarian Leasing Association. Mr. Zentai graduated from GE Capital University in 1997. He holds a Diploma in Marketing from College of Modern Business Studies (1998) and a Diploma in Management Studies and an MBA from Buckinghamshire Chilterns University College (2000 and 2005, respectively).

The business address of Messrs. Kostin, Soloviev, Titov, Moos, Puchkov, Oseevskii, Lukyanenko and Bortnikov and Meses. Dergunova and Vanurina is Federation Tower West, 12 Presnenskaya emb., Moscow 123100, Russian Federation. The business address of Mr. Norov is 19 Khlebnii Lane, Moscow 121069, Russian Federation.

### ***President—Chairman of the Management Board***

The President—Chairman of the Management Board is the chief executive officer of VTB. According to the Joint Stock Companies Law and VTB's charter, the President—Chairman of the Management Board shall, in particular:

- operate in the name of VTB, including representing VTB's interests, conclude transactions and signing documents, without a power of attorney;
- make decisions to establish or disband internal departments of VTB (but not offices of VTB);
- approve personnel arrangements, issue orders and give instructions that shall be binding on all staff members of VTB;
- issue powers of attorney, establish procedures for concluding agreements and authorise others to act as representatives of third parties;
- make decisions concerning the participation of VTB in other legal entities (except for associations and other unions of commercial entities), if VTB's participation does not exceed 5% of the share capital of such entity;
- appoint and dismiss VTB employees, and approve candidates for the positions of deputy head and deputy chief accountant of VTB's branches; and
- decide other matters in the normal course of business.

The current President—Chairman of VTB's Management Board is Andrei L. Kostin. See “—*Management Board*”.

### **Statutory Audit Commission**

VTB's Statutory Audit Commission is a statutory audit commission required under the Russian legislation governing joint stock companies. The Statutory Audit Commission oversees VTB's financial and economic activity. The Statutory Audit Commission is different from the Audit Committee. See “—*Audit Committee*”. The exact composition of the Statutory Audit Commission is determined at the annual General Shareholders' Meeting and its members serve until the next annual General Shareholders' Meeting. Members of the Statutory Audit Commission may not also be members of the Supervisory Council or other senior management bodies of VTB.

The current members of the Statutory Audit Commission are Marina A. Kostina, Zakhar B. Sabantsev, Dmitry V. Skripichnikov, Ivan I. Rodionov, Nikita V. Tikhonov and Maria A. Turukhina.

### **Strategy and Corporate Governance Committee**

On April 4, 2011, the Supervisory Council approved the establishment of the Strategy and Corporate Governance Committee. The Strategy and Corporate Governance Committee is responsible for providing recommendations to the Supervisory Council in relation to the strategic goals and priorities for the development of VTB, maintenance and improvement of VTB's corporate management system and improvements to the strategic management of its own funds. Members of the committee are elected by the Supervisory Council from the members thereof by a majority vote. The committee serves until the re-election of the Supervisory Council. A meeting of the Strategy and Corporate Governance Committee may be called by the Chairman of the Committee on his own initiative, at the request of a member of the Strategy and Corporate Governance Committee, or at the request of the Supervisory Council.

VTB currently has seven members of its Strategy and Corporate Governance Committee, two of whom are independent directors. The members of the Strategy and Corporate Governance Committee are set out below.

Sergey K. Dubinin, David Bonderman, Andrei L. Kostin, Alexei L. Savatyugin, Alexei V. Ulyukaev, Leonid A. Kazinets and Alexey K. Uvarov. See “—*Supervisory Council*”. Mr. Sergey K. Dubinin serves as Chairman of the committee.

### **Personnel and Remuneration Committee**

The establishment of the Personnel and Remuneration Committee was approved by the Supervisory Council in June 2009. The Personnel and Remuneration Committee is a consultative and advisory body of the Supervisory Council. The committee is responsible for providing recommendations to the Supervisory Council on issues relating to the development and determination of criteria applicable to candidates for the Supervisory Council, the Management Board, the President, Chairman of the Management Board and the Statutory Audit Commission. The Personnel and Remuneration Committee currently comprises three members of the Supervisory Council: Messrs. Nikolai M. Kropachev, Leonid A. Melamed and Leonid A. Kazinets. See “—*Supervisory Council*”. Mr. Nikolai M. Kropachev serves as Chairman of the committee.

The corporate governance system in the Group, which is based on the requirements of the Federal Service for Financial Markets (the “FSFM”), best practices of blue chip companies and international practice, has been established to enable full compliance with the requirements of corporate and antitrust legislation of the countries where the Group companies are present. The corporate governance system is also guided by the requirements of civil law, including the principle of independence amongst the legal entities within the Group.

### **GMC**

The Group has created a GMC which performs the functions of an intercompany co-ordination body aimed at improving centralised oversight of the Group. The GMC is responsible for the approval of the business plans for the Group and its subsidiaries, aligning policies (including risk management), optimising business processes, overseeing corporate governance and forming a unified culture within the Group. The main tasks of the GMC include the consideration of strategic and financial issues pertaining to the development of the Group, as well as the approval of standards, approaches and principles of the Group’s work prior to their approval by the authorised management bodies of the Group companies. The majority of members on the GMC are representatives of VTB, and the remaining members are representatives from certain subsidiaries. The GMC had its first meeting in March 2006, and since May 2008, the GMC has conducted regular meetings once every two weeks pursuant to its quarterly business plans.

Currently there are 12 specialised sub-committees in the GMC, including a corporate and investment business development co-ordination committee, a co-ordination committee on business development with financial institutions, a planning and reporting co-ordination committee, an internal audit co-ordination committee, a brand and marketing co-ordination committee, an asset and liability management co-ordination committee, a personnel co-ordination committee, an anti-money laundering co-ordination committee, a security co-ordination committee, a property complex management co-ordination committee, an IT co-ordination committee and a retail business co-ordination committee.

Decisions made by the GMC are further approved by the Supervisory Councils and Management Boards of the relevant Group companies in line with the local regulations of the country where the company operates. VTB representatives form the majority on the Supervisory Boards of its subsidiaries, thereby ensuring ratification of, and compliance with, GMC decisions at the subsidiary level.

## **Audit Committee**

VTB established the Audit Committee in April 2007. The Audit Committee consists of four members who are appointed by the Supervisory Council. The Audit Committee is chaired by Mr. Warnig, an independent director. The other members are Mr. Ulyukaev, Mr. Savatyugin and Mr. Melikyan. See “—*Supervisory Council*”. The Audit Committee is responsible for the review and approval of VTB’s financial statements in accordance with IFRS, which are prepared in consultation with the Group’s management, as well as for compliance with legal and regulatory requirements, the independence of external auditors, monitoring the audit process, co-ordinating internal audits and other matters.

## **Compensation**

In the six months ended June 30, 2012 and in the years ended December 31, 2011, 2010 and 2009, the Group paid remuneration to the members of VTB’s Supervisory Council, Management Board, Statutory Audit Commission and management bodies of VTB’s subsidiaries totalling RUB 3.5 billion, RUB 5.7 billion, RUB 3.8 billion and RUB 3.2 billion, respectively, in salary, bonuses and other benefits.

As of the date of this Prospectus, VTB had no service contracts with the members of its Supervisory Council, except with Andrei L. Kostin, who has an employment contract with VTB. The members of its Management Board enter into employment contracts with VTB, which set forth their compensation. The employment contracts of the members of VTB’s Management Board require VTB to pay compensation upon termination of employment in accordance with Article 278.2 of the Russian Labour Code in the absence of wilful misconduct. Article 278.2 of the Russian Labour Code requires such compensation to be not less than three times the relevant employee’s average monthly salary.

## **Loans to Management**

As of June 30, 2012, the Group had outstanding loans and guarantees to members of the Supervisory Council and the Management Board totalling RUB 1.0 billion.

## **Share Ownership**

Members of the Supervisory Council and the Management Board own in the aggregate 0.013012% of VTB’s issued and outstanding shares as of the latest record date on April 26, 2012.

In February 2012, the Group introduced an equity based remuneration programme to the employees of VTB Capital and ZAO VTB Capital. The programme provides for a contingent right of all eligible VTB Capital employees to receive ordinary shares of VTB, either in the form of shares or global depositary receipts, after a specified period of time. The launch of the remuneration programme allows VTB Capital, a company with significant international presence, to bring its employee remuneration arrangements in line with the corresponding requirements and recommendations of regulators in the UK, Asia, the Middle East, Europe and the US, as well as the G20.

## **Corporate Governance**

VTB’s ordinary shares have been listed on the RTS and MICEX since April 2007, and, as a result, VTB is required to comply with a number of corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Such requirements include, inter alia: (a) the obligation to have at least one independent director on the Supervisory Council, (b) the formation of an audit committee of the Supervisory Council, (c) the adoption of a bylaw on insider trading, and (d) the implementation of internal control procedures. VTB is in full compliance with these requirements. The independent director is “independent” in accordance with the criteria set out in the legal regulations of the FSFM and VTB’s internal corporate governance regulations, which differ in some respects from the criteria for independent directors that are set out in the UK Combined Code and under applicable listing requirements in the United States.

In March 2008, VTB's Supervisory Council approved a Code of Corporate Conduct and a Code of Ethics for VTB. The main aims of the Code of Corporate Conduct are to enhance shareholder rights, to further improve the efficiency of VTB's governance and control bodies and to establish principles of disclosure and transparency for the bank's activities. The Code of Ethics serves to define the boundaries between appropriate and inappropriate business and corporate behaviour, as well as to promote the general principles of honest and ethical conduct. The Code of Ethics applies to VTB's employees as well as to its senior management. VTB views the adoption of these codes as important steps in the continued improvement in the corporate governance of VTB.

In July 2008, VTB's Supervisory Council approved a Regulation on VTB Bank Information Policy and a Regulation on VTB Bank Dividend Policy as part of VTB's corporate governance initiatives pursuant to VTB's Code of Corporate Conduct recommended by the Federal Commission for Securities Markets of the Russian Federation. The Information Policy is designed to ensure that regular, timely, balanced, complete and accurate information is available to all interested VTB stakeholders, including shareholders, potential investors, media representatives and securities professionals in compliance with applicable legislation and regulations. The VTB Bank Dividend Policy is based on the following key principles: (a) a balance between the interests of VTB and its shareholders in defining the dividend amount; (b) respect for, and strict observance of, shareholders' rights as stipulated by the Government and VTB's by laws; and (c) increase of VTB's attractiveness to investors as a major criterion of dividend policy efficiency.

In May 2010, VTB's Supervisory Council approved the Group's 2010-2013 development strategy which covers, among other things, the strategic development of corporate governance to achieve a fuller conformity of the corporate governance system of VTB as a public company to foreign listing requirements and best international practices, to improve the quality of governance and control as well as to increase transparency of the corporate governance system for stakeholders.

In April 2011, VTB's Supervisory Council created the Strategy and Corporate Governance Committee, which should include at least one independent director.

As of June 8, 2012, the number of the Supervisory Council's independent directors has increased from three to five.

### **Litigation Statement about Management**

At the date of this Prospectus, for at least the previous five years, none of the members of the Supervisory Council, the Statutory Audit Commission or the Management Board or other members of senior management listed above:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

## Other Interests

As set out in the biographies above, certain of VTB's directors and executive officers also serve as directors or officers of some of VTB's competitors. As a result, potential conflicts of interest exist between these directors' and officers' duties to VTB and their duties arising from their positions with such other entities. Specifically, Mr. Ulyukaev serves as Deputy Chairman of the Supervisory Council of Sberbank; Mr. Warnig serves as a member of the Board of Directors of OJSC Commercial Bank "ROSSIYA". The aforementioned entities directly or indirectly provide services that compete or may in the future compete with the services offered by the Group. See "*Business—Competition in the Russian Banking Market*". Under Russian legislation, certain transactions defined as "interested party transactions" require approval by VTB's disinterested directors or shareholders. See "*Risk Factors—Risks Relating to VTB's and the Group's Business and Industry—Some interested party transactions of Russian banks in the Group require the approval of disinterested directors or disinterested shareholders*". Similarly, certain of VTB's directors and officers also serve as directors or officers of governmental agencies that regulate VTB's business. As a result, potential conflicts of interest exist between these directors' and officers' duties to VTB and their duties arising from their positions as regulators. Specifically, Mr. Dubinin serves as a member of the Monetary Policy and Banking Regulation Consulting Committee at the Chairman of the CBR; Mr. Savatyugin serves as a member of the Board of Directors of the DIA; Mr. Ulyukaev serves as First Deputy Chairman of the CBR and Mr. Melikyan serves as a member of the Advisory Council under the Chairman of the CBR. The aforementioned governmental agencies are directly responsible for regulating the activities of banks and other financial institutions in the Russian Federation.

Except as stated above, the Group is not aware of any potential conflicts of interest between any duties to VTB of any of VTB's directors and officers and their private interests or other duties.

## SHAREHOLDING

The following table sets forth certain information regarding the ownership of the ordinary shares as of June 30, 2012.

| Owner                                                   | Ordinary shares owned     |             |
|---------------------------------------------------------|---------------------------|-------------|
|                                                         | Number                    | Percentage  |
| Russia <sup>(1)</sup> .....                             | 7,897,477,400,292         | 75.5%       |
| Free float (including GDR holders) <sup>(2)</sup> ..... | 2,563,063,937,046         | 24.5%       |
| <b>Total</b> .....                                      | <b>10,460,541,337,338</b> | <b>100%</b> |

(1) Acting through the Federal Agency for State Property Management.

(2) Includes 16.33% of VTB's total ordinary shares held by the Bank of New York International Nominees for GDR holders.

On February 9, 2012, the Group announced a share buyback programme through which it would purchase shares from shareholders who bought its shares during its initial public offering ("IPO") in May 2007, and continued to hold such shares as at February 1, 2012, at a price of RUB 0.136 per share (which was the offer price per share in the IPO), up to a maximum of 3,676,471 shares each. In connection with this programme, on April 17, 2012, the VTB Pension Administrator acquired 83,719,899,774 voting shares in VTB following the offer to purchase VTB's shares, published on March 2, 2012 and which was valid from March 12 to April 13, 2012.

As of June 30, 2012, VTB held 119,510,719,533 treasury shares.

None of VTB's shareholders has voting rights that differ from any other holder of the ordinary shares. VTB is not aware of any arrangements that may result in a change of control of VTB.

## RELATED PARTY TRANSACTIONS

According to IFRS, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's financial or operational decisions, as defined by IAS 24 "**Related Party Disclosures**". In determining each possible related party relationship, one must consider the substance of the relationship and not merely the legal form.

At present, state controlled entities are no longer exempt from disclosing transactions with other state controlled entities. Since VTB is a state owned entity, VTB introduced a policy in accordance with which it discloses transactions and outstanding balances as well as details of off-balance sheet credit related commitments with directly or indirectly state owned entities.

The Group enters into banking transactions in the normal course of business with (i) the Russian Federation, (ii) entities controlled, directly or indirectly, by the Russian Federation and (iii) its affiliates. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. Transactions are priced predominantly at market rates.

In 2006, the IFRS department created a database for related party transactions and has been updating it on a quarterly basis with up-to-date information collected from the accounting systems and the Group's client facing departments. This database is not universal to the Group and it is not integrated in the Group's accounting systems. As a result, the IFRS department currently manually checks material balance sheet items to identify related party transactions for IFRS purposes. The identification is based on contracts, counterparty charter documents and other sources as VTB does not have formalised IT-supported procedures to identify state controlled counterparties. Interest income, interest expense and provision for loan impairment attributable to related party transactions are calculated using, among other, analytical approaches and disclosed in IFRS. This manual process typically requires substantial additional work to verify and reconcile related party transactions by VTB.

The following table sets forth assets, liabilities and credit related commitments resulting from transactions and balances with related parties as of December 31, 2011, 2010 and 2009 and as of June 30, 2012, in each case within the meaning of IFRS.

|                                                                                        | As of June 30,<br>2012<br>(unaudited) | As of December 31,<br>2011<br>(audited) | 2010<br>(audited) | 2009   |
|----------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------------|-------------------|--------|
|                                                                                        |                                       | (rubles in blns)                        |                   |        |
| <b>Assets</b>                                                                          |                                       |                                         |                   |        |
| Cash and short-term funds .....                                                        | 134.8                                 | 174.4                                   | 104.8             | 123.5  |
| Mandatory cash balances with central banks .....                                       | 53.1                                  | 58.7                                    | 19.0              | 14.7   |
| Financial assets at fair value through profit or loss .....                            | 231.5                                 | 308.0                                   | 164.2             | 139.9  |
| Financial assets pledged under repurchase agreements and loaned financial assets ..... | 231.5                                 | 191.4                                   | 9.0               | 64.3   |
| Due from other banks .....                                                             | 10.8                                  | 99.2                                    | 86.5              | 31.6   |
| Loans and advances to customers .....                                                  | 661.7                                 | 805.7                                   | 404.1             | 409.7  |
| Allowance for loan impairment .....                                                    | (22.6)                                | (20.9)                                  | (18.5)            | (19.1) |
| Financial assets available-for-sale .....                                              | 24.8                                  | 19.4                                    | 8.6               | 5.1    |
| Investment securities held-to-maturity .....                                           | 31.1                                  | 31.6                                    | 32.7              | 0.6    |
| <b>Liabilities</b>                                                                     |                                       |                                         |                   |        |
| Due to other banks .....                                                               | 188.6                                 | 176.3                                   | 76.8              | 41.3   |
| Customer deposits .....                                                                | 955.6                                 | 1,278.1                                 | 569.3             | 568.8  |
| Other borrowed funds .....                                                             | 597.7                                 | 558.7                                   | 170.2             | 354.5  |
| Subordinated debt .....                                                                | 208.3                                 | 207.0                                   | 195.3             | 176.4  |
| Other liabilities .....                                                                | 41.3                                  | 35.8                                    | 1.1               | —      |
| <b>Credit related commitments</b>                                                      |                                       |                                         |                   |        |
| Guarantees issued .....                                                                | 262.7                                 | 240.3                                   | 138.4             | 116.5  |
| Undrawn credit lines .....                                                             | —                                     | 1.8                                     | 4.5               | 16.3   |

|                                        | As of June 30, | As of December 31, |      |      |
|----------------------------------------|----------------|--------------------|------|------|
|                                        | 2012           | 2011               | 2010 | 2009 |
|                                        | (unaudited)    | (audited)          |      |      |
|                                        |                | (rubles in blns)   |      |      |
| Import letters of credit .....         | 7.8            | 4.2                | 2.8  | 1.6  |
| Commitments to extend credit .....     | —              | —                  | —    | 14.0 |
| Other credit related commitments ..... | —              | —                  | —    | —    |

The following table sets forth interest income and interest expense resulting from transactions and balances with customers controlled by the Russian Federation and with the Group's associate companies for the six months ended June 30, 2012 and June 30, 2011 and for the years ended December 31, 2011, 2010 and 2009, in each case within the meaning of IFRS.

|                                                                     | For the period ended |        | For the year ended December 31, |        |                     |
|---------------------------------------------------------------------|----------------------|--------|---------------------------------|--------|---------------------|
|                                                                     | June 30,             |        | 2011                            | 2010   | 2009 <sup>(1)</sup> |
|                                                                     | 2012                 | 2011   | (audited)                       |        |                     |
|                                                                     | (unaudited)          |        | (rubles in blns)                |        |                     |
| <b>Interest income</b>                                              |                      |        |                                 |        |                     |
| Loans and advances to customers .....                               | 37.4                 | 17.3   | 39.8                            | 40.5   | 58.2                |
| Securities .....                                                    | 9.9                  | 8.8    | 18.4                            | 15.5   | 9.4                 |
| Due from other banks .....                                          | 0.8                  | 1.2    | 3.0                             | 2.3    | 5.3                 |
| <b>Interest expense</b>                                             |                      |        |                                 |        |                     |
| Customer deposits .....                                             | (42.4)               | (10.3) | (36.3)                          | (23.5) | (39.3)              |
| Due to other banks and other borrowed funds .....                   | (18.1)               | (1.8)  | (9.2)                           | (7.0)  | (60.2)              |
| Subordinated debt .....                                             | (8.5)                | (8.0)  | (16.4)                          | (16.6) | (17.3)              |
| (Provision charge for) / reversal of provision for impairment ..... | (1.7)                | 2.7    | (2.4)                           | 3.4    | (13.0)              |

- (1) Information is presented in accordance with the Group's treatment of IAS 24 in effect at this reporting date. Starting January 1, 2011 the Group has expanded the definition of Government related entities "controlled or significantly influenced by" the Russian Federation, following the revision of IAS 24.

## THE BANKING SECTOR IN THE RUSSIAN FEDERATION

### Overview

According to Rosstat, the Russian Federation's GDP amounted to \$1,860 billion in 2011 (on a ruble/U.S. dollar conversion rate of 29.35/1) and it had a population of 143.1 million at the end of 2011. It is the largest of all CEE and CIS countries in terms of both GDP and population. The following table sets forth certain key Russian macroeconomic indicators for the periods indicated.

|                                                | 2008    | 2009    | 2010    | 2011   |
|------------------------------------------------|---------|---------|---------|--------|
| GDP (U.S. \$ billion).....                     | 1,674.3 | 1,233.1 | 1,487.8 | 1859.8 |
| Real GDP growth (% year-on-year) .....         | 5.6%    | (7.9)%  | 4.3%    | 4.3%   |
| Population (in millions, period end) .....     | 141.9   | 141.9   | 142.9   | 143.1  |
| GDP per capita (U.S. \$).....                  | 11,807  | 8,663   | 10,352  | 13,009 |
| GDP per capita growth (% year-on-year) .....   | 28.0%   | (26.3)% | 21.1%   | 24.5%  |
| Consumer income per capita (U.S. \$).....      | 7,230   | 6,443   | 7,400   | 8,468  |
| Inflation rate (% year-on-year) .....          | 13.3%   | 11.6%   | 6.9%    | 8.4%   |
| Ruble Exchange rate (U.S.\$1.00, average)..... | 24.81   | 31.68   | 30.36   | 29.35  |

Source: Rosstat, CBR.

In 2008 and thereafter the Russian economy has been adversely affected by the severe downturn in the global economy. The main business sectors in the Russian economy have been adversely impacted, in particular, by decreases in the second half of 2008 through the first half of 2009 in the prices of crude oil, natural gas and other commodities that the Russian Federation produces. In 2008 and 2009, the Russian economy has experienced significant decreases and volatility in debt and equity markets, a decrease in GDP and a significant depreciation of the ruble against other major currencies, including the U.S. dollar. S&P downgraded its foreign currency long-term/short-term sovereign credit ratings for the Russian Federation from BBB+/A-2 to BBB/A3 in December 2008. Similarly, in February 2009, Fitch downgraded its long-term sovereign default rating for the Russian Federation from BBB+ (negative) to BBB (negative) and downgraded the Russian Federation's country ceiling rating from A- to BBB+. In January 2010 and September 2010, Fitch upgraded its outlook on the long-term sovereign default rating for the Russian Federation from negative to stable, and stable to positive, respectively, after the partial recovery of commodity prices in the latter half of 2009 and early 2010, and growing real GDP at a rate of 14.9% in the nine months ended September 30, 2010 (as compared to the same period in 2009).

The European sovereign debt crisis of 2011 and 2012 has had limited impact on Russian economy and has not led so far to significant declines in process of natural resource commodities, including oil and gas, which are Russian key exports, due to the small budget surplus (0.8% of GDP in 2011 and 0.5% of GDP in the first five months of 2012), low debt to GDP ratio and high level of international reserves. Stronger-than-projected growth in exports at a rate of 30.4%, coupled with slower growth in imports (18% in the last quarter of 2011, compared to around 43% in the first quarter of 2012) eventually boosted the Russian Federation's current account, which posted a healthy 5.3% of GDP surplus at the end of 2011. During the first quarter of 2012 current account surplus reached its record-high at USD 39.3 billion and then decreased to USD 19.2 billion in the second quarter of 2012 due to technical factors and lower oil prices as compared to the first quarter of 2012. The Government's sovereign wealth funds stood at RUB 4.8 trillion (\$146 billion) as at the end of June 2012 and they are seen to help fund, in part, the CBR's huge international reserves (\$514 billion as of July 1, 2012), hence contributing to external sustainability.

The financial services sector represents an important component of the economy, representing 4.4% of GDP in 2009 compared to 2.8% in 2002. The Russian banking sector experienced a sustained period of high growth between 2001 and 2007, which was demonstrated by a total Russian banking system deposit and loan compound annual growth of 45.9% and 41.0%, respectively. The Russian banking system's deposit and loan annual growth in 2008, however, declined to 20.9% year on year and 34.5% year on year, respectively,

primarily reflecting the global credit crisis and its impact on the Russian economy and the Russian banking sector. In 2009, deposits increased only by 16.9%, while the loan compound decreased by 2.5% year on year. In 2010 and 2011, the deposits increased by 23.0% and 23.5%, respectively, while growth in lending has also recovered to 12.6% year on year and 28.2% year on year as of January 1, 2011 and 2012, respectively. As of January 1, 2011, the banking sector's assets accounted for 74.8% of Russian GDP compared to 67.9% as of January 1, 2009, according to the CBR.

Although banks play an increasingly important role in the Russian economy, the industry still remains underdeveloped in certain respects. The banking sector is still under penetrated. Corporate banking in the Russian Federation is currently at levels (relative to GDP) that are much lower than Western European economies and broadly in line with other CEE economies or at 32.3% in 2009, 31.1% in 2010 and 32.6% in 2011. Similarly, the retail banking market in the Russian Federation remains in relatively early stages of development, with market penetration staying well below CEE and developed countries, measured by levels as a proportion of GDP- 9.7% in 2008, 9.2% in 2009, 9.0% in 2010 and 10.2% in 2011. While the ratio of retail loans to GDP between the Russian Federation and the CEE countries is expected to converge in the long term, this ratio is currently lower in the Russian Federation than in such countries due in part to the slow recovery of the Russian economy. Retail lending represented 22.5% and 23.9% of the total lending in the Russian Federation as of December 31, 2010 and December 31, 2011. Between 2001 and 2007, retail loans increased substantially at a compound growth rate of 77.6% and retail lending as a percentage of GDP increased from 1.0% in 2001 to 8.9% in 2007. However, in 2008, the retail loan annual growth rate declined to 35.2%. In 2009, the retail loan portfolio declined by 11.0% while in 2010 it recovered to 14.3% with growth momentum strengthening in 2011 to 35.9% YoY expansion.

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

|                         | 2002                                       | 2003 | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | CAGR<br>2002-<br>2011 |
|-------------------------|--------------------------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-----------------------|
|                         | (U.S. dollar blns, except for percentages) |      |       |       |       |       |       |       |       |       |                       |
| Corporate lending.....  | 50.7                                       | 78.1 | 114.9 | 145.5 | 220.4 | 379.5 | 425.8 | 414.7 | 461.4 | 550.2 | 30.5%                 |
| % of GDP.....           | 15%                                        | 17%  | 19%   | 19%   | 22%   | 28%   | 30%   | 32%   | 31%   | 33%   |                       |
| Retail lending.....     | 4.5                                        | 10.2 | 22.3  | 41.0  | 78.4  | 121.0 | 136.7 | 118.2 | 134.0 | 172.4 | 50.3%                 |
| % of GDP.....           | 1%                                         | 2%   | 4%    | 5%    | 8%    | 9%    | 10%   | 9%    | 9%    | 10%   |                       |
| Total lending.....      | 55.2                                       | 88.3 | 137.2 | 186.4 | 298.8 | 500.5 | 562.5 | 532.9 | 595.4 | 722.6 | 33.3%                 |
| % of GDP.....           | 16%                                        | 20%  | 22%   | 25%   | 29%   | 37%   | 40%   | 41%   | 40%   | 43%   |                       |
| Corporate deposits..... | 31.6                                       | 42.2 | 62.0  | 90.7  | 148.3 | 275.1 | 289.2 | 309.5 | 357.4 | 425.3 | 33.7%                 |
| % of GDP.....           | 9%                                         | 9%   | 10%   | 12%   | 15%   | 20%   | 21%   | 24%   | 24%   | 25%   |                       |
| Retail deposits.....    | 32.9                                       | 52.3 | 72.3  | 95.7  | 144.1 | 210.2 | 201.1 | 247.5 | 322.1 | 368.7 | 31.0%                 |
| % of GDP.....           | 10%                                        | 12%  | 12%   | 13%   | 14%   | 16%   | 14%   | 19%   | 22%   | 21%   |                       |
| Total deposits.....     | 64.5                                       | 94.5 | 134.3 | 186.3 | 292.3 | 485.2 | 490.2 | 557.0 | 679.5 | 794.0 | 32.1%                 |
| % of GDP.....           | 19%                                        | 21%  | 22%   | 25%   | 29%   | 36%   | 35%   | 43%   | 46%   | 46%   |                       |

Source: The Central Bank of the Russian Federation.

## History and Development

Historically, Gosbank, the central bank of the Soviet Union, allocated resources from the state budget according to the prevailing economic plan. In 1987, as part of the reforms to the Russian economy, five specialised state owned banks were established to conduct business relating to savings of individuals (Sberbank of the USSR), foreign trade (Vnesheconombank of the USSR), production and construction (Promstroybank), agriculture (Agroprombank) and housing and social development (Zhilsotsbank).

In 1988 and 1989, further reform of the banking sector saw the emergence of newly formed private commercial banks. Subsequently, in 1991, three of the specialised state owned banks were transformed into joint stock companies. At the same time, some regional branches of the specialised state owned banks also became independent through management buyouts. In December 1991, the CBR was established to become the primary regulator of the banking industry and assumed the role as the central bank.

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

In 2004, the Russian banking sector experienced instability which resulted in a crisis of confidence towards Russian banks by their customers.

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

In 2007, changes were made to Russian law which made it easier for foreign investors to participate in equity offerings and mergers and acquisitions in the Russian banking sector. As a result of this, in 2007, Sberbank and VTB, the two largest Russian banks, conducted large equity offerings.

In 2008, the impacts of the financial crisis began to be felt by the Russian banking system resulting in a net reduction of the number of credit organisations due to the revocation of licenses by the CBR and in some cases bankruptcy of those that did not have enough liquidity to cover short indebtedness. In the second half of 2008, in response to the global credit crises and its impact on the Russian banking system and the overall economy, the Government enacted a number of measures to support the liquidity of the Russian banking sector. See “*Banking Regulation in the Russian Federation—Measures to support the liquidity of the Russian banking system*”.

The CBR approved on November 12, 2010, the Monetary Policy for the years 2011-2013, which provides for the conservative approach as regards state budgeting, risk management and supervision of credit, and liquidity risks in the banking sector. The Monetary Policy also provides for the development of reporting standards and proposes certain changes relating to the rules of banking mergers and acquisitions and share issuances.

### **Current Competitive Landscape**

The Russian banking sector is highly fragmented by number of participants. However, it is also dominated by certain major participants. According to VTB’s estimates based on CBR and Interfax data, Sberbank, the state controlled savings bank, accounted for approximately 26.7% of all Russian banking sector assets at June 30, 2012.

A number of the country’s largest banks are part of financial industrial groups, and as such undertake transactions for related parties. Approximately 50% of banks operating in the Russian Federation are located in the Moscow region and have a limited regional presence, accounting for approximately 66.0% of sector assets. Only a small number of banks in the Russian Federation have a broad presence across it, including Sberbank, VTB, Russian Agricultural Bank and Rosbank (which is part of the Société Générale Group). The following table sets out market share data for the ten largest banking groups by total assets (according to RAS) as of June 30, 2012.

|                                 | Rank | Total Assets    |                               |
|---------------------------------|------|-----------------|-------------------------------|
|                                 |      | U.S. dollar bln | % Market <sup>(1)</sup> share |
| Sberbank .....                  | 1    | 360.0           | 31.8%                         |
| VTB Bank <sup>(2)</sup> .....   | 2    | 210.7           | 18.6%                         |
| Gazprombank .....               | 3    | 77.8            | 6.9%                          |
| Russian Agricultural Bank.....  | 4    | 44.2            | 3.9%                          |
| Alfa-Bank .....                 | 5    | 30.3            | 2.7%                          |
| UniCredit Bank.....             | 6    | 25.5            | 2.3%                          |
| Rosbank <sup>(3)</sup> .....    | 7    | 24.2            | 2.1%                          |
| NOMOS bank <sup>(4)</sup> ..... | 8    | 21.5            | 1.9%                          |
| Raiffeisenbank .....            | 9    | 20.8            | 1.8%                          |
| Promsvyazbank.....              | 10   | 18.6            | 1.6%                          |
| <b>Total (Top 10)</b> .....     |      | 833.7           | 73.6%                         |
| <b>Total (Top 100)</b> .....    |      | 1,133.5         |                               |

Source: Interfax.

- (1) Market shares are calculated as a percentage of the Top 100 total amount.
- (2) VTB Group comprises VTB Bank, VTB24, the Bank of Moscow and TCB.
- (3) Rosbank Group comprises Rosbank, CB DeltaCredit, Rusfinancebank.
- (4) Including Bank Khanty-mansiysky.

The presence of foreign owned banks in the Russian market is relatively limited. Historically, foreign controlled banks have primarily serviced multinational firms operating within the Russian Federation and conducted inter-bank operations. More recently, these banks have increased their presence in Russian retail banking and have increased their loan portfolios in several sectors of the economy. The level of foreign investment in the Russian banking sector remains low, with foreign banks accounting for 26.5% of statutory capital (including stakes in Sberbank and VTB) as of June 30, 2012, according to the CBR, compared to 28.10% as of December 31, 2010 and 24.53% as of December 31, 2009.

## **BANKING REGULATION IN THE RUSSIAN FEDERATION**

Banking activity in the Russian Federation is governed primarily by the Central Bank Law, the Banking Law, CBR regulations and, to a limited extent, Federal Law No. 173-FZ On Currency Regulation and Currency Control (the “**Currency Law**”) as well as other laws mentioned in this section. While the CBR is the primary regulator of the banking sector, other governmental entities also exercise regulatory and supervisory functions over banks in the Russian Federation (for example, the FSFM with respect to broker/dealer licenses).

### **Russian Banking Sector**

The Russian banking sector consists of the CBR, Russian credit organisations and branches and representative offices of foreign credit organisations.

#### ***Role of the CBR***

The CBR is the primary authority responsible for the regulation and supervision of banking institutions in the Russian Federation and also acts as the Russian Federation’s central bank. The CBR is authorised to implement regulations on various banking and currency control issues.

#### ***Russian Credit Organisations***

Russian credit organisations exist in the form of banks and non-bank credit organisations (“**NCOs**”), which conduct only a limited number of banking operations, such as maintaining accounts and placing term deposits.

#### ***Branches and Representative Offices of Foreign Credit Organisations***

Representative offices of foreign credit organisations are prohibited from conducting banking operations within the Russian Federation. Their activities are limited to facilitating the banking operations, and representing the interests of, their foreign parent entities. A foreign credit organisation may set up a representative office in the Russian Federation, subject to the approval of the CBR and compliance with a number of regulatory requirements.

### **Russian Banking Regulation**

#### ***Licensing Requirements Applicable to Banks***

A license must be obtained from the CBR in order for any institution to engage in banking activity. CBR approves the registration and issues licenses to banks. Applicants must be incorporated within the Russian Federation and registered with the CBR as a credit organisation, and submit, *inter alia*, a feasibility report and detailed information on the suitability of the applicant’s management team. A banking license may be denied for a number of reasons, including if the financial standing of the founders of the bank is deemed by the CBR to be unsatisfactory.

Additional requirements have been introduced for obtaining a license for taking deposits from individuals. The license could be granted to a newly established bank or to a bank existing for more than two years from the date of its registration provided that: (i) the charter capital of a newly established bank or the regulatory capital of an existing bank is not less than RUB 3,600 million, and (ii) the bank complies with the CBR’s requirement to publicly disclose all information relating to persons having significant influence over decisions made by the bank’s management bodies.

The Banking Law provides for a list of events when a banking license may be revoked by the CBR, which include, *inter alia*: (1) the information upon which the license has been issued or that the bank is

required to disclose, is untrue and misleading; (2) the bank delays submission of its monthly report to the CBR for more than 15 days; (3) the bank conducts banking operation(s) not permitted by its license; or (4) the bank's activities do not comply with Russian banking or anti money laundering legislation or CBR regulations.

The CBR must revoke a banking license from a bank if: (1) its capital adequacy ratio falls below 2%; (2) its regulatory capital is less than its minimal charter capital as set by the CBR; (3) it fails to adjust its charter capital to its regulatory capital according to CBR requirements; (4) the bank fails to satisfy the claims of its creditors or make mandatory payments (e.g., taxes and duties) amounting to an aggregate minimum of RUB 100,000 within 14 days of their maturity; and (5) the amount of the bank's regulatory capital is less than a certain statutory threshold during a certain defined period of time.

### ***Capital Requirements***

The Banking Law sets a minimum charter capital and regulatory capital requirement for banking institutions which is currently RUB 300 million (with certain exceptions). If a bank's regulatory capital falls below its charter capital, it is required to adjust its regulatory capital (or, if impossible, its charter capital, within applicable limits) in accordance with procedures set by the CBR. The regulatory capital requirement of RUB 900 million has been introduced for obtaining a license for conducting banking operations in rubles and foreign currencies and taking deposits from individuals in rubles and foreign currencies.

### ***Basel Implementation in Russia***

Russian regulation of capital is generally based on the Basel Accord. It is, however, less sophisticated in certain respects. Over the recent years, the CBR in cooperation with Russian banks, has started preparing the implementation of international approaches of capital adequacy of credit organisations under "Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework", as issued by the Basel Committee. Currently, the standardised approach for credit risks of Basel II as set forth in Pillar 1 "Minimum Capital Requirements", is being applied in Russia. The CBR has also started preparing the implementation of the internal ratings based approach of Basel II Pillar 1.

As part of introducing Pillar 2 "Supervisory Review Process", the CBR issued Letter No. 96-T of June 29, 2011 On Methodical Recommendations for Credit Organisation on Arranging Internal Procedures for Capital Adequacy Assessment (the "**Methodical Recommendations**"). Under Methodical Recommendations, credit organisations are recommended to elaborate and use the respective internal procedures for capital adequacy assessment which comprise the process of assessment by a credit organisation of adequacy of its own capital, i.e. its internal capital to cover accepted and potential risks, as well as constitute a part of such credit organisation's corporate culture. Under the Strategy for the Development of the Russian Banking Sector for the period of up to the year 2015 elaborated by the Government together with the CBR and adopted on April 5, 2011 ("**Banking Sector Development Strategy**"), the implementation of Basel II Pillar 2 and the internal ratings based approach of Basel II Pillar 1 in Russia may begin approximately in 2014 and 2015, respectively.

The Banking Sector Development Strategy also contemplates an introduction in Russia of "International Regulatory Framework for Banks" ("**Basel III**") that should be applied as follows: (1) requirements for capital between 2013 and 2015, (2) capital conservation buffer within 2016-2018, (3) leverage ratio starting from January 1, 2018, (4) liquidity coverage ratio commencing from January 1, 2015, and (5) net stable funding ratio starting from January 1, 2018. Basel III will, among other things, increase minimum common equity and minimum Tier 1 capital as a percentage of risk-weighted assets and introduce additional capital conservation and countercyclical buffers. These risk-based capital requirements will be complemented by a leverage ratio of Tier 1 capital to total exposures (including on-balance sheet and off-balance sheet items). In September 2012, the CBR published draft regulations to introduce new capital adequacy requirements for Russian banks as part of the implementation of Basel III in

Russia. According to the draft CBR regulations, reporting of these Basel III capital adequacy ratios is to be required from April 1, 2013, with enforcement by the CBR from October 1, 2013.

### *Subordinated Debt*

CBR regulations currently distinguish between core capital and supplemental capital (together, “**own funds**” or “**regulatory capital**”) and require that the supplemental capital (Tier 2 capital) be no more than 100% of the core capital (Tier 1 capital) and that subordinated debt (“**Subordinated Debt**”) (which can be included into the core or supplemental capital) not exceed 15%, 50% or 100% of the core capital (depending on the terms of such subordinated debt).

### Supplemental (Tier 2) Capital

The Subordinated Debt (in the form of loans, deposits or notes) is included in supplemental capital if the following criteria are satisfied:

- (i) its term should be not less than five years;
- (ii) it should include a provision prohibiting, without the consent of the CBR: (a) early redemption of the debt, any of its part or any interests, and (b) early termination and/or amendment of the agreement (Regulation No. 215 P) allows certain variations to redemption terms; however, in such case an actual redemption is subject to the CBR’s consent);
- (iii) terms of the debt, as of the date of conclusion (amendment) of the loan agreement (or its amendment) or placement of notes, should not materially differ from the prevailing market terms of similar debt;
- (iv) the agreement should specifically provide for the lowest creditor priority ranking of the creditor in the event of the borrower’s bankruptcy;
- (v) the debt should be unsecured; and
- (vi) individuals cannot be party to the agreement.

The qualification of the Subordinated Debt as supplemental capital is subject to consent of the CBR. The borrower may initiate the approval procedure of the CBR before the funds are disbursed or subordinated loan is signed by submitting a loan agreement or its draft for the CBR’s consideration. As a result of its review, the CBR territorial branch may respond with comments or may issue a preliminary conclusion confirming that the agreement complies with CBR regulations. The final conclusion shall confirm the CBR’s consent to the inclusion of the Subordinated Debt into supplemental capital.

The Subordinated Debt is included into the supplemental capital from the date following the date of the CBR’s consent, but in any event not before the bank actually receives the funds.

Regulation No. 215-P provides that, generally, the Subordinated Debt may not exceed 50% of a credit organisation’s core capital. However, if the term of the Subordinated Debt is ten or more years, such subordinated debt, together with any other Subordinated Debt outstanding, less the subordinated debt treated as core (Tier 1) capital, may comprise up to 100% of the credit organisation’s core capital, provided that its underlying agreement allows the CBR to suspend the payment of the principal and/or interest if such payment would entail the grounds for the implementation of bankruptcy prevention measures in respect of such credit organisation.

According to Regulation No. 215-P, during the last five years of the term of a subordinated loan, it is counted towards the supplemental capital on an amortised basis, while prior to that the full principal amount of the subordinated loan counts.

Special amortisation rules apply to the Subordinated Debt providing for the borrower’s right to prepay the loan (such right in any case may not be exercised earlier than five years from the date when the

subordinated debt was included in the supplemental capital). If, in accordance with interest step up provisions, interest increase does not exceed 150bps (1/100%), subordinated debt shall be amortised from the date of its scheduled maturity. In other cases, the Subordinated Debt shall be amortised from the date of when the right to prepay the loan may potentially be exercised.

#### Core (Tier 1) Capital

Subordinated debt can be included in the core capital of a credit organisation, if, in addition to the above listed criteria of subordinated debt included into supplemental (Tier 2) capital debt, it satisfies the following terms (the “**Subordinated Debt with Additional Terms**”):

- (i) its term is not less than 30 years;
- (ii) it provides for cancellation and non-accrual of the interest upon the occurrence of the grounds for the implementation of bankruptcy prevention measures in respect of the credit organisation as provided by the Insolvency Law;
- (iii) provides that the losses entailing the grounds for implementation of bankruptcy prevention measures in respect of the credit organisation shall be offset by other sources of core capital and the losses not so offset shall be offset by a full or partial write-down of the principal amount of the loan;
- (iv) the credit organisation may prepay the loan not earlier than 10 years after the date the Subordinated Debt with Additional Terms was included in the core capital, provided that, if not prepaid, the increased interest rate shall be capped at 100bps or 50% of the initial interest rate; and
- (v) the CBR has a right to suspend payments of principal and/or interest under the loan agreement, if making such payments would lead to the occurrence of the grounds for the implementation of bankruptcy prevention measures in respect of the credit organisation.

Regulation No. 215-P also allows for the Subordinated Debt with Additional Terms to provide for the reinstatement of the principal amount of the loan from the profits of the credit organisation prior to their distribution, once the grounds for implementation of bankruptcy prevention measures in respect of the credit organisation cease to exist, however, no specific mechanism for such reinstatement is envisioned by the CBR regulations or other Russian laws. Any early prepayment of the subordinated loan upon initiative of the credit organisation is subject to prior consent of the CBR. The CBR will not grant its consent should the grounds for bankruptcy prevention measures exist at the time application is being considered by the CBR or may arise as a result of early prepayment of the Loan with Additional Terms.

The Subordinated Debt with Additional Terms is included into the core (Tier 1) capital from the date following the date of the CBR’s consent, but in any event not before the bank actually receives the funds.

The Subordinated Debt with Additional Terms must not comprise more than 15% of the credit organisation’s core (Tier 1) capital.

#### ***Accounting Policies and Reporting Requirements***

The CBR establishes accounting rules and procedures for banks, as well as a standard format for the presentation of financial and statistical data by credit organisations and for recording banking transactions. Starting from January 1, 2004, all credit organisations in the Russian Federation have been required to prepare their financial statements according to both RAS and IFRS. Under the Banking Law, banking groups or other consolidated groups over which a bank exercises control must periodically submit their consolidated accounts and other financial information to the CBR. Starting from the financial year 2012, the requirement for credit organisations to prepare annual consolidated financial statements under IFRS, have them audited and reported to the CBR is set forth in Federal Law No. 208-F7, dated July 27, 2010 On Consolidated Financial Statements (“**Law on Consolidated Financial Statements**”). The Law on Consolidated Financial Statements also provides that interim consolidated financial statements shall also be reported to the CBR.

The most recent CBR's recommendations as to how to prepare IFRS financial statements are set out in its Letter No. 169-T of November 24, 2011 which contains pro-forma IFRS financial statements and examples of typical adjustments to RAS accounts for the purpose of their transformation into IFRS financial statements. Annual financial statements of credit organisations prepared under RAS and IFRS are subject to an audit by a licensed auditor in Russia. All capital adequacy and other mandatory ratios set forth by the CBR are calculated on the bases of stand alone RAS accounts.

### **Regulation of Retail Banking**

According to the Deposit Insurance Law, participation of a bank in the retail deposit insurance system is subject to certain requirements, which include sufficient financial stability, provision of true and accurate financial statements and/or reports to the CBR and full compliance with the CBR mandatory ratios.

Under the Deposit Insurance Law, protection for each client is limited and banks are required to make quarterly payments into a deposit insurance fund. Reimbursement is paid in full in relation to all deposits but, in any case, the amount of any reimbursement shall not exceed RUB 700,000. Federal Law No. 96-FZ of July 29, 2004 On Reimbursements by the Bank of Russia of Individual Deposits Held in Bankrupt Banks Not Participating in the Mandatory Individual Deposit Insurance System for Russian Banks, as amended (the "**Uninsured Deposits Law**"), establishes a protection system for retail clients of the banks that did not participate in the retail deposit insurance system. The Uninsured Deposits Law contemplates, *inter alia*, that the CBR will make payments to the individual depositors of bankrupt Russian banks if such banks have not been admitted to the system of insurance of retail deposits prior to their bankruptcy. Under the Uninsured Deposits Law, reimbursement is paid in full in relation to all deposits but, in any case, the amount of any reimbursement shall not exceed RUB 700,000.

### **Mandatory Ratios**

The CBR has established various capital adequacy and liquidity requirements for banks and, as the case may be, banking groups, in order to ensure the integrity of the banking system. Such requirements currently exist in the form of the relevant mandatory ratios set out in the CBR Instruction No. 110-I "On the Banks' Mandatory Economic Ratios" of January 16, 2004, as amended. The table below describes the mandatory ratios which banks are required to observe on a daily basis and monthly report to the CBR.

| Mandatory Ratios                | Objective                                                                                                                                                     | Definition                                                                                              | CBR<br>Maximum/Minimum<br>Mandatory Ratio<br>Requirements |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Capital adequacy ratio<br>(N1)  | To manage (limit) the risk of a bank's insolvency and sets the minimum regulatory capital for a bank necessary to cover credit, operational and market risks. | Represents a ratio of a bank's regulatory capital to its risk-weighted assets.                          | Minimum 10%                                               |
| Instant liquidity ratio<br>(N2) | To manage (limit) the risk of a bank's liquidity loss within one operational day.                                                                             | Represents the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand.     | Minimum 15%                                               |
| Current liquidity ratio<br>(N3) | To manage (limit) the risk of a bank's liquidity loss within 30 calendar days.                                                                                | Represents the ratio of a bank's liquid assets to its liabilities due within the next 30 calendar days. | Minimum 50%                                               |

|                                                                                                                              |                                                                                                                                                                                                              |                                                                                                                                                                                                             | <b>CBR</b><br><b>Maximum/Minimum</b><br><b>Mandatory Ratio</b><br><b>Requirements</b> |
|------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| <b>Mandatory Ratios</b>                                                                                                      | <b>Objective</b>                                                                                                                                                                                             | <b>Definition</b>                                                                                                                                                                                           |                                                                                       |
| Long-term liquidity ratio (N4)                                                                                               | To manage (limit) the risk of a bank's liquidity loss resulting from the placement of its funds into long-term assets.                                                                                       | Represents the ratio of a bank's credit claims maturing in more than one calendar year, to the aggregate amount of a bank's regulatory capital and its liabilities maturing in more than one calendar year. | Maximum 120%                                                                          |
| Maximum exposure to a single borrower or group of related borrowers (N6)                                                     | To manage (limit) the credit exposure of a bank to one borrower or a group of related borrowers.                                                                                                             | Represents the ratio of a bank's claims to a single borrower or a group of related borrowers to a bank's regulatory capital.                                                                                | Maximum 25%                                                                           |
| Maximum amount of major credit risks (N7)                                                                                    | To manage (limit) the aggregate amount of a bank's major credit risks (defined as the sum of loans to, and guarantees or sureties in respect of, one client that exceeds 5% of a bank's regulatory capital). | Represents the ratio of an aggregate amount of a bank's major credit risks to its regulatory capital.                                                                                                       | Maximum 800%                                                                          |
| Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)         | To manage (limit) a bank's credit exposure to its participants (shareholders).                                                                                                                               | Represents the ratio of a bank's loans, bank guarantees and sureties extended to its participants (shareholders) to the bank's regulatory capital.                                                          | Maximum 50%                                                                           |
| Aggregate amount of exposure to a bank's insiders (N10.1)                                                                    | To manage (limit) the aggregate credit exposure of a bank to its insiders (i.e., individuals capable of influencing the bank's credit decisions).                                                            | Represents the ratio of the aggregate amount of the bank's credit claims to its insiders to the bank's regulatory capital.                                                                                  | Maximum 3%                                                                            |
| Ratio for the use of the bank's regulatory capital to acquire shares (participation interests) in other legal entities (N12) | To manage (limit) the aggregate risk of a bank's investments into shares (participation interests) in third party entities.                                                                                  | Represents the ratio of a bank's investments into shares (participation interests) in third party entities to its regulatory capital.                                                                       | Maximum 25%                                                                           |

Banks covered by the Deposit Insurance Law are also required to comply with additional mandatory ratios in accordance with the CBR Directive No. 1379-U of January 16, 2004, as amended.

CBR Regulation No. 112-I of March 31, 2004, as amended, outlines the additional mandatory economic ratio for credit organisations that issue mortgage backed bonds introduced by Federal Law No.152-FZ of November 11, 2003 On Mortgage Backed Securities (the “**Law on Mortgage Backed Securities**”). The minimum ratio for the size of mortgage cover to the volume of mortgage backed bonds in issue is 100% (N18).

As of October 1, 2011, the CBR increased the risk coefficients to be applied by credit organisations when assessing the risk of certain newly acquired assets (such as, for example, non-core and troubled assets, credits to offshore companies, investments in mutual funds, etc.) for the purpose of capital adequacy calculation. Starting from July 1, 2012, credit organisations must also apply such increased coefficients with respect to assets acquired before October 1, 2011.

### ***Mandatory Cash Balance Requirements***

Pursuant to the Central Bank Law, the CBR may establish mandatory cash balance requirements. Starting from April 1, 2011, banks are required to post mandatory reserves to be held in non-interest bearing accounts with the CBR in an amount equal to 5.5% of funds attracted from non-resident legal entities in rubles and foreign currency and 4.0% of funds attracted in rubles and foreign currency from individuals and in other cases.

Mandatory cash balances are calculated by banks in accordance with CBR Regulations and reported to the CBR or its regional units on a monthly basis. Additional reserves are promptly placed with the CBR, if required. If a bank does not comply with the mandatory cash balance requirements, the CBR may impose a fine and directly debit the bank’s correspondent account with the CBR in respect of the shortfall in reserve amounts.

### ***Provisioning and Loss Allowances***

The CBR has established certain rules regarding allowances for loan losses on loans (and certain other loan-type indebtedness) extended by banks. The Banks are required to adopt procedures for calculating and posting allowances for loan losses and for continuously monitoring the financial position of the banks’ borrowers and the quality of their debt service. The regulation requires banks to rank their loans into the following categories: (1) no credit risk; (2) moderate credit risk; (3) serious credit risk; (4) high credit risk; or (5) the value of a particular loan is going to be lost completely. The amount of allowance for loan losses is calculated as a certain percentage of the loan depending on its category, i.e. the framework for each category indicated above is, respectively: (1) 0%; (2) 1% to 20%; (3) 21% to 50%; (4) 51% to 100%; and (5) 100%.

The CBR has also established certain rules regarding allowances for possible losses, other than loan losses, which may include losses with respect to obligations not covered by allowances for loan losses, contingent liabilities, forward and other transactions, and loan interest. Banks are also required to rank such assets and operations into five risk groups (referred to as “**quality categories**”) similar to the loan categories described above, and provide allowances for each type of asset or operation in amounts corresponding to the amounts of possible losses. Banks must report to the CBR on the amounts of non-loan allowances on a monthly basis.

Mandatory provisions also exist for operations with offshore residents. The amount of such provision is calculated depending on the classification of the relevant offshore jurisdiction and accounts for 0%, 25% or 50% of the respective asset or operation.

The CBR has established certain rules regarding exposure of banks to foreign currency and precious metals (collectively, “**currency exposure**”), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantee. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into rubles at the official exchange rates and the CBR prices for precious metals. The CBR requires banks to

comply on a daily basis with the following requirements: (1) the total amount of all long (short) open currency positions in currencies and precious metals must not exceed 20% of the bank's regulatory capital; and (2) any long (short) open currency position in a particular currency or precious metal, as well as the balancing position in rubles, must not exceed 10% of the bank's regulatory capital. Furthermore, banks are required to periodically report to the CBR regarding their open currency positions.

### ***Anti-Money Laundering Legislation***

The Russian Federation, as a member of the Financial Action Task Force ("**FATF**"), has developed and enacted certain antimoney laundering legislation. The basic Russian anti-money laundering law is Federal Law On Combating Legalisation (Laundering) of Criminally Gained Income and Financing of Terrorism No. 115-FZ dated August 7, 2001 (as amended) (the "**Anti-Money Laundering Law**"). The Anti-Money Laundering Law follows the FATF Forty Recommendations and the FATF Special Recommendations on Terrorist Financing and provides for measures to combat money laundering in the Russian Federation to be implemented by individuals and organisations, including Russian banking institutions, involved in transactions with money and certain property. Pursuant to the Anti-Money Laundering Law, Russian banks are obligated to, *inter alia*: (1) establish and maintain systems of internal control ensuring that the bank and its clients are in compliance with Russian anti-money laundering legislation; (2) monitor and record certain client transactions; and (3) report certain client transactions to the relevant Russian authorities. The Federal Service on Financial Monitoring is the main governmental authority acting as a financial intelligence unit, and, together with the CBR, exercises control over banks' compliance with the Anti-Money Laundering Law. Russian banks are obligated to report through the CBR to the Federal Services on Financial Monitoring with respect to the types of transactions mentioned above. Failure of a bank or its officers to comply with the requirements of the Anti-Money Laundering Law may result in revocation of banking license and criminal penalties for individuals.

### ***Regulation of Credit Histories***

In December 2004, Federal Law No. 218-FZ On Credit Histories was passed. This law provides for the establishment of "credit bureaus" that will maintain a database of borrowers' credit histories. The law requires credit organizations to provide at least one credit bureau with the credit histories of all borrowers that have consented to the distribution of their credit histories. The borrower's credit history consists of both public and confidential portions and must include, *inter alia*, information on the borrower's outstanding debt and interest on it, the terms of repayment and any legal proceedings involving the borrower in respect of loans and financings. The borrower's credit history may be distributed to a third party with the borrower's prior consent, which remains valid for one month from the date of provision thereof. The general catalogue of credit histories is maintained by the CBR and includes cover pages of all credit histories and credit bureaus that maintain the respective credit histories. The credit bureaus are supervised by the FSFM.

### ***Regulation of Insolvency and CBR Intervention***

Credit organisations are subject to special insolvency rules set forth in the Insolvency Law. In addition, Federal Law No. 127-FZ On Insolvency (Bankruptcy) dated October 26, 2002, as amended, regulates issues not expressly addressed in the Insolvency Law.

Failure by Russian banks to comply with the CBR's capital adequacy or regulatory capital requirements or to meet the obligations to its creditors when due may lead to the intervention of the CBR as further described below.

### *Bankruptcy Prevention Measures*

Before revocation of the banking licence and commencement of insolvency proceedings, a credit organisation may be subject to the following bankruptcy prevention measures:

- financial rehabilitation, which includes out-of-court restructuring of assets and liabilities, organisational restructuring and capital injections from third parties, including shareholders or creditors;
- appointment of a temporary administration; or
- reorganisation.

The Insolvency Law sets forth the following grounds for introduction of bankruptcy prevention measures:

- repeated failure of the credit organisation to meet claims of creditors (creditor) with respect to monetary obligations and/or its obligation to make mandatory payments for up to three days from the due date over the last six months;
- failure of the credit organisation to meet claims of creditors (creditor) with respect to monetary obligations and/or obligation to make mandatory payments for more than three days from their due date;
- decrease of regulatory capital by more than 20% below its maximum amount during last 12 months together with violation of at least one mandatory CBR ratio;
- violation of capital adequacy ratio set by the CBR;
- failure to meet current liquidity ratio set by the CBR over the last month by more than 10%;
- decrease of regulatory capital as of the last reporting date below the charter capital of the credit organisation.

### *Insolvency Regime*

Pursuant to the Insolvency Law, bankruptcy proceedings may not be initiated against a bank prior to the revocation of its banking license. If a bankruptcy petition is filed with a court and the banking license of the allegedly insolvent bank is not revoked the court must adjourn the petition and request the CBR for an opinion on whether there are grounds for revocation of the banking license or as the case may be to provide a copy of the CBR order by which the banking license has been revoked. If the CBR issues a negative opinion or fails to respond within a one-month period, the bankruptcy petition must be dismissed. In the latter case, the CBR is liable for any losses a creditor will incur as a result of non-revocation of the banking license.

### *Temporary Administration*

Upon revocation of a banking license, the CBR must appoint a temporary administration for the relevant bank, which oversees the bank's operations, identifies debtors of the bank and collects its assets. The temporary administration performs its functions until the appointment of a liquidator or bankruptcy manager.

A temporary administration may also be appointed for the bank prior to the revocation of its banking license if, for example, the bank fails to satisfy claims of creditors or make mandatory payments (e.g., taxes and duties) within a certain period due to the absence or lack of funds in its correspondent accounts; the

bank's regulatory capital falls more than 30% below the maximum amount of regulatory capital during the last 12 months with simultaneous violation of one of the bank's mandatory ratios; or there are grounds for revocation of the banking license.

Upon appointment of the temporary administration, the powers of the bank's management may be limited or suspended in which case the bank's management functions are performed by the temporary administration. During the term of its appointment, the temporary administration analyses the bank's financial standing, establishes whether there are grounds for revocation of the banking license, participates in the development of measures for the financial rehabilitation of the bank, oversees the bank's operations, and may repudiate certain contracts of the bank and file claims for the invalidation of certain transactions of the bank. The temporary administration may in certain circumstances request that the CBR impose a moratorium for up to three months on the performance of the bank's monetary obligations that arose prior to the appointment of the temporary administration regardless of the maturity date of such obligations.

### *Winding Up and Bankruptcy Proceedings*

Upon revocation of its banking license, the performance of a bank's obligations is prohibited. The bank must be liquidated through bankruptcy proceedings if it is unable to meet its obligations in an aggregate principal amount of RUB 100,000 within 14 days after they fall due, or if the assets of the bank are insufficient to satisfy the claims of its creditors.

Under the Insolvency Law, if a bank is declared bankrupt, unsecured creditors' claims are generally subordinated to current liabilities (*i.e.*, claims that arose after the initiation of bankruptcy proceedings and costs related to bankruptcy litigation) as well as certain priority claims. Claims of secured creditors are satisfied from the proceeds of the sale of the pledged assets in priority to other creditors' claims, except for priority claims. Any obligations of secured creditors that remain unsatisfied following the sale of the pledged assets will rank as claims of unsecured creditors.

Generally, under the Insolvency Law taxes and other payment obligations to the Government are satisfied *pari passu* with the claims of unsecured creditors. The Civil Code, however, provides for a different order of priority for creditors' claims in the event of liquidation.

### ***Regulation of Acquisitions***

#### *The CBR*

According to the Banking Law, the CBR must be notified of an acquisition of more than 1% of the shares/participation interests in a credit organisation by any individual or legal entity, or a group of individuals and/or legal entities (including residents or nonresidents of the Russian Federation), and it must give prior consent to an acquisition (including acquisition on the secondary market) of more than 20% of the shares/participation interests in a credit organisation. Prior consent of the CBR is required for acquisition/transfer into trust of more than 20% of shares of a credit organisation in the form of a joint stock company and any subsequent increases of ownership/trust holding above thresholds of 25%, 50% and 75% as well as acquisition/transfer into trust of 100% of shares of a credit organisation in the form of a joint stock company (20%, 1/3, 1/2, 2/3 and 100% of participation interests in a credit organisation in the form of a limited liability company respectively); provided that in each case an applicant satisfies certain requirements in respect of, *inter alia*, its financial condition. The CBR approval is valid for one year from the date of issuance.

#### *The Federal Antimonopoly Service*

The FAS controls mergers of credit organisations and acquisitions of shares/participation interests and assets of credit organisations, as well as the acquisition of rights, allowing the acquirer to determine the terms of activity or exercise the powers of the executive body of such credit organisations. In accordance with Federal Law No. 135-FZ On Protection of Competition dated July 26, 2006, as amended (the

“**Antimonopoly Law**”) and the Government Regulation No. 335 of May 30, 2007, prior consent of the FAS is required, *inter alia*, for the following actions:

- acquisition of more than 25% of the voting shares of a credit organisation in the form of a joint stock company and any subsequent increases of ownership above thresholds of 50% and 75% of its voting shares (1/3, 1/2 and 2/3 of participation interests in a credit organisation in the form of a limited liability company respectively);
- contribution of shares (participation interests) and/or assets of a credit organisation into charter capital of a commercial organisation;
- acquisition of more than 10% of assets of a credit organisation as per the most recent RAS balance sheet or acquisition of rights to determine activity of a credit organisation or to exercise the powers of its executive body;
- incorporation of a commercial organisation, if its share capital is paid by the shares (participation interests) and/or assets of a credit organisation;
- provided that the value of such credit organisation’s assets as per the most recent RAS balance sheet exceeds RUB 22 billion;
- merger and accession of credit organisations if the aggregate asset value of any credit organisations which cease to exist (in case of a merger) or all credit organisation involved (in case of an accession), as per the most recent RAS balance sheet exceeds RUB 22 billion.

The Antimonopoly Law provides for a 30-day review period for the pre-closing approval of transactions. The review period may be extended by an additional two months. Certain transactions require mandatory post-transactional notification of the FAS. Under the Antimonopoly Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court resolution issued pursuant to the FAS claim, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening a dominant position of the acquirer in the relevant market. More generally, Russian legislation provides for civil, administrative and criminal liability for the violation of anti-monopoly legislation.

### ***Regulation of Expansion Abroad***

The Banking Law authorises Russian credit organisations to incorporate subsidiaries and to open branches outside the Russian Federation with the prior approval of the CBR if the credit organisation has, among other requirements, a general license. The opening of a representative office of a Russian credit organisation outside the Russian Federation requires notification of the CBR.

### **Measures to Support the Liquidity of the Russian Banking System**

Since October 2008, the Government has adopted a set of federal laws and secondary legislation to support the liquidity of the Russian banking sector, restore investor confidence and support the medium term economic growth of the Russian economy by facilitating credit across the Russian banking sector.

The Federal Law dated October 13, 2008 No. 173-FZ On the Additional Measures to Support the Financial System of the Russian Federation (the “**Financial System Support Law**”) introduced the framework principles to support the financial system and provided for the below specific measures. Under the Financial System Support Law, the Government and the CBR provided up to RUB 910 billion in subordinated loans (with a maturity of up to December 31, 2019) to state owned and private banks.

The CBR was vested with the right to appoint its authorised representatives to the banks and credit institutions which, *inter alia*, have received any foreign currency loans and/or subordinated loans pursuant to the provisions of the Financial System Support Law. The CBR Regulation No. 2182-U of February 9, 2009 provides for the procedure for such authorised representatives appointment, their rights and obligations including, *inter alia*, the right to participate in the meetings of the management bodies of such banks and credit institutions and the right to request information on management remuneration and the issuance of loans to third parties. The CBR Regulation No. 323-P of October 16, 2008 On Provision of Unsecured Loans to Russian Credit Institutions by the Bank of Russia has introduced the procedure and criteria for issuing unsecured loans by the CBR. See “—*Regulation of Retail Banking*”.

### **Banking Sector Development Strategy**

Pursuant to the Banking Sector Development Strategy, the main goals set out to facilitate a new period of development of the Russian banking sector include: improvement of the quality of the banking business by expanding the range of banking products and services, improving methods of their provision, utilization of modern technologies, and ensuring the long-term effectiveness and stability of the banking business. The Banking Sector Development Strategy also contemplates that the Government and the CBR will take measures in order to, *inter alia*: improve the legal environment, build banking infrastructure, ensure financial stability of credit organizations, and steadily implement Basel II and Basel III standards.

### **The Insider Dealing Law**

Federal Law No. 224-FZ On Combating the Unlawful Use of Insider Information and Market Manipulation and Introducing Amendments to Certain Legislative Acts of the Russian Federation, as amended (the “**Insider Dealing Law**”) came into force on July 31, 2011, save for the regulation of criminal liability for unlawful use of insider information and revocation of a banking license due to multiple instances of non-compliance with the Insider Dealing Law during one year. The Insider Dealing Law enumerates categories of persons that can be considered insiders. Pursuant to the Insider Dealing Law, insiders must comply with certain new disclosure requirements, including keeping the insiders list and sending notices of transactions by the insiders to the FSFM and the relevant legal entities. Under the Insider Dealing Law, any person who illegally uses the insider information and publishes misleading information may be held liable for misuse of information and/or market manipulation. The Insider Dealing Law is a new law, certain of its provisions are vaguely drafted and it is not clear how the law will be applied in practice by state authorities and courts.

## THE ISSUER

The Issuer was incorporated in Ireland as a private limited company on April 11, 2012, registered number 511693 under the Companies Acts 1963-2009 (as amended) of Ireland (the “**Companies Acts**”). The registered office of the Issuer is 31 Fitzwilliam Square, Dublin 2, Ireland and phone number +353 1 9058200.

The authorised share capital of the Issuer is EUR 1,000 divided into 1000 ordinary shares of par value EUR 1 each (the “**Shares**”). The Issuer has issued one Share, which is fully paid and is held on trust by Cafico Trust Company Limited (the “**Share Trustee**”) under the terms of a declaration of trust (the “**Declaration of Trust**”) dated July 18, 2012, as amended on September 20, 2012, under which the Share Trustee holds the Shares on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

Cafico Corporate Services Limited (the “**Corporate Services Provider**”), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on September 20, 2012 between the Issuer and the Corporate Services Provider (the “**Corporate Services Agreement**”), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party.

The Corporate Services Provider’s principal office is 31 Fitzwilliam Square, Dublin 2, Ireland.

## Business

The principal objects of the Issuer are set forth in clause 2 of its Memorandum of Association (as currently in effect) and permit the Issuer, inter alia, to lend money and give credit, secured or unsecured, to issue debentures, enter into derivatives and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organized as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to the Borrower.

Since its incorporation the Issuer has not engaged in material activities other than those incidental to its registration as a private company under the Companies Acts and those related to the issue of the Notes. The Issuer has no employees.

## Directors and Company Secretary

The Issuer’s Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors.

The Directors of the Issuer and their business addresses are as follows:

Yolanda Kelly

31 Fitzwilliam Square, Dublin 2, Ireland.

Rodney O'Rourke

31 Fitzwilliam Square, Dublin 2, Ireland.

The Company Secretary is Cafico Secretaries Limited.

### **Financial Statements**

Since its date of incorporation, no financial statements of the Issuer have been prepared as at the date of this Prospectus. The Issuer intends to publish its first financial statements in respect of the period ending on December 31, 2012. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on December 31 in each year.

The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer. The Issuer must hold its first annual general meeting within 18 months of the date of its incorporation (and no more than 9 months after the financial year end) and thereafter the gap between its annual general meetings must not exceed 15 months. One annual general meeting must be held in each calendar year.

The auditors of the Issuer are Ernst & Young LLP of Ernst and Young Buildings, Harcourt Centre, Harcourt Street, Dublin 2, Ireland, who are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

## FORM OF THE SUBORDINATED LOAN AGREEMENT

*Reproduced below is the text of the Original Subordinated Loan Agreement presented to reflect the amendments made by the Amendment Addendum with respect to the Further Subordinated Loan, as more fully described in "Overview".*

### Whereas:

- (A) The Lender has at the request of VTB agreed to make available to VTB an unsecured subordinated loan facility in the amount of U.S.\$2,250,000,000 and on the terms and subject to the conditions of this Agreement.
- (B) The Lender and VTB have agreed that, on the occurrence of a Bankruptcy Event (as defined below), the claims of the Lender in respect of the Loan (as defined below) shall be subordinated to the claims of Senior Creditors (as defined below) of VTB and of Senior Subordinated Creditors (as defined below) of VTB in accordance with the Insolvency Law (as defined below) and this Agreement.
- (C) VTB intends the Loan to be qualified as Tier 1 Capital (as defined below).
- (D) The Lender and VTB have agreed that the terms and conditions set forth in this Agreement, including the Rate of Interest (as defined below) payable, subject as set out herein, in respect of the Loan, do not differ materially from the terms and conditions of similar agreements concluded on market terms as of the date of this Agreement.

Now it is hereby agreed as follows:

## 1 Definitions and Interpretation

### 1.1 Definitions

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

“**Acceleration Event**” has the meaning assigned to such term in sub-Clause 12.3 hereof.

“**Account**” means the account in the name of the Lender with Citibank, N.A., London Branch (account number 11647938).

“**Agency Agreement**” means the paying agency agreement dated 2 August 2012 between the Lender, VTB, the Trustee and the agents named therein, as amended and supplemented by the supplemental agency agreement dated on or about 6 November 2012 between the same parties and as from time to time further amended or supplemented.

“**Agreement**” means this Agreement as originally executed (the “**Original Loan Agreement**”) as amended by an amendment addendum between the parties hereto dated 6 November 2012 (the “**Addendum**”) or as it may be further amended from time to time.

“**Approval Date**” means the date falling 90 days after the date of this Agreement.

“**Bankruptcy Event**” means the entry into force of a final decision of a competent Russian court finding VTB bankrupt.

“**Basel III Documents**” means the Basel Committee on Banking Supervision document “*Basel III: A global regulatory framework for more resilient banks and banking systems*” published in December 2010 and the Annex contained in its document “*Basel Committee issues final elements of the reforms to raise the quality of regulatory capital*” on 13 January 2011.

**“Benchmark Treasury”** means actively traded U.S. Treasury securities with maturity on or closest to the date that falls 10 years after the Original Closing Date or, as applicable, the Reset Date, as selected by the Calculation Agent.

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

**“Calculation Agent”** means Citibank, N.A., London Branch.

**“Capital Adequacy Event”** shall have the meaning given in sub-Clause 4.4.2.2.

**“Capital Stock”** means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a person other than a corporation; in each case whether now outstanding or hereafter issued.

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

**“CBR Refinancing Rate”** means the refinancing rate established by the Decision of the Board of Directors of the CBR from time to time in accordance with Article 18 of the Federal Law “On the Central Bank of the Russian Federation (Bank of Russia)” № 86-FZ dated 10 July 2002 (as amended, replaced or superseded from time to time).

**“Civil Code of the Russian Federation”** means Part 1 of the Civil Code of the Russian Federation which came into effect on 1 January 1995, Part 2 of the Civil Code of the Russian Federation which came into effect on 1 March 1996, Part 3 of the Civil Code of the Russian Federation which came into effect on 1 March 2002 and Part 4 of the Civil Code of the Russian Federation which came into effect on 1 January 2008 (as amended, supplemented or replaced from time to time).

**“Compulsory Interest Payment Date”** means any Interest Payment Date in respect of which during the immediately preceding 6 months a Compulsory Interest Payment Event has occurred.

**“Compulsory Interest Payment Event”** means:

- (i) any declaration, payment or making of a dividend or distribution by VTB to its Ordinary Shareholders or otherwise on any Capital Stock; or
- (ii) VTB or the Group, directly or indirectly, redeeming, purchasing or otherwise acquiring any of VTB’s Ordinary Shares or any of its Capital Stock, other than in relation to (1) transactions in securities effected by or for the account of customers of VTB or any of its Subsidiaries or in connection with the distribution or trading of, or market making in respect of, Ordinary Shares; or (2) the satisfaction by VTB or any of its Subsidiaries of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants; or (3) a reclassification of the Capital Stock of VTB or any of its Subsidiaries or the exchange or conversion of one class or series of such Capital Stock for another class or series of such Capital Stock; or (4) a restructuring of its loans to borrowers, any takeover or merger agreement or the purchase of fractional interests in shares of the Capital Stock of VTB or any of its majority-owned subsidiaries pursuant to the provisions of any security being converted into or exchanged for such Capital Stock; or (5) mandatory provisions of Russian law and directives applicable to VTB or the Group adopted by the Government other than in its capacity as a shareholder of VTB.

**“Encumbrance”** means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 90 days of arising) or other security interest securing

any obligation of any Person or any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

**“Final Conclusion”** means the final conclusion (*zaklucheniye*) of the CBR dated 16 August 2012 confirming the final unconditional approval by the CBR of the Original Loan Agreement and the Original Loan as a subordinated loan eligible for inclusion into own funds (capital) of VTB within the meaning of paragraph one of Section 2.1.12 of Regulation No. 215-P as Tier 1 Capital.

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

- (i) moneys borrowed or raised (including the capitalised value of obligations under financial leases and hire purchase agreements which would, in accordance with IAS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital) and interest and other charges thereon or in respect thereof;
- (ii) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;
- (iii) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;
- (iv) any liability under any interest rate or currency hedging agreement (and the amount of such Financial Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction (if it shows a sum owed to the counterparty of VTB or any Subsidiary), at the relevant time);
- (v) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and
- (vi) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group).

**“Further Closing Date”** means 8 November 2012 in respect of the Further Loan;

**“Further Final Conclusion”** means the final conclusion (*zaklucheniye*) of the CBR confirming the final unconditional approval by the CBR of the Further Loan as a subordinated loan eligible for inclusion into own funds (capital) of VTB within the meaning of paragraph one of Section 2.1.12 of Regulation No. 215-P as Tier 1 Capital and of section 3.11.1 of Regulation No. 215-P as additional funds.

**“Further Subscription Agreement”** means the agreement dated the date hereof between VTB, the Lender and VTB Capital plc, in relation to the issuance of the Further Notes;

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

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

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

“**Insolvency law**” has the meaning given in Clause 3.1.

“**Instruction No. 110-I**” means CBR instruction № 110-I dated 16 January 2004 “On the mandatory bank Ratios” (as amended, supplemented or replaced from time to time).

“**Interest Payment Date**” means 6 June and 6 December in each year, starting from, and including, 6 December 2012.

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

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

“**Junior Subordinated Creditors**” means all unsecured subordinated creditors of VTB whose claims are in respect of Loss Absorbing Instruments and the Loan.

“**Lead Managers**” means Citigroup Global Markets Limited, UBS Limited and VTB Capital plc.

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

“**Loss Absorbing Instrument**” means any obligation (other than the Loan) incurred directly or indirectly by VTB which (a) in the case of a Bankruptcy Event ranks or is expressed to rank *pari passu* with the Loan in accordance with this Agreement or any other agreements to which VTB is a party; (b) is subordinated debt which qualifies as Tier 1 Capital of VTB and (c) contains provisions analogous to those in Clause 7 relating to a write down of the principal amount of such instrument or which otherwise permit or require the write down of such instrument and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by VTB, would be) satisfied.

“**Loss Absorption Event**” means the incurrence of losses by VTB, as reported in the Relevant Accounts, which results in the occurrence of a Trigger Event (“**Losses**”).

“**Loss Absorption Event Notice**” means the notice referred to in Clause 7 which shall be given by VTB not less than 15 nor more than 30 days prior to the relevant Loss Absorption Measure Effective Date, to the Lender and the Trustee and which shall state with reasonable detail the nature of the Loss Absorption Event, the Loss Absorption Measure being implemented, any amount to be written down under Clause 7 and the basis of the calculation of such amount and the relevant Loss Absorption Measure Effective Date.

“**Loss Absorption Measure**” has the meaning ascribed to it in Clause 7.1.

“**Loss Absorption Measure Effective Date**” means the date specified as such in the relevant Loss Absorption Event Notice.

“**Margin**” means 806.7 basis points.

“**Material Adverse Effect**” means a material adverse effect on (a) the financial condition or operations of VTB or of VTB and any of its Principal Subsidiaries taken as a whole or (b) VTB’s ability to perform its obligations under this Agreement or (c) the validity, legality or enforceability of this Agreement or the rights or remedies of the Lender under this Agreement.

“**N1 Ratio**” means, at any time and in relation to any person, the capital adequacy ratio determined in accordance with Instruction No. 110-I.

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

**“Notes”** means (i) the U.S.\$1,000,000,000 Perpetual Loan Participation Notes issued by the Lender pursuant to the Trust Deed for the purpose of financing the Original Loan on the Original Closing Date (the **“Original Notes”**) and (ii) the U.S.\$1,250,000,000 Perpetual Loan Participation Notes to be issued by the Lender for the purpose of financing the Further Loan on the Further Closing Date (the **“Further Notes”**) to be consolidated and form a single series with the Original Notes.

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

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

**“Optional Interest Payment Date”** means any Interest Payment Date other than a Compulsory Interest Payment Date.

**“Ordinary Shares”** shall have the meaning given in sub-Clause 4.4.3.1.

**“Original Closing Date”** means 6 August 2012 in respect of the Original Loan.

**“Original Subscription Agreement”** means the agreement dated 2 August 2012 between VTB, the Lender and the Lead Managers in relation to the issuance of the Original Notes.

**“Other Basel Tier 1 Capital”** shall have the meaning given in sub-Clause 7.1.

**“Other Tier 1 Capital”** shall have the meaning given in sub-Clause 7.1.

**“Paying Agent”** shall have the meaning attributed to it in the Agency Agreement.

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

**“Potential Acceleration Event”** means any event or circumstances which with the giving of notice or the lapse of time would be an Acceleration Event.

**“Principal Paying Agent”** means Citibank, N.A., London Branch.

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

- (i) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 15 per cent. of the total consolidated assets or the gross consolidated revenues of VTB and its Subsidiaries, all as calculated by reference to the then latest audited accounts (or consolidated accounts as the case may be) (in each case, produced on the basis of IFRS, consistently applied) of such Subsidiary and the then latest audited consolidated accounts of VTB (produced on the basis of IFRS, consistently applied) and its consolidated Subsidiaries; or
- (ii) to which is transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

**“Prospectus”** means the prospectus dated 2 August 2012 prepared in connection with the issue of the Original Notes and the prospectus dated 6 November 2012 prepared in connection with the issue of the Further Notes.

“**RAS**” means Russian Accounting Standards.

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

“**Registrar**” means the Registrar appointed under the Agency Agreement and any successor thereto as provided thereunder.

“**Relevant Accounts**” means VTB’s most recent unconsolidated financial statements prepared in accordance with RAS that were submitted by VTB to the CBR as part of VTB’s periodic reporting to the CBR.

“**Relevant Closing Date**” means, in relation to the Original Loan, the Original Closing Date and, in relation to the Further Loan, the Further Closing Date.

“**Repayment Date**” means 6 December 2072, or such later date as VTB may elect from time to time pursuant to Clause 5.5.

“**Regulation No. 215-P**” means CBR Regulation № 215-P dated 10 February 2003 “On the method of determination of own funds (capital) of credit organisations” (as amended, supplemented or replaced from time to time).

“**Reset Date**” means 6 December 2022 (being the “**First Reset Date**”) and thereafter, provided that any part of the principal amount of the Loan is outstanding at such time, each date that falls on the 10<sup>th</sup> anniversary of the previous Reset Date (or if such date is not a Business Day, then the next Business Day following such date).

“**RWA Amount**” means, as at any date, the aggregate amount of all risk-weighted assets, as defined by Instruction No. 110-I.

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

“**Senior Creditors**” means all creditors of VTB other than (i) creditors of VTB whose claims are in respect of the Capital Stock of VTB, (ii) Junior Subordinated Creditors and (iii) Senior Subordinated Creditors.

“**Senior Subordinated Creditors**” means all unsecured subordinated creditors of VTB (other than Junior Subordinated Creditors) whose claims in accordance with this Agreement rank or are expressed to rank in priority to the claims of Shareholders and Junior Subordinated Creditors and behind claims of Senior Creditors.

“**Shareholders**” means the holders of Capital Stock of VTB.

“**Stock Exchange**” means the Irish Stock Exchange.

“**Subscription Agreements**” means the Original Subscription Agreement and the Further Subscription Agreement.

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

the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

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

“**Tier 1 Capital**” means, at any time, the aggregate amount of all items classified as “Core Capital”, which has the meaning given to it in Regulation No. 215-P as amended from time to time.

“**Treasury Rate**” means on the Original Closing Date and on each Reset Date a rate equal to the yield, as published by the Board of Governors of the Federal Reserve System, on the Benchmark Treasury which on the Original Closing Date is equal to 1.433 per cent. If there is no such publication of this yield during the week preceding the relevant calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary U.S. Treasury securities dealers in New York City selected by the Calculation Agent. The Treasury Rate will be calculated on the third business day in New York (being a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business generally in New York) preceding the relevant Reset Date.

A “**Trigger Event**” means any of the grounds for the implementation of measures for prevention of bankruptcy of credit organisations as provided by the Insolvency Law.

“**Trust Deed**” means the trust deed relating to the Notes dated the Original Closing Date and as amended and supplemented by a supplemental trust deed to be dated the Further Closing Date, between the Lender and the Trustee and as further amended from time to time.

“**Trustee**” means Citibank, N.A., London Branch, as trustee under the Trust Deed and any successor thereto as provided thereunder.

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

“**VTB Account**” means the account in the name of VTB (account number 0011907557 in the name of VTB with JPMorgan Chase Bank, NY (CHASUS33) f/o Bank VTB Moscow (VTBRRUMM)).

## **1.2 Other Definitions**

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

## **1.3 Interpretation**

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

**1.3.1** All references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Agreement.

**1.3.2** The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean this Agreement as a whole and not any particular part hereof.

**1.3.3** Words importing the singular number include the plural and vice versa.

**1.3.4** All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.

**1.3.5** The table of contents and the headings are for convenience only and shall not affect the construction hereof.

## **2 Loan, Drawdown and Variation for Tier 1 Compliance**

### **2.1 Loan**

VTB has borrowed from the Lender on the terms of the Original Loan Agreement the Original Loan in the total aggregate amount of U.S.\$1,000,000,000 (the “**Original Loan**”) and, on the terms and subject to the conditions set forth in this Agreement, the Lender hereby agrees to lend VTB and VTB hereby agrees to borrow from the Lender the Further Loan in the total aggregate amount of U.S.\$1,250,000,000 (the “**Further Loan**”) so that the aggregate Loan made available to VTB under the Original Loan Agreement, as amended by the Addendum, is U.S.\$2,250,000,000 (the “**Loan**”), and VTB and the Lender agree that the terms and conditions applicable to the Loan are the terms and conditions set out in this Agreement.

### **2.2 Purpose**

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

### **2.3 Drawdown**

On the terms and subject to the conditions of this Agreement, (i) on the Original Closing Date the Lender made the Original Loan to VTB and VTB made a single drawing in the full amount of the Original Loan and (ii) on the Further Closing Date the Lender shall make the Further Loan to VTB and VTB shall make a single drawing in the full amount of the Further Loan.

### **2.4 Loan Arrangement Fee**

In consideration of the Lender making the Original Loan to VTB, one Business Day before the Original Closing Date, VTB paid to the Lender, in Same-Day Funds, an arrangement fee (the “**Original Arrangement Fee**”) calculated taking into account the front-end commissions, fees and costs incurred by the Lender in connection with financing the Original Loan pursuant to an invoice submitted by the Lender to VTB in the total amount of U.S.\$12,191,965.47.

### **2.5 Disbursement**

Subject to the conditions set forth in the Original Loan Agreement, on the Original Closing Date the Lender transferred the amount of the Original Loan to the VTB Account. Subject to the conditions set forth in this Agreement, on the Further Closing Date the Lender shall transfer the amount of the Further Loan to the VTB Account.

### **2.6 Ongoing Fees and Expenses**

In consideration of the Lender (i) making available the Loan to VTB and (ii) supporting such a continuing facility and managing the Account, VTB shall pay in one or more instalments on demand to the Lender each year all documented ongoing commissions and costs in connection with the Lender Agreements as set forth to VTB in an invoice from the Lender.

## **2.7 Variation for Tier 1 Compliance**

Subject to VTB submitting a draft amendment agreement to the CBR and obtaining the approval of the CBR to such draft amendment agreement in accordance with Clause 15.16 of this Agreement, if, as a result of any amendment or supplement to, clarification or replacement of, or change in (including a change in interpretation or application of), Regulation No. 215-P or any other applicable requirements from time to time of the CBR made to implement the regulatory guidelines set out in the Basel III Documents, all or part of the principal amount of the Loan outstanding at such time would cease to qualify as Tier 1 Capital, the Lender agrees that VTB may without any requirement for the consent or approval of the Lender elect to vary the terms of this Agreement:

- 2.7.1** once so that the Agreement contains a provision implementing requirements applicable for non-viability loss absorption of instruments qualifying as Tier 1 Capital issued by banks through a full or partial write-down of the then outstanding amount of the Loan
  - 2.7.1.1** if as a result of there being objective elements to support a determination that the relevant bank is not, or will in the near future no longer be, viable, without taking into account any injection of capital by the Russian Federation (except in its normal role as a shareholder in the relevant bank); and
  - 2.7.1.2** is not a result directly of the relevant bank accessing liquidity facilities provided by central banks, including emergency liquidity facilities; and
  - 2.7.1.3** in such a way that creditors do not incur greater losses than would be incurred if the relevant bank would have been wound down under normal insolvency proceedings for credit institutions; and/or
- 2.7.2** once so that the existing Loss Absorption Measures in Clause 7 hereof are amended to provide for a full or partial write down (by the minimum amount required to comply with the CBR regulations in relation to the amount to be written down which are applicable at the time of the amendment) of the then outstanding amount of the Loan when the N1 Ratio of VTB at such time is below the lower of (i) 75 per cent. of the minimum required N1 Ratio at such time and (ii) such other lower value of the N1 Ratio applicable to Loss Absorbing Instruments in accordance with rules and regulations applicable to VTB at such time, calculated under rules and regulations applicable to VTB at the time of the amendment; and/or
- 2.7.3** once so that the Loan becomes perpetual; and/or
- 2.7.4** once so that the existing subordination provisions in Clause 3 are amended to reflect any changes to the required status of Tier 1 Capital, provided that the claims of the Lender against VTB in respect of the Loan shall continue to be senior to the claims of holders of VTB's Capital Stock in their capacity as shareholders; and/or
- 2.7.5** once so that VTB's discretion to elect to cancel interest in accordance with sub-Clause 4.4.1 is applicable in respect of all Interest Payment Dates; and/or
- 2.7.6** in any other way that does not make the Loan Agreement materially less favourable to the Lender,

in each case only if and to the extent that such changes are required by the CBR so that this Loan becomes or, as appropriate, remains a loan agreement that contains terms such that it complies with the then current requirements of the CBR in relation to Tier 1 Capital and, in respect of 2.7.2 above, only if the N1 Ratio of VTB at the time of the variation of the terms of this Agreement is at least 1

per cent. above the minimum requirement for the N1 Ratio applicable to VTB, by giving not less than one day's nor more than 20 days' notice to the Lender. Upon the expiry of the notice required by this Clause 2.7, VTB shall vary the terms of this Agreement in accordance with this Clause 2.7 and the Lender shall confirm its agreement to such variation by signing an amended form of this Agreement.

For the avoidance of doubt, VTB may not elect to vary the terms of this Agreement in accordance with this Clause 2.7 in circumstances where the sole basis for such variance is either (i) the CBR not issuing the Further Final Conclusion or (ii) such Further Final Conclusion not recognising all or part of the Further Loan as Tier 1 Capital or as additional capital within the meanings given in Regulation 215-P.

### **3 Subordination of the Loan**

#### **3.1 Subordination**

The claims of the Lender against VTB in respect of the principal of, and interest on, the Loan will be subordinated upon the occurrence of a Bankruptcy Event to the claims of all Senior Creditors in accordance with the Federal Law "On Insolvency (Bankruptcy) of Credit Organisations" No. 40-FZ dated 25 February 1999 (as amended, replaced or superseded from time to time) (the "**Insolvency Law**") and all Senior Subordinated Creditors in accordance with this Agreement and will rank at least *pari passu* with the claims of other Junior Subordinated Creditors and will be senior to the claims of holders of VTB's Capital Stock in their capacity as shareholders.

#### **3.2 Report**

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

#### **3.3 Set-Off**

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

#### **3.4 Reclassification**

If the CBR fails to issue the Final Conclusion to VTB by the Approval Date, Clauses 2.7, 3.1, 4.4, 4.5 5.5, 6.2 and 7 (and any corresponding references thereto) shall not apply and the claims of the Lender against VTB in respect of principal of and interest on the Loan will, in the event of a Bankruptcy Event, rank at least *pari passu* with the claims of Senior Creditors and the Loan shall be treated as senior in priority to any unsecured subordinated debt or Capital Stock of VTB.

### **4 Interest**

#### **4.1 Rate of Interest**

Subject to Clause 4.4 and 4.5 below, VTB will pay interest in U.S. dollars to the Lender on the outstanding principal amount of the Loan from (and including) the Original Closing Date in respect of the Original Loan and the Further Closing Date in respect of the Further Loan at the relevant Interest Rate and "**Rate of Interest**" means, in relation to any Interest Period, the relevant Interest Rate in respect of each Interest Period.

## **4.2 Payment**

Interest at the Interest Rate shall accrue from day to day, starting from (and including) the Original Closing Date in respect of the Original Loan and the Further Closing Date in respect of the Further Loan, and in each case interest shall be paid in U.S. dollars semi-annually in arrear not later than 10:00 a.m. (London time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the Repayment Date (or any date upon which the Loan is prepaid pursuant to Clause 5.2 or 5.3) unless payment of principal is improperly withheld or refused by VTB, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

The amount of interest payable in respect of the Loan for any Interest Period (other than the first Interest Period in respect of the Further Loan only) shall be calculated by applying the Rate of Interest to the outstanding principal amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of actual days elapsed.

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

## **4.3 Publication of Interest Rate**

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

## **4.4 Cancellation of Interest**

**4.4.1** VTB may, at its discretion, elect in respect of any Optional Interest Payment Date to cancel all or part of any payment of interest which is otherwise scheduled to be paid on an Interest Payment Date by giving notice of such election to the Lender not more than 30 nor less than 10 days prior to the relevant Interest Payment Date. This Clause 4.4.1 is without prejudice to the provisions of Clause 4.4.2.

**4.4.2** If, in relation to any Interest Payment Date (including a Compulsory Interest Payment Date),

**4.4.2.1** a Trigger Event exists on or immediately prior to such Interest Payment Date; or

**4.4.2.2** after the payment of interest on such Interest Payment Date, the total capital adequacy ratio calculated by VTB in accordance with Basel standards as applied by VTB for the purpose of calculating the Basel total capital adequacy ratio at such time on a consolidated basis for the Group would be less than 8 per cent. (a “**Capital Adequacy Event**”),

then VTB shall not pay all or part of the Interest falling due on such Interest Payment Date, and such amount of Interest shall be cancelled and shall not accumulate and the Lender shall have no right thereto whether in a bankruptcy or dissolution of VTB or otherwise.

VTB will notify in writing the Lender and the Trustee of the existence of a Trigger Event or a Capital Adequacy Event, as the case may be, not less than three Business Days prior to the relevant Interest Payment Date.

**4.4.3** If, on any Interest Payment Date, any payment of interest scheduled to be made on such date is not made in full by reason of Clauses 4.4.1 or by reason of Clauses 4.4.2,

**4.4.3.1** VTB shall not, directly or indirectly, resolve, or recommend to the Shareholders, that any distribution or dividend in cash or in kind (other than in the form of issued and outstanding ordinary shares of VTB (“**Ordinary Shares**”)) be paid or made on any Ordinary Shares; and

**4.4.3.2** VTB shall not, and shall procure that the Group shall not, recommend to the Shareholders to, directly or indirectly, redeem, purchase or otherwise acquire any of its Ordinary Shares or any of its Capital Stock, other than in relation to (1) transactions in securities effected by or for the account of customers of VTB or any of its Subsidiaries or in connection with the distribution or trading of, or market making in respect of Ordinary Shares; or (2) the satisfaction by VTB or any of its Subsidiaries of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants; or (3) a reclassification of the Capital Stock of VTB or any of its Subsidiaries or the exchange or conversion of one class or series of such Capital Stock for another class or series of such Capital Stock; or (4) a restructuring of its loans to borrowers, any takeover or merger agreement or the purchase of fractional interests in shares of the Capital Stock of VTB or any of its majority-owned subsidiaries pursuant to the provisions of any security being converted into or exchanged for such Capital Stock; or (5) mandatory provisions of Russian law and directives applicable to VTB or the Group adopted by the Government other than in its capacity as a shareholder of VTB

in each case unless and until (x) the interest payment due and payable on the Loan on any subsequent Interest Payment Date has been paid in full (or an amount equal to the same has been paid in full to a designated third party trust account for the benefit of the Lender prior to payment thereof to the Lender on such subsequent Interest Payment Date) or, if earlier, (y) the date on which the Loan has been repaid in accordance with Clause 5 or written down in full in accordance with Clause 7.

**4.4.4** Payments of interest on the Loan are not cumulative. Notwithstanding any other provision in this Agreement but without prejudice to Clause 4.4.5, the cancellation or non-payment of any interest payment by virtue of this Clause 4.4 shall not constitute an Acceleration Event or a default for any purpose on the part of VTB. Any interest payment not paid by virtue of this Clause 4 shall not accumulate or be payable at any time thereafter, and the Lender shall have no right thereto.

**4.4.5** Notwithstanding any other provision in this Agreement, if the Shareholders of VTB resolve to make or pay a distribution or dividend in cash or in kind (other than in the form of Ordinary Shares) on the Ordinary Shares in respect of a financial year during which any interest payment was not made in full by reason of Clause 4.4.1, VTB shall, subject as provided below, pay to the Lender, within 5 Business Days of such distribution or dividend being paid or made, an amount equal to the aggregate amount of all such interest which has arisen during such financial year. If the Shareholders do not resolve to make or pay a distribution or dividend on the Ordinary Shares as described in this Clause 4.4.5, no amount shall be payable under this Clause 4.4.5.

#### **4.5 Required Deferral of Payments**

The parties to this Agreement acknowledge that the CBR has the right to require deferral of payments by VTB of principal of, and/or interest on, the Loan (whereupon VTB shall be obliged to defer such payments) if the making of payments for the benefit of the Lender would give rise to a Trigger Event (a “**Deferral Event**”).

As soon as reasonably practicable after being notified by the CBR of a Deferral Event, VTB shall deliver a notice in writing to the Lender and the Trustee of such Deferral Event (a “**Deferral Notice**”) and, accordingly, on the giving of such notice the due date for payment of such principal and/or interest amounts (“**Deferred Payments**”) shall be so deferred and VTB shall not be obliged to make payment thereof on the date the same would otherwise have become due and payable, and such deferral of payment shall not constitute an Acceleration Event (or a Potential Acceleration Event) by VTB for any purpose.

Interest will not accrue on any interest payment so deferred. VTB shall promptly give written notice to the Lender and the Trustee when the Deferral Event ceases and the relevant Deferred Payments shall become due and payable on the seventh day after such notice of the cessation of the Deferral Event. In addition, the aggregate amount of Deferred Payments which remains unpaid shall become due and payable in full (subject to any write down made in accordance with Clause 7) upon the occurrence of any of the events set out in Clause 12.2 or on a repayment pursuant to Clauses 5.2 or 5.3.

### **5 Repayment and Prepayment**

#### **5.1 Repayment, no Prepayment and no Termination**

**5.1.1** Except as otherwise provided herein:

**5.1.1.1** VTB shall repay the Loan not later than 10:00 a.m. (London time) one Business Day prior to the Repayment Date or as contemplated in Clause 12 together with any accrued and unpaid interest to the date of repayment and any other sums due and payable by VTB pursuant to this Agreement;

**5.1.1.2** the Loan (in full or in part) or interest accrued on the Loan shall not be prepaid without the prior written consent of the CBR in accordance with Clause 15.16 of this Agreement; and

**5.1.1.3** this Agreement may not be terminated earlier than the Repayment Date without the prior written consent of the CBR in accordance with Clause 15.16 of this Agreement.

#### **5.2 Prepayment Options**

Notwithstanding the provisions of Clause 5.1;

**5.2.1** with the prior written consent of the CBR, VTB may, at its option prepay the Loan following the receipt of the Final Conclusion, at any time, if, as a result of any amendment to, clarification of, or change in (including a change in interpretation or application of), Regulation No. 215-P or other applicable requirements of the CBR, all or part of the principal amount of the Loan outstanding at such time would cease to qualify in whole or in part as Tier 1 Capital other than (i) as a result of exceeding any limit on the amount of total Tier 1 Capital instruments permitted by the CBR or, (ii) if VTB cannot avoid all or part of the principal amount of the Loan outstanding so ceasing to qualify by taking reasonable

measures available to it, including the amendment of certain terms of the Loan Agreement under Clause 2.7. The Loan shall be prepaid in whole (but not in part) at 100 per cent. of the principal amount thereof plus 1 per cent. of the principal amount thereof as a commission for early redemption, provided that written notice thereof together with an Officer's Certificate confirming the existence of the relevant circumstances permitting such a prepayment shall be given to the Lender and the Trustee not less than 30 days and not more than 60 days prior to the date of prepayment. Upon the delivery of such notice and such Officer's Certificate, VTB shall be bound on the prepayment date to repay the Loan (in whole but not in part) as set out in this Clause 5.2.1. For the avoidance of doubt, this prepayment option is not available to VTB in circumstances where the sole basis for such prepayment is either (i) the CBR not issuing the Further Final Conclusion or (ii) such Further Final Conclusion not recognising all or part of the Further Loan as Tier 1 Capital or as additional capital within the meanings given in Regulation 215-P;

**5.2.2** VTB may, at its option prepay the Loan (in whole but not in part) at any time after the Approval Date, if the CBR does not issue to VTB the Final Conclusion on or before the Approval Date. The Loan shall be prepaid in whole (but not in part) at 100 per cent. of the principal amount thereof plus 1 per cent. of the principal amount thereof as a commission for early redemption, provided that written notice thereof together with an Officer's Certificate confirming the existence of the relevant circumstances permitting such a prepayment shall be given to the Lender and the Trustee not less than 30 days and not more than 60 days prior to the date of prepayment. Upon the delivery of such notice and such Officer's Certificate, VTB shall be bound on the prepayment date to repay the Loan (in whole but not in part) at the principal amount thereof; and

**5.2.3** with the prior written consent of the CBR, VTB may, at its option prepay the Loan, on 6 December 2022 or on any Interest Payment Date thereafter. The Loan shall be prepaid at the principal amount thereof in whole, but not in part, provided that VTB has given written notice to the Lender and the Trustee not less than 30 days and not more than 60 days prior to the date of prepayment. Upon the delivery of such notice, VTB shall be bound on the prepayment date to repay the Loan (in whole but not in part) at the principal amount thereof.

VTB may only exercise its option to redeem the Loan pursuant to either Clause 5.2.1 or Clause 5.2.3 to the extent that at such time no Trigger Event or Capital Adequacy Event has occurred or will not occur upon such prepayment of the Loan. To the extent that any Trigger Event or Capital Adequacy Event has occurred or will so occur, then VTB may only prepay the Loan pursuant to either Clause 5.2.1 or Clause 5.2.3 to the extent that VTB has received, on or immediately prior to such prepayment date, further Tier 1 Capital in an amount equal to or greater than the Loan principal value as of the prepayment date pursuant to Clauses 5.2.1 or 5.2.3.

### **5.3 Special Prepayment for Tax Reasons or Change in Circumstances**

Notwithstanding the provisions of Clause 5.1, if, (i) as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application), in the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in the Trust Deed, VTB would thereby be required to make or increase any payment due pursuant to this Agreement as provided in sub-Clauses 6.3 or 6.4 (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clauses 2 and 14), or if (for whatever reason) VTB would have to or has been required to pay additional amounts pursuant to Clause 9, and such additional amounts cannot be avoided by VTB taking reasonable measures available to it, or (ii) Interest payable on the Loan when paid would not be deductible by VTB for Russian corporate profits tax purposes, in an amount greater than the product of the principal amount of the Loan multiplied by the difference between (a) the Interest

Rate and (b) the CBR Refinancing Rate, multiplied by 0.8 and adjusted for the Interest Period, then VTB may (without penalty), if it obtains the prior written consent of the CBR, upon not less than 10 days' written notice to the Lender (which notice shall be irrevocable) and the Trustee, prepay the Loan in whole (but not in part) at 100 per cent. of the principal amount thereof. Clause 5.3 will not apply as a direct result of any variation made under Clause 2.7.

#### **5.4 Payment of Other Amounts**

If a Loan is to be prepaid by VTB pursuant to any of the provisions of sub-Clauses 5.2 or 5.3, VTB shall, simultaneously with such prepayment and subject to Clause 4.4, pay to the Lender accrued interest thereon to the date of actual receipt of payment by the Lender and all other sums payable by VTB pursuant to this Agreement.

#### **5.5 Extension of the Maturity of the Loan**

Subject to VTB submitting a draft amendment agreement to the CBR and obtaining approval of the CBR to such draft amendment agreement in accordance with Clause 15.16.2 of this Agreement, at any time on or after the date that is five years and six months prior to the Repayment Date (as such term is construed from time to time in accordance with the provisions of this Clause 5.5), VTB may, at its sole discretion, elect to extend the Repayment Date of the Loan, provided that:

**5.5.1** The Repayment Date following such election shall be no less than 60 years and 6 months from the date set as the Repayment Date immediately prior to such election; and

**5.5.2** VTB has given at least 30 days' prior written notice to the Lender and the Trustee of such election from the date upon which the election to extend the repayment of the Loan is to be effective.

Upon the exercise of such an election by VTB pursuant to this Clause 5.5, the definition of "Repayment Date" shall be construed to be the date specified by VTB pursuant to such election and the provisions of this Loan Agreement will be construed accordingly and, for the avoidance of doubt, any Deferred Payments that are outstanding as such time will be preserved following any such extension of the Repayment Date.

#### **5.6 Substitution of Loan**

On repayment of the Loan in accordance with Clause 5.1, VTB may, at its option, require the Lender to make available, and the Lender agrees that it shall make available, a further loan in a total aggregate amount equal to the outstanding principal amount of the Loan immediately before repayment (as written down from time to time pursuant to Clause 7.1) and on terms (including as to interest) no less favourable to the Lender to any member of the Group notified to the Lender in advance in writing by VTB. If such loan is made to a member of the Group other than VTB itself, VTB will provide a guarantee for such loan such that the risk to the Lender is no less favourable than the Loan.

#### **5.7 Reduction of the Loan upon Cancellation of Notes**

Subject to the prior written consent of the CBR, VTB may from time to time deliver, or procure the delivery of, Notes held by it having an aggregate value of at least US\$1,000,000 (or the global Note representing such Notes held by it as the case may be) to the Lender, together with a request for the Lender to procure cancellation of such Notes (or a specified aggregate principal amounts of Notes where such Notes are represented by a global Note) by the Registrar (which instructions shall be accompanied by evidence satisfactory to the Registrar that VTB is entitled to give such instructions), whereupon the Lender shall, pursuant to the Agency Agreement, request the Registrar to cancel such

Notes, or specified aggregate principal amount of Notes represented by the global Note, as the case may be. Upon any such cancellation by or on behalf of the Registrar, and with the prior written consent of the CBR, the principal amount of the Loan corresponding to the principal amount of such Notes together with any accrued and unpaid interest and other amounts (if any) thereon shall be deemed extinguished for all purposes as of the date of such cancellation.

## **6 Payments**

### **6.1 Making of Payments**

All payments of principal and interest to be made by VTB under this Agreement shall be made to the Lender not later than 10.00 a.m. one Business Day prior to each Interest Payment Date, or the Repayment Date or any date upon which a payment of Interest is due hereunder (as the case may be) in Same-Day Funds to the Account. The Lender agrees with VTB that it will not deposit any other monies into the Account (except that the Accrued Interest (as defined in the Further Subscription Agreement) shall be permitted to be deposited into such Account on the Further Closing Date) and will not withdraw any amounts from the Account other than as provided for and in accordance with the Agency Agreement and the Trust Deed.

### **6.2 Remedy of Deferral Event**

VTB shall take all reasonable steps to remedy the conditions giving rise to any deferral pursuant to Clause 4.5.

### **6.3 No Set-Off, Counterclaim or Withholding; Gross-Up**

All payments to be made by VTB under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If VTB shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any Taxes, it shall increase any payment due under this Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in U.S. dollars equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant taxing authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, such amount shall be treated as a cost payable pursuant to Clause 2.6 without any further demand or formalities required thereunder. For the avoidance of doubt, this sub-Clause 6.3 is without prejudice to the obligations of the Lender pursuant to sub-Clauses 10.1.1 and 10.1.3. The provisions of this sub-Clause 6.3 shall not apply to any Tax imposed on and calculated by reference to the overall net income of the Lender.

### **6.4 Withholding on Notes**

If the Lender notifies VTB (setting out in reasonable detail the nature and extent of the obligation with such evidence as VTB may reasonably require) that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make in respect of the Notes in circumstances where the Lender, subject to receipt thereof, is required to pay additional amounts pursuant to Condition 8 of the Notes or otherwise or in connection with its funding of the Loan, VTB agrees to pay to the Lender, not later than 10:00 a.m. one Business Day prior to the date on which payment from the Lender is due to the Noteholders in Same-Day Funds to the Account, such additional amounts as are equal to the said additional amounts

which the Lender must pay pursuant to such Condition 8 or in connection with the funding of the Loan. However, immediately upon receipt by the Lender of any sums paid pursuant to this provision, to the extent that the Noteholders or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of the Notes, the Lender shall repay such additional amounts to VTB (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder is entitled to such additional amount).

## **6.5 Reimbursement**

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which VTB has made a payment pursuant to this Clause 6 or obtains any other reimbursement in connection therewith, it shall pay to VTB so much of the benefit received as will leave the Lender in exactly the same position as it would have been had no additional amount been required to be paid by VTB pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received and, accordingly, whether any payment should be made to VTB, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender. The Lender shall have absolute discretion whether, and in what order and manner, it claims any credits or refunds available to the Lender but shall not be obliged to disclose to VTB any information regarding its tax affairs or computations provided that the Lender shall notify VTB of any tax credit or allowance or other reimbursement it receives.

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

## **6.6 Mitigation**

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of VTB to make any deduction, withholding or payment as described in sub-Clauses 6.3 or 6.4, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or VTB's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances. All properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.6 shall be treated as costs payable pursuant to Clause 2.6 without any further demand or formalities required thereunder.

## **7 Loss Absorption and Potential Reinstatement**

### **7.1 Loss Absorption Measures**

If (1) (i) a Loss Absorption Event has occurred and is continuing and (ii) all sources of Tier 1 Capital (other than the Loan and other Loss Absorbing Instruments) (“**Other Tier 1 Capital**”) have been exhausted to offset losses or (2) all sources of tier 1 capital as defined in accordance with Basel standards as applied by VTB for the purpose of calculating the Basel tier 1 capital at such time on a consolidated basis for the Group (other than the Loan and the other additional tier 1 capital instruments that comply with the requirements of Basel standards as applied by VTB for the purpose of calculating the Basel tier 1 capital at such time and ranking *pari passu* with the Loan) (“**Other Basel Tier 1 Capital**”), as disclosed in the notes to the then latest audited consolidated financial statements prepared under IFRS have been exhausted to offset losses, the Loan shall be promptly used by VTB to offset losses. For the avoidance of doubt, prior to exhaustion of Other Tier 1 Capital or Other Basel Tier 1 Capital, only amounts accruing on the Loan on an ongoing basis shall be used to offset losses incurred by VTB. Upon the exhaustion of the Other Tier 1 Capital or Other Basel Tier 1 Capital, the value of the Loan may be used to offset losses incurred by VTB *pro rata* with other Loss Absorbing Instruments, subject as provided in Clause 7.3.

## **7.2 Conditions to a Loss Absorption Measure**

Giving effect to a Loss Absorption Measure is subject to VTB giving the relevant Loss Absorption Event Notice, which notice shall be irrevocable.

## **7.3 Consequences of a Loss Absorption Measure**

A Loss Absorption Event may occur on more than one occasion (and the Loan may be written down in whole or in part in accordance with this Clause 7 on more than one occasion).

Following any write down of the Loan in accordance with this Clause 7, references herein to “outstanding principal amount” of the Loan shall be construed accordingly. If the principal amount of the Loan is written down in whole, this Loan Agreement shall continue to be in effect.

Once the principal amount of the Loan has been written down in accordance with this Clause 7, the relevant amount written down will not be restored in any circumstances, including where the relevant Loss Absorption Event(s) cease(s) to continue, other than pursuant to Clause 7.4.

VTB shall determine the amount to be written down in its sole discretion and shall set out its determination thereof in the relevant Loss Absorption Event Notice together with the then prevailing principal amount of the Loan following the relevant write down in accordance with this Clause 7. VTB’s determination of the amount to be written down shall in the absence of manifest error be binding on all parties. In addition, prior to the giving of the Loss Absorption Event Notice, VTB shall deliver an Officer’s Certificate to the Lender and the Trustee setting out in reasonable detail its calculation of the amount to be written down.

## **7.4 Potential Reinstatement**

To the extent that there are changes to (including as to the clarification, interpretation or application of) Russian law that would mean that the use by VTB, upon a Loss Absorption Event ceasing to exist, of its profits (subject to provisions of Russian law on distribution of profits) prior to their distribution for reinstating any principal amount of the Loan that has been written down pursuant to Clause 7.3 so that any such reinstatement would not contradict Russian law, then VTB and the Lender agree that the Loan Agreement will be amended (provided that VTB submits a draft amendment agreement to the CBR and obtains approval of the CBR to such draft amendment agreement in accordance with Clause 15.16.2 of this Agreement) to provide for such a reinstatement of the principal amount of the Loan upon a Loss Absorption Event ceasing to exist, provided that (i) such amendments will not be prejudicial to the rights of the Lender or the Noteholders or to the

regulatory capital treatment of the Loan for VTB, (ii) such amendments would not trigger any obligation to pay or withhold any Taxes on the amounts so reinstated, (iii) the Lender is satisfied that such amendments would not contradict Russian law and (iv) such amendments will provide that, following a Loss Absorption Event and if and for so long as all or part of the value of the Loan is being used to offset losses incurred by VTB, VTB shall not exercise any right it may otherwise have to prepay the Loan under Clauses 5.2 or 5.3.

## **8 Conditions Precedent**

### **8.1 Documents to be Delivered**

The obligation of the Lender to make the Loan shall be subject to the receipt by the Lender on or prior to the Original Closing Date of evidence that the persons mentioned in sub-Clauses 15.11 and 15.12 hereof have agreed to receive process in the manner specified therein.

### **8.2 Further Conditions**

The obligation of the Lender to make the Original Loan was subject to the further conditions precedent that as of the Original Closing Date (a) the Lender received the full amount of the proceeds of the issue of the Notes pursuant to the Original Subscription Agreement and (b) the Lender received in full the amount referred to in sub-Clauses 2.4 and 2.6, if due and payable.

### **8.3 Further Conditions prior to the Further Closing Date**

The obligation of the Lender to make the Further Loan shall be subject to the further conditions precedent that as at the Further Closing Date the Lender has received the net proceeds from the issue of the Further Notes pursuant to the Further Subscription Agreement.

## **9 Change in Law or Increase in Cost**

### **9.1 Compensation**

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

**9.1.1** subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in sub-Clauses 6.3 or 6.4); or

**9.1.2** increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in sub-Clauses 6.3 or 6.4); or

**9.1.3** imposes or will impose on the Lender any other condition affecting this Agreement or the Loan,

and if as a result of any of the foregoing:

- 9.1.3.1** the cost to the Lender of making, funding or maintaining the Loan is increased; or
- 9.1.3.2** the amount of principal, interest or other amount payable to or received by the Lender under this Agreement is reduced; or
- 9.1.3.3** the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from VTB hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan, then subject to the following, and in each such case:
  - 9.1.3.3.1** the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to VTB, together with a certificate signed by two directors of the Lender or by any person empowered by the authorised signatories of the Lender on behalf of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and describing the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and providing all relevant reasonable supporting documents describing such matters; and
  - 9.1.3.3.2** the amount of ongoing fees and costs payable by VTB pursuant to Clause 2.6 shall be increased, in the case of sub-clauses 9.1.3.1 and 9.1.3.3 above, by an amount sufficient to cover such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause 9.1.3.2 above, at the time the amount so reduced would otherwise have been payable, by an amount sufficient to cover such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided that this sub-Clause 9.1 will not apply to or in respect of any matter for which the Lender has already been compensated under sub-Clauses 6.3 or 6.4.

## **9.2 Mitigation**

In the event that the Lender becomes aware it is (having exercised due care) to make a claim pursuant to sub-Clause 9.1, the Lender shall consult in good faith with VTB and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, VTB's obligations to pay any additional amount pursuant to such sub-Clause, except that nothing in this sub-Clause 9.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless such costs or expenses constitute costs and/or expenses to which Clause 2.6 applies.

## **10 Representations and Warranties**

### **10.1 VTB's Representations and Warranties**

VTB does, and on the Closing Date shall be deemed to, represent and warrant to the Lender as follows, to the intent that such shall form the basis of this Agreement:

- 10.1.1** VTB is duly organised and incorporated and validly existing under the laws of the Russian Federation and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under this Agreement and to borrow the Loan; VTB has taken all necessary corporate, legal and other action required to authorise the borrowing of the Loan on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms.
- 10.1.2** This Agreement has been duly executed and delivered by VTB and constitutes a legal, valid and binding obligation of VTB enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); (ii) with respect to the enforceability of a judgment whether there is a federal law or a treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that certain gross-up provisions may not be enforceable under Russian law.
- 10.1.3** The execution, delivery and performance of this Agreement by VTB will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of VTB or (iii) any agreement or other undertaking or instrument to which VTB is a party or which is binding upon VTB or any of its assets, nor result in the creation or imposition of any Encumbrance on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument.
- 10.1.4** All consents, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian Federation required by VTB in connection with the execution, delivery, performance, legality, validity, enforceability, and, subject to Russian legal requirements, admissibility in evidence of this Agreement have been obtained or effected and are in full force and effect (excluding, for the avoidance of doubt, the Final Conclusion that the Loan is to be treated as Tier 1 Capital and any subsequent filings and/or submissions to be made by VTB with the CBR in connection therewith).
- 10.1.5** To the best of the knowledge and belief of VTB, having made due enquiries, no event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Acceleration Event or a default under any agreement or instrument evidencing any Financial Indebtedness of VTB, and no such event will occur upon the making of the Loan.
- 10.1.6** Except as disclosed in the Prospectus there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of VTB, threatened, against VTB or any of its Principal Subsidiaries, the adverse determination of which could have a Material Adverse Effect.
- 10.1.7** Except for Encumbrances of the type referred to in Clause 10.1 of the facility agreement dated 26 July 2010 between VTB and VTB Capital S.A. and Encumbrances arising in the ordinary course of business, VTB and each of its Principal Subsidiaries has the right of ownership (as that expression is defined under the laws of the Russian Federation or the laws of the jurisdiction of such Principal Subsidiary) to its property free and clear of all Encumbrances which if existing would have a Material Adverse Effect and claims in respect of VTB's obligations under the Loan will rank *pari passu* with the claims of other Junior Subordinated Creditors and will be senior to the claims of holders of VTB's Capital Stock in their capacity as shareholders.

- 10.1.8** The audited consolidated financial statements of VTB as at and for the years ended 31 December 2011, 2010 and 2009 and the unaudited interim condensed consolidated financial statements as at and for the three months ended 31 March 2012, as included in the Prospectus:
- 10.1.8.1** were prepared in accordance with IFRS, as consistently applied; and
- 10.1.8.2** save as disclosed therein, present fairly in all material respects the assets and liabilities as at that date and the results of operations of the Group during the relevant financial period.
- 10.1.9** Except as disclosed in the Prospectus, there has been no material adverse change since the date of the last audited consolidated financial statements of VTB in the financial condition, results of business operations or prospects of VTB or the Group taken as a whole.
- 10.1.10** The execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim filed with a Russian court).
- 10.1.11** Neither VTB nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement.
- 10.1.12** VTB is in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.
- 10.1.13** Neither VTB, nor any of its Principal Subsidiaries, has taken any corporate action nor, to the best of the knowledge and belief of VTB, have any other steps been taken or legal proceedings started or threatened in writing against VTB or any of its Principal Subsidiaries for its or their bankruptcy, winding-up, dissolution, external administration or reorganisation (save to the extent disclosed in the Prospectus, and save for any internal corporate reorganisation of the Group undertaken in the normal course of business) (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its or their assets or revenues.
- 10.1.14** There are no strikes or other employment disputes against VTB which are pending or, to the Management Board of VTB's knowledge, threatened in writing which could have a Material Adverse Effect.
- 10.1.15** In any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England pursuant to sub-Clause 15.10 in relation to this Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in the Russian Federation.
- 10.1.16** As of the date of the Agreement and Closing Date and subject to sub-Clause 10.1.1, under the laws of the Russian Federation, it will not be required to make any deduction or withholding from any payment it may make hereunder.
- 10.1.17** Its execution of this Agreement will constitute, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes.

**10.1.18** It has no overdue tax liabilities which could have a Material Adverse Effect other than those which it has disclosed to the Lender prior to the date of this Agreement or which it is contesting in good faith.

**10.1.19** All licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable VTB and any of its Principal Subsidiaries to own its assets and carry on its business are in full force and effect and, if not, the absence of which could not have a Material Adverse Effect.

## **10.2 Lender's Representations and Warranties**

The Lender represents and warrants to VTB as follows:

**10.2.1 Enforceability:** (i) No consents, approvals, authorisations or other orders of any regulatory authorities are required by the Lender under the laws of Ireland for or in connection with the advance of the Loan and compliance with the terms of the Loan Agreement, (ii) it has complied with all legal and other requirements in Ireland necessary to ensure that, upon due execution, manually or by facsimile, issuance and/or delivery in the manner provided herein, the Loan Agreement will represent legal, valid and binding obligations of the Lender enforceable against the Lender in accordance with its terms (subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity (whether in a proceeding at law or in equity)) and (iii) due payment of all amounts payable in respect of the Loan Agreement and compliance with the Loan Agreement will not conflict with, or result in a breach or violation of, any existing laws or the terms of any such consent, approval, authorisation or order or the constitutional documents of the Lender.

**10.2.2 Incorporation:** The Lender is duly incorporated under the laws of Ireland and has full power and capacity to execute the Loan Agreement and to undertake and perform the obligations expressed to be assumed by it, the Lender has taken all necessary action to approve and authorise the same and no Issuer Relevant Event (as defined in the Trust Deed) has occurred and is continuing.

**10.2.3 Independent Analysis:** The Lender has undertaken an independent analysis of the Loan Agreement and its rights and obligations in connection therewith (including receipt of any Opinion of Counsel it deems necessary) sufficient to enable it to make an informed determination to enter into the Loan Agreement on its terms.

### **10.2.4 Tax Resident:**

**10.2.4.1** The Lender is a company which at the date hereof is a resident of Ireland in the sense of the double taxation treaties concluded by Ireland; it, in particular, is subject to taxation in Ireland on the basis of its registration as a legal entity, location of its management body or another similar criteria and it is not subject to taxation in Ireland merely on income from sources in Ireland or connected with property located in Ireland;

**10.2.4.2** the Lender does not have a branch, representation, division, bureau, office, Agency or any other economically autonomous subdivision or other place of business in any country other than Ireland through which the business of the Lender is wholly or partially carried out;

**10.2.4.3** the Lender did not explicitly grant authority to and is not aware of an implied authority for any person located outside Ireland to negotiate key parameters of any contracts or sign any contracts on behalf of the Lender, bind the Lender in any

contracts by other means or otherwise represent the Lender in dealings with third parties;

**10.2.4.4** the Lender has its central management and control in Ireland. The Lender's place of effective management is only in Ireland; and

**10.2.4.5** the directors of the Lender are Irish nationals and reside professionally in Ireland and shall at all times act independently and exercise their authority from and within Ireland by taking all key decisions relating to the Lender in Ireland.

**10.2.5 No Conflict:** The execution of the Loan Agreement and the undertaking and performance by the Lender of the obligations expressed to be assumed by it will not conflict with, or result in a breach of or default under, the laws of Ireland or the constitutional documents, rules and regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

**10.2.6 Accounting:** The Lender will fully account for the Notes and the Loan on its balance sheet.

## **11 Covenants**

So long as any amount remains outstanding under this Agreement:

### **11.1 Withholding Tax Exemption**

**11.1.1** The Lender shall use its best endeavours to provide VTB no later than 10 Business Days before the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year) with a certificate, issued and certified by the competent Irish authorities, confirming that the Lender is tax resident in Ireland, provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Irish authorities, but shall notify VTB without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. Such certificate shall be appropriately apostilled and a certified translation supplied.

**11.1.2** VTB and the Lender (using its best endeavours and in accordance with law) agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding or the interpretation thereof by the relevant competent authority change then the procedure referred to in sub-Clause 11.1.1 will be deemed changed accordingly.

**11.1.3** The Lender shall within 30 days of the request of VTB (to the extent it is able to do so under applicable law including Russian laws) deliver to VTB such other information or forms to be duly completed and delivered as may be needed to obtain a tax refund if a relief from deduction or withholding of Russian Taxes has not been obtained. If required, the other forms referred to in this sub-Clause 11.1.3 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Ireland and any requisite power of attorney issued by the Lender to VTB shall be duly signed and apostilled or otherwise legalised. The Lender shall provide VTB with all assistance it may reasonably require to ensure that VTB can deliver to the tax authorities the information or forms specified in this sub-Clause 11.1.3. VTB shall indemnify the Lender for all out-of-pocket costs and expenses incurred by the Lender as a result of steps undertaken pursuant to this sub-Clause 11.1.3. The Lender shall not be obligated to take any step under this sub-Clause 11.1.3 if, in the reasonable opinion of the Lender, to so take would be prejudicial to it (other than the incurrence of costs and expenses of an administrative nature).

## **11.2 Reports**

- 11.2.1** VTB will furnish to the Lender commencing with the year ending 31 December 2012, within nine months of the relevant year-end audited annual consolidated financial statements prepared in accordance with IFRS as consistently applied and in English, including a report thereon by VTB's certified independent auditors.
- 11.2.2** Within 30 days of the close of each calendar quarter, VTB shall deliver to the Lender a written notice in the form of an Officer's Certificate stating whether any Potential Acceleration Event or Acceleration Event has occurred and, if it has occurred and shall be continuing, what action VTB is taking or proposes to take with respect thereto.
- 11.2.3** VTB will on request of the Lender provide the Lender with such further information, other than information which VTB determines in good faith to be confidential, about the business and financial condition of VTB and its Subsidiaries as the Lender may reasonably request (including information referred to in sub-Clauses 14.5 and 14.12 of the Trust Deed).
- 11.2.4** VTB consents that any information provided to the Lender pursuant to this sub-Clause 11.2 may also be provided to the Trustee without violating any duty of confidentiality or secrecy that the Lender may owe to VTB under the laws of Ireland.
- 11.2.5** VTB will at the same time as delivering its audited annual financial statements pursuant to sub-Clause 11.2.1 and within 30 days of a request from the Lender, deliver to the Lender an Officer's Certificate specifying those Subsidiaries which were at a date no more than 10 days before the date of such Officer's Certificate, Principal Subsidiaries.
- 11.2.6** Promptly upon receipt by VTB of the relevant final conclusion that all or part of the Loan is to be treated as Tier 1 Capital, VTB shall deliver a copy of the relevant final conclusion to the Lender.

## **11.3 Capital Treatment**

VTB will use its best efforts to procure that the CBR issues the relevant final conclusion and will provide all relevant information about the Loan to the CBR as may be necessary for the issuance of such final conclusion.

## **11.4 Lender's Undertaking**

The Lender agrees to provide any assistance and information and to enter into such documentation as may reasonably be required by VTB (and whether required for regulatory, accounting or other reasons) to ensure that VTB and the Lender can fulfil their respective rights and obligations under the Loan Agreement (save that where, in the reasonable opinion of the Lender, to do so would be prejudicial to it (other than the incurrence of costs and expenses of an administrative nature)).

## **12 Limited Acceleration Events**

### **12.1 Payment Default**

If VTB fails to pay within seven Business Days any amount payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified therein, the Lender may, at its discretion and without further notice, institute proceedings in the manner and to the extent contemplated by applicable law (including, for the avoidance of doubt, the Insolvency Law) for the insolvency (bankruptcy) of VTB and/or to prove for its debt, and claim, in any consequent liquidation of VTB.

## 12.2 Winding-up

On the occurrence of any of the following events:

**12.2.1** the commencement of any liquidation of VTB (*likvidatsia*, as such term is defined under the Civil Code of the Russian Federation);

**12.2.2** the entering into force of the decision of a competent court of the Russian Federation on bankruptcy of VTB (*reshenie o priznanii dolzhnika bankrotom*, as such term is defined under Insolvency Law); or

**12.2.3** any revocation of VTB's general banking licence,

the Lender may give notice to VTB that under the laws of the Russian Federation the Loan is, and it shall accordingly become, due and repayable (*srok ispoleninya obyazatelstv schitaetsya nastypivshim*, as such term is used in Russian law) (subject to and in accordance with the provisions of Clause 3.1 above) at the principal amount thereof together with any interest accrued and unpaid to the date of repayment and any other sums due and payable by VTB pursuant to this Agreement, and the Lender may, at its discretion and without further notice, take any actions in the manner and to the extent contemplated by the applicable law of the Russian Federation to prove for its debt and/or, to the extent applicable, commence liquidation or winding up proceedings of VTB.

## 12.3 Notice of Acceleration Event

VTB shall deliver to the Lender and to the Trustee, within seven days after becoming aware thereof, written notice of any event described in Clauses 12.1 and 12.2 (each an “**Acceleration Event**”), its status and what action VTB is taking or proposes to take with respect thereto.

## 12.4 Proceedings

In addition to its rights under Clauses 12.1 and 12.2, the Lender may institute such other proceedings against VTB as it may think fit to enforce any obligation, condition or provision binding on VTB under this Agreement (other than any obligation for payment of any principal or interest in respect of the Loan contemplated by Clause 12.1) provided that VTB shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing or measured by reference to principal or interest in respect of the Loan sooner than the same would otherwise have been payable by it or (ii) any damages.

## 13 Indemnity

### 13.1 Indemnification

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

Liability that is the subject of the undertakings contained in Clause 14 and sub-Clauses 15.2 and 15.6 of this Agreement).

### **13.2 Independent Obligation**

Sub-Clause 13.1 constitutes a separate and independent obligation of VTB from its other obligations under or in connection with this Agreement or any other obligations of VTB and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

### **13.3 Evidence of Loss**

A certificate of the Lender, supported by relevant documentation, setting forth the amount of Liability described in sub-Clause 13.1 and specifying in reasonable detail the basis therefor shall be prima facie evidence of the amount of such Liability.

### **13.4 Survival**

The obligations of VTB pursuant to sub-Clauses 2.6, 6.3, 6.4, 13.1, 15.19 and 15.20 shall survive the execution and delivery of this Agreement and the drawdown and repayment of the Loan, in each case by VTB.

## **14 Expenses**

### **14.1 Front-end Expenses for the Extension of the Original Loan by the Lender**

VTB, pursuant to Clause 2.4 hereof, paid the Lender the Arrangement Fee taking into account the front-end commissions, costs and fees in U.S. dollars incurred and properly documented by the Lender in connection with the financing, negotiation, preparation and execution of the Original Loan Agreement and all related documents and transactions and other costs connected with the extension of the Original Loan.

### **14.2 Payment of Ongoing Expenses**

In addition, VTB hereby agrees to pay to the Lender on demand in U.S. dollars all ongoing commissions, costs and fees, payable by the Lender under or in respect of the Lender Agreements. Payments to the Lender referred to in this sub-Clause 14.2 shall be made by VTB at least one Business Day before the relevant payment is to be made or expense incurred; provided that before such payment is made by VTB, the Lender shall submit an invoice providing, in reasonable detail, the nature and calculation of the relevant payment or expense. Subsequently, VTB and the Lender shall enter and sign a delivery and acceptance act (an “**Act of Acceptance**”) as provided in sub-Clause 14.3.

### **14.3 Acts of Acceptance**

In connection with all payments to be made under Clause 2.6, Clause 14 and sub-Clause 15.2, VTB and the Lender shall within 60 days of such payment becoming due or such indemnity claim being made, enter into and sign a delivery and acceptance act (which VTB shall prepare) with respect to the amounts to be paid by VTB. Invoices and delivery and acceptance acts shall separately specify: (i) the net amount due, (ii) any applicable Russian income tax withholding, (iii) any applicable Russian VAT and (iv) the resulting total tax-inclusive amount.

## **15 General**

### **15.1 Evidence of Debt**

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

## **15.2 Stamp Duties**

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

**15.2.2** If the Lender incurs a liability to pay any stamp, registration and documentary taxes, duties or similar charges (if any) imposed by any person in the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and any documents related thereto as well as the Notes and any documents related thereto, this shall be a cost to which Clause 2.6 applies.

## **15.3 Waivers**

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

## **15.4 Notices**

All notices, requests, demands or other communications to or upon the respective parties to this Agreement shall be given or made in the English language by fax, electronic communication or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier, if sent by electronic communication or if sent by facsimile transmission or by airmail, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

**15.4.1** if to VTB:

Vorontsovskaya st. 43  
Moscow 109044  
Russian Federation

For Settlement issues:

**Mikhail Bugrov**  
email: [bugrov@vtb.ru](mailto:bugrov@vtb.ru)  
Tel.: +7 495 775-54-54 ext. 1-71-18  
Fax: +7 495 9563698

and

**Olga Frolova**

email: frolovaov@msk.vtb.ru  
Tel.: +7 495 775-54-54 ext. 1-71-53  
Fax: +7 495 9563698

For all correspondence:

**Alexander Smolin**

email: smolin@vtb.ru  
Tel.: + 7495 956 30 56  
Fax: + 7495 232 32 03

and

**Maria Popova**

email: popovamv@msk.vtb.ru  
Tel.: + 7495 956 30 56  
Fax: + 7495 232 32 03

**15.4.2** if to the Lender:

31 Fitzwilliam Square  
Dublin 2  
Ireland  
Tel: +353 1 905 8020  
Fax: +353 1 905 8029  
email: corporate.services@caficointernational.com

Attention: Directors (VTB Eurasia Limited)

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

Any notice sent by post as provided in this Clause 15.4 shall be deemed to have been given, made or served when delivered and any notice sent by facsimile transmission as provided in this Clause 15.4 shall be deemed to have been given, made or served when the relevant delivery receipt is received by the sender and any notice sent by electronic communication as provided in this Clause 15.4 shall be deemed to have been given, made or served when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Agreement which is to be sent by facsimile transmission or electronic communication will be written legal evidence.

**15.5 Assignment**

**15.5.1** This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in

sub-Clause 15.5.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and VTB or any agreements of the Lender or VTB pursuant to sub-Clauses 6.5 or 6.6 or Clause 9.2.

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

**15.5.3** The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except (i) with the prior written consent of VTB, to a company located in Ireland and/or (ii) in connection with the funding of the Loan, by way of first fixed charge granted by the Lender and the absolute assignment by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits under this Agreement and, in respect of (ii) hereof, VTB agrees that it will, on or prior to the Relevant Closing Date, acknowledge in writing any such charge and assignment and that the Trustee may assign or transfer the benefit of this Agreement. Any reference in this Agreement to any such assignee or transferee shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee.

## **15.6 Currency Indemnity**

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

## **15.7 Prescription**

To the extent any Notes become void as a consequence of a failure to present such Notes for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment thereof, subject to the Lender having received the principal amount thereof or interest thereon from VTB, the Lender shall forthwith repay to VTB, subject to receipt of account information therefrom, the principal amount or the interest amount thereon, respectively, of any Notes that shall have become void.

## **15.8 Contracts (Rights of Third Parties) Act 1999**

Other than the Trustee who shall have rights under the Contracts (Rights of Third Parties) Act 1999 in respect of this Agreement, a person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

## **15.9 Governing law**

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

#### **15.10 Jurisdiction**

The parties irrevocably agree that any dispute arising out of or connected with this Agreement, including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this Clause 15.10 (a “**Dispute**”), shall be resolved by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London Court of International Arbitration) (“**LCIA Rules**”), which rules are deemed to be incorporated by reference into this Clause, save that, Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA.

#### **15.11 Lender’s process agent**

The Lender irrevocably appoints TMF Corporate Services Limited (the “**Lender's Agent**”), now of 6 St Andrew Street, London EC4A 3AE, United Kingdom, as its agent to accept service of process in England in any Dispute, provided that:

**15.11.1** service upon the Lender's Agent shall be deemed valid service upon the Lender whether or not the process is forwarded to or received by the Lender;

**15.11.2** the Lender shall inform all other parties to this Agreement, in writing, of any change in the address of the Lender's Agent within 28 days of such change;

**15.11.3** if the Lender's Agent ceases to be able to act as a process agent or to have an address in England, the Lender irrevocably agrees to appoint a new process agent in England acceptable to the other parties to the Agreement and to deliver to the other parties to the Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

**15.11.4** nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

#### **15.12 VTB’s process agent**

VTB irrevocably appoints TMF Corporate Services Limited (“**VTB’s Agent**”), now of 6 St Andrew Street, London EC4A 3AE, United Kingdom, as its agent to accept service of process in England in any Dispute, provided that:

**15.12.1** service upon VTB’s Agent shall be deemed valid upon VTB whether or not the process is forwarded to or received by VTB;

**15.12.2** VTB shall inform all other parties to this Agreement, in writing, of any changes in the address of VTB’s Agent within 28 days of such change;

**15.12.3** if VTB’s Agent ceases to be able to act as a process agent or to have an address in England, VTB irrevocably agrees to appoint a new process agent in England acceptable to the other parties to the Agreement and to deliver to the other parties to the Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

**15.12.4** nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

**15.13 Waiver of Immunity**

To the extent that VTB or the Lender may, in relation to any Dispute, claim for itself or its assets or revenues, immunity from the jurisdiction of any tribunal, service of process, interim relief, or any process for execution of any award against its property, VTB and the Lender irrevocably waive such immunity.

**15.14 Counterparts**

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

**15.15 Language**

The language which governs the interpretation of this Agreement is the English language.

**15.16 Amendments**

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

**15.16.1** it is in writing signed by the Lender and VTB; and

**15.16.2** a draft amendment agreement has been submitted to the CBR and approval from the CBR shall have been received in respect of such draft amendment agreement.

**15.17 Loan not secured**

The Loan is unsecured.

**15.18 Partial Invalidity**

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

**15.19 Limited Recourse**

VTB hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received by or for the account of the Lender pursuant to this Agreement (after deduction or withholding of such taxes or duties as may be required to be made by the Lender by law in respect of such sum or in respect of the Notes and for which the Lender has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to this Agreement) (the “**Lender Assets**”), subject always to (i) the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the Lead Managers (as defined in the Subscription Agreements) shall rank in priority to claims of VTB hereunder, and that any such claim by the Lead Managers or VTB shall be reduced pro rata so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither VTB nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the

Lender to such person in respect of any such further sum. In particular, neither VTB nor any other person acting on behalf of any of them shall be entitled at any time to institute against the Lender, or join with any other person in bringing, instituting or joining, insolvency proceedings (whether court based or otherwise) against the Lender.

#### **15.20 Non Petition**

None of the parties to this Agreement nor any other person acting on their behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

It is expressly agreed and understood that the entry into this Agreement constitutes a corporate obligation only of the Lender. No personal liability shall attach to or be incurred by any shareholder, member, equity holder, officer, agent, employee or director of the Lender in his capacity as such, under or by reason of any of the obligations, covenants or agreements of such party as a result of entry into this Agreement or implied therefrom and any and all personal liability of every such shareholder, member, equity holder, officer, agent, employee or director for breaches by the Lender of any such obligations, covenants or agreements, either at law or by statute or constitution, is hereby expressly waived by VTB as a condition of and in consideration for the execution of this Agreement except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

## TERMS AND CONDITIONS OF THE FURTHER NOTES

*The following is the text of the terms and conditions of the Further Notes (the “**Conditions**”), which contain summaries of certain provisions of the Trust Deed, and which will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to any Global Notes representing the Further Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and paragraphs in italicised text in these Conditions are for disclosure purposes only and do not form part of the Conditions*

The U.S.\$2,250,000,000 Perpetual Loan Participation Notes comprising the Original Notes and the Further Notes (as each expression is defined below and together, the “**Notes**”, which expression includes any further notes (additional to the Further Notes) issued pursuant to Condition 15 and forming a single series herewith), without coupons, of VTB Eurasia Limited (the “**Issuer**”) which are constituted by, are subject to, and have the benefit of, a trust deed (the “**Original Trust Deed**”) dated 6 August 2012 and made between the Issuer and Citibank, N.A., London Branch (the “**Trustee**”, which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee and successors thereof for the holders of the Notes (the “**Noteholders**”) as amended and restated by virtue of a supplemental trust deed dated 8 November 2012 between the same parties (the “**Supplemental Trust Deed**” and together with the Original Trust Deed, the “**Trust Deed**”, which expression includes such trust deed as from time to time further modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified).

The U.S.\$1,250,000,000 Perpetual Loan Participation Notes (the “**Further Notes**”) issued on 8 November 2012 (the “**Further Notes Issue Date**”) will be consolidated and form a single series with the U.S.\$1,000,000,000 Perpetual Loan Participation Notes of the Issuer issued on 6 August 2012 (the “**Original Notes**”), as follows:

- (i) in respect of the Further Notes initially represented by the Temporary Regulation S Global Note (as defined below), such Further Notes will become fungible with the Original Notes, either:
  - (a) on the first business day following the expiry of 40 days after the Further Notes Issue Date (the “**Global Note Exchange Date**”); or
  - (b) following the transfer to a qualifying U.S. Person in accordance with the transfer restrictions incorporated by reference in the prospectus dated 6 November 2012 in connection with the Further Notes, whereupon such transferred Further Notes will be represented by an interest in the Further Rule 144A Global Note (as defined below).
- (ii) In respect of the Further Notes initially represented by the Further Rule 144A Global Note, such Further Notes will be fungible with the Original Notes on the Further Notes Issue Date.

*The Original Notes are represented by a Regulation S Global Note (the “**Original Regulation S Global Note**”) and a Rule 144A Global Note (the “**Original Rule 144A Global Note**”) substantially in the forms set out in Schedule 1 to the Original Trust Deed. The Further Notes will be initially represented by a temporary Regulation S Global Note substantially in the form set out in Schedule 1 – Part 4 to the Supplemental Trust Deed (the “**Temporary Regulation S Global Note**”) and a permanent Further Rule 144A Global Note substantially in the form set out in Schedule 1 – Part 5 of the Supplemental Trust Deed (the “**Further Rule 144A Global Note**” and together with the Original Rule 144A Global Note, the “**Rule 144A Global Notes**”).*

*Upon the Global Notes Exchange Date, interests then existing in the Temporary Regulation S Global Note will be exchanged in whole, but not in part, for interests in a Further Regulation S Global Note substantially in the form set out in Schedule 1 – Part 3 to the Supplemental Trust Deed (the “**Further Regulation S Global Note**” and together with the Original Regulation S Global Note, the “**Regulation S Global Notes**”) and upon such exchange the Temporary Regulation S Global Note shall become void. The Regulation S Global Notes, the Rule 144A Global Notes and the Temporary Regulation S Global Note will only be*

*exchangeable for Regulation S and Rule 144A Definitive Notes, as applicable, in the circumstances set out therein.*

The Issuer has authorised the creation, issue and sale of the Original Notes for the sole purpose of financing a subordinated loan (the “**Original Subordinated Loan**”) of U.S.\$1,000,000,000 to JSC VTB Bank (“**VTB**”) subject to, and in accordance with, a subordinated loan agreement between the Issuer and VTB dated 2 August 2012 (such subordinated loan agreement, as may be amended, restated or supplemented from time to time, the “**Original Subordinated Loan Agreement**”). The Issuer has authorised the creation, issue and sale of the Further Notes for the sole purpose of financing a further subordinated loan of U.S.\$1,250,000,000 (the “**Further Subordinated Loan**” and together with the Original Subordinated Loan, the “**Subordinated Loan**”) to VTB subject to, and in accordance with, an amendment addendum to the Original Subordinated Loan Agreement between the Issuer and VTB dated 6 November 2012 (the “**Addendum**” and together with the Original Subordinated Loan Agreement, as may be further amended, restated or supplemented from time to time, the “**Subordinated Loan Agreement**”).

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer from VTB pursuant to the Subordinated Loan Agreement, less any amounts in respect of Issuer Reserved Rights (as defined below).

The Issuer (a) has charged by way of first fixed charge in favour of the Trustee for the benefit of the Trustee and the Noteholders certain of (i) its rights and interests as lender under the Original Subordinated Loan Agreement and the Subordinated Loan Agreement (other than the Issuer Reserved Rights (as defined below)) and (ii) its rights, title and interest in and to all sums of money held from time to time in the Account (the “**Charge**”) and (b) has assigned absolutely to the Trustee certain other rights under the **Original Subordinated Loan Agreement** and the Subordinated Loan Agreement (other than the Issuer Reserved Rights) (the “**Assignment**” and together with the Charge, the “**Security Interests**”). In certain circumstances, the Trustee can (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

“**Issuer Reserved Rights**” means all and any rights, interests and benefits in respect of the obligations of VTB under Clauses 2.4, 2.6, 6.3 (to the extent that VTB is to reimburse the Issuer on demand for any amount paid by the Issuer in respect of any Taxes (as defined in the Subordinated Loan Agreement)) 9, 13, and 15.2 (to the extent that VTB is to reimburse the Issuer on demand for any amount paid by the Issuer in respect of any stamp, registration and documentary taxes, duties or similar charges) of the Subordinated Loan Agreement.

The Security Interests are granted to the Trustee as continuing security for the payment of all sums due under the Trust Deed and the Notes, as trustee for itself and/or the Noteholders on a *pari passu* basis.

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from VTB) pursuant to, a paying agency agreement dated 2 August 2012 (the “**Original Agency Agreement**”) and made between the Issuer, Citibank, N.A., London Branch as principal paying agent, calculation agent and transfer agent (the “**Principal Paying Agent**”, the “**Calculation Agent**” and a “**Transfer Agent**”), Citibank, N.A., New York Branch, as a paying agent and a transfer agent (a “**Paying Agent**” and a “**Transfer Agent**”), Citigroup Global Markets Deutschland AG as registrar (the “**Registrar**”), VTB and the Trustee, as supplemented by a supplemental paying agency agreement dated 6 November 2012 between the same parties (the “**Supplemental Agency Agreement**” and together with the Original Agency Agreement and as may be amended, restated or supplemented from time to time, the “**Agency Agreement**”). References herein to principal paying agent, calculation agent, registrar, paying agent or transfer agent, shall

include any additional or successor principal paying agent, calculation agent, registrar, paying agent or transfer agent.

Copies of the Trust Deed, the Subordinated Loan Agreement and the Agency Agreement are available for inspection at the registered office of the Issuer (31 Fitzwilliam Square, Dublin 2, Ireland) and the specified office of the Principal Paying Agent being, at the date hereof, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

The statements contained in these Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Subordinated Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof. Expressions used but not defined in these Conditions shall, if defined in the Trust Deed, have the meanings given to them therein.

## **1 Status**

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Subordinated Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely to finance the Subordinated Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Subordinated Loan Agreement less any amounts in respect of Issuer Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equal to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Subordinated Loan Agreement will be made *pro rata* among all Noteholders on the date of and subject to the conditions attaching to, the equivalent payments pursuant to the Subordinated Loan Agreement on the date for payment under the Subordinated Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed and the rights of Noteholders to receive payments in respect of the Notes are limited to the right to receive monies received by the Issuer pursuant to the Subordinated Loan Agreement and no other assets of the Issuer will be available to Noteholders to meet such payments. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and/or VTB.

Noteholders have notice of, and are deemed to have accepted, these Conditions, the contents of the Trust Deed, the provisions applicable to them in the Agency Agreement and the Subordinated Loan Agreement, and are hereby deemed to have accepted that:

- 1.1** neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by VTB of its obligations under the Subordinated Loan Agreement, the recoverability of any sum of principal or interest (or any additional amounts) or any other amounts due or to become due from VTB under the Subordinated Loan Agreement or the ability to institute proceedings under the Subordinated Loan Agreement in the manner and to the extent contemplated by the applicable law for the winding-up of VTB and/or to prove for any debt and claim, in any liquidation of VTB;
- 1.2** neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition, financial or otherwise, creditworthiness, affairs, status or nature of VTB;

- 1.3** neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of VTB under or in respect of the Subordinated Loan Agreement;
- 1.4** neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any Paying Agent, the Calculation Agent, the Registrar or any Transfer Agent of their respective obligations under the Agency Agreement;
- 1.5** the financial servicing and performance of the terms of the Notes depend upon performance by VTB of its obligations under the Subordinated Loan Agreement and its covenant to make payments under the Subordinated Loan Agreement and, in respect of the Interest Payment Date falling on 6 December 2012, the Issuer as provided in Condition 5 and its credit and financial standing. VTB has represented and warranted to the Issuer that the Subordinated Loan Agreement constitutes a legal, valid and binding obligation of VTB;
- 1.6** the Issuer and the Trustee shall be entitled to rely on (i) quarterly Officer's Certificates (as defined in the Subordinated Loan Agreement) as to whether or not an Acceleration Event or Potential Acceleration Event (each as defined in the Subordinated Loan Agreement) has occurred; (ii) periodic Officer's Certificates identifying the Principal Subsidiaries (as defined in the Subordinated Loan Agreement) of VTB and (iii) notifications received from VTB on the existence of a Trigger Event, a Capital Adequacy Event, a Deferral Event and certain other events or circumstances as described more fully in the Subordinated Loan Agreement and shall not otherwise be responsible for investigating any aspect of VTB's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security.
- 1.7** neither the Trustee nor the Issuer shall at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until the Issuer or the Trustee, as the case may be, has received from VTB the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds; and
- 1.8** the Issuer will not be liable for any shortfall in respect of amounts payable by or resulting from any withholding or deduction or for any payment on account of Tax (as defined in the Subordinated Loan Agreement) required to be made by the Issuer on or in relation to any sum received by it under the Subordinated Loan Agreement, which will or may affect payments made or to be made by VTB under the Subordinated Loan Agreement, save to the extent that it has received additional amounts under the Subordinated Loan Agreement in respect of such withholding or deduction or payment, and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in the Subordinated Loan Agreement. The Trustee shall have no liability for any such shortfall in respect of any such deduction, withholding or payment.

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

The claims of the Issuer against VTB in respect of the principal of, and interest on, the Subordinated Loan will be subordinated upon the occurrence of a Bankruptcy Event (as defined in the Subordinated Loan Agreement) to the claims of all Senior Creditors (as defined in the Subordinated Loan Agreement) in accordance with the Federal Law “On Insolvency (Bankruptcy) of Credit Organisations” No. 40-FZ dated 25 February 1999 (as amended, replaced or superseded from time to time) (the “**Insolvency Law**”) and all Senior Subordinated Creditors (as defined in the Subordinated Loan Agreement) in accordance with the Subordinated Loan Agreement and will rank at least *pari passu* with the claims of other Junior Subordinated Creditors (as defined in the Subordinated Loan Agreement) and will be senior to the claims of holders of VTB’s Capital Stock (as defined in the Subordinated Loan Agreement) in their capacity as shareholders, subject to Clause 3.4 of the Subordinated Loan Agreement.

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

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer’s rights under or in respect of the Subordinated Loan Agreement, the Subordinated Loan, the Account (as defined in the Trust Deed) or the Charged Property (as defined in the Trust Deed), exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Subordinated Loan Agreement or direct recourse to VTB except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed and the assignment of the Assigned Rights assigned to the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings or any step or action to enforce the provisions of the Subordinated Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction.

As provided in the Trust Deed, and notwithstanding any other provision hereof, the obligations of the Issuer are solely to make payments of amounts in aggregate equal to each sum actually received by or for the account of the Issuer (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to the Subordinated Loan Agreement) from VTB in respect of principal, interest, additional amounts or tax indemnity, as the case may be, pursuant to the Subordinated Loan Agreement (less any amount in respect of the Issuer Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the credit and financial standing of VTB and no other assets of the Issuer will be available to the Noteholders.

Notwithstanding any other provisions of these Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the Charged Property and the Assigned Rights (each as defined in the Trust Deed) in accordance with the provisions of the Trust Deed. After realisation of the security which has become enforceable and application of the proceeds in accordance with Clause 8 of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished.

None of the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency

proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreements entered into or made by the Issuer in respect of the Notes, other than in the case of fraud.

## **2 Form and Denomination**

The Notes will be issued in fully registered form, and in the denomination of U.S.\$200,000 or integral multiples of U.S.\$1,000 in excess thereof, without interest coupons.

## **3 Register, Title and Transfers**

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

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

A Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of a Transfer Agent, together with such evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer *provided, however*, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are not less than U.S.\$200,000. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Notes will be issued to the transferor.

Subject to the last paragraph of this Condition 3, within five business days of the surrender of a Note in accordance with the immediately preceding paragraph above, the Registrar will register the transfer in question and deliver a new Note to each relevant holder at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “**business day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

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

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

## 4 Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not (and will not consent to any request of VTB to), without the prior written consent of the Trustee and, to the extent required pursuant to the Subordinated Loan Agreement, the consent of the Central Bank of the Russia Federation (the “**CBR**”), agree to any amendments to or modification of or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Subordinated Loan Agreement, other than with respect to amendments made pursuant to Clauses 2.7, 5.5 or 7.4 of the Subordinated Loan Agreement, as contemplated by Condition 6. Any such amendment, modification, waiver or authorisation made by the Issuer in accordance with Clauses 2.7, 5.5 or 7.4 of the Subordinated Loan Agreement or with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys (other than issuing the Notes, any additional loan participation notes issued by, but with limited recourse to, the Issuer in the future for the sole purpose of financing loans to VTB or other financing instruments on a limited recourse basis), engage in any other business (other than acquiring and holding the Security Interests in respect of Notes or any additional limited recourse loan participation notes or other financing instruments on a limited recourse basis to be issued in the future, advancing the Subordinated Loan to VTB pursuant to the Subordinated Loan Agreement or advancing any loan in connection with any additional limited recourse loan participation notes or other financing instrument on a limited recourse basis to be issued in the future and performing any act incidental to or necessary in connection with the foregoing (including derivative transactions on a limited recourse basis)), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions and the Trust Deed), issue any shares (other than such shares as are in issue on the date hereof or are necessary to convert the Issuer’s status to that of a public limited company), give any guarantee or assume any other liability, or subject to the laws of Ireland, petition for any winding-up or bankruptcy.

## 5 Interest

On each Interest Payment Date, or as soon thereafter as the same are received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement. Interest under the Subordinated Loan accrues, subject to the right of (i) VTB to cancel interest pursuant to Clause 4.4 of the Subordinated Loan Agreement or (ii) the right of the CBR to require VTB to defer interest pursuant to Clause 4.5 of the Subordinated Loan Agreement, at the aggregate of (a) the relevant Treasury Rate and (b) the Margin (as each term is defined in the Subordinated Loan Agreement from (and including) the Relevant Closing Date to (but excluding) the First Reset Date and, provided that the Subordinated Loan is not prepaid at or before such time, thereafter, to each following Reset Date (being each time the 10<sup>th</sup> anniversary of the previous Reset Date) at the then prevailing interest rate under the Subordinated Loan Agreement. Interest shall continue to accrue on any overdue amount of principal (but, for the avoidance of doubt, not on any interest that is either cancelled or deferred under the terms of the Subordinated Loan Agreement) at the applicable rate per annum up to the maximum extent permitted by applicable law. Pursuant to the terms of the Subordinated Loan Agreement, VTB has agreed to give notice to the Trustee of the rate of interest under the

Subordinated Loan Agreement as soon as practicable after its determination but in any event no later than the Relevant Closing Date or, as the case may be, the relevant Reset Date.

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

For the avoidance of doubt, notwithstanding these Conditions and provided such amount has actually been received by or for the account of the Issuer on or before the Interest Payment Date falling on 6 December 2012, holders of the Further Notes will receive on such Interest Payment Date, an amount representing accrued interest on the Further Notes in respect of the period from and including 6 August 2012 to (but excluding) 6 December 2012. Accordingly, all Noteholders will receive on the Interest Payment Date falling on 6 December 2012, provided such amount has actually been received by or for the account of the Issuer, an amount in respect of interest on the Notes from (and including) 6 August 2012 to (but excluding) 6 December 2012.

*Clause 4.4 of the Subordinated Loan Agreement provides that VTB at its discretion may, and in certain circumstances must, cancel all or part of any payment of interest that is scheduled to be paid on any interest payment date under the Subordinated Loan Agreement and, in such circumstances, subject to Clause 4.4.5 of the Subordinated Loan Agreement, the Issuer shall have no right to any such interest, whether in bankruptcy or dissolution of VTB or otherwise. Consequently where interest is cancelled under the Subordinated Loan Agreement, no corresponding payment of interest will be made pursuant to the Notes. Furthermore, Clause 4.5 of the Subordinated Loan Agreement provides that the CBR has the right to require deferral of payments by VTB of interest if the making of such payment would give rise to a Deferral Event (as defined in the Subordinated Loan Agreement), and upon such a deferral, no such interest will be paid pursuant to the Subordinated Loan Agreement (and consequently the Notes) until the earlier of (i) the cessation of the Deferral Event or upon the occurrence of (ii) any of the events set out in Clause 12.2 of the Subordinated Loan Agreement. Finally, to the extent that any principal amount of the Notes is reduced pursuant to Condition 6(c), no interest shall be payable on such principal amount of the Notes that is so reduced.*

## **6 Redemption, Write Down of Principal, Variation for Tier 1 Compliance, Potential Reinstatement and Purchases**

- (a) **No Fixed Redemption Date/Redemption on the Repayment Date:** The Notes have no fixed redemption date and may only be redeemed in accordance with the provisions of this Condition 6. On the Repayment Date (as defined in the Subordinated Loan Agreement), if VTB has repaid the outstanding principal amount of the Subordinated Loan (together with any interest that has accrued to such date, if any), the Issuer will use the proceeds of repayment of the Subordinated Loan Agreement to make available to VTB a further loan in a total aggregate amount equal to the outstanding principal amount of the Subordinated Loan immediately before the Repayment Date, on terms (including as to interest) no less favourable to the Issuer and the Noteholders than those in the Subordinated Loan Agreement, in accordance with Clause 5.6 of the Subordinated Loan Agreement (in which case the Notes will not be redeemed or repaid on the Repayment Date) unless VTB has not exercised its option to require such a further loan under Clause 5.6 of the Subordinated Loan Agreement. If, on the Repayment Date (as defined in the Subordinated Loan Agreement) VTB has repaid the outstanding principal amount of the Subordinated Loan (together with any interest that has accrued to such date, if any) and VTB has not exercised its option under Clause 5.6 of the Subordinated Loan Agreement for such further loan to be extended then, unless (i) the principal amount of the Subordinated Loan Agreement has been deferred pursuant to Clause 4.5 of the Subordinated Loan Agreement (in which case the redemption of the Notes pursuant to this Condition will be deferred until the earlier of (a) cessation of

the Deferral Event (as defined in the Subordinated Loan Agreement) and (b) the occurrence of any of the events set out in Clause 12.2 of the Subordinated Loan Agreement) or (ii) the principal of the Subordinated Loan has been fully cancelled pursuant to Clause 7 of the Subordinated Loan Agreement (see – “Condition 6(c)”) and not subsequently reinstated, all the Notes then remaining outstanding will on the Repayment Date, be redeemed or repaid by the Issuer in U.S. dollars on the Repayment Date at 100 per cent. of the principal amount thereof.

To the extent that there has been a Loan Substitution, all references to the “Subordinated Loan Agreement” in these Conditions shall be to the loan agreement that shall have been substituted for the Subordinated Loan Agreement, and these Conditions shall be construed accordingly. To the extent that Conditions previously referred to provisions of the Subordinated Loan Agreement prior to the Loan Substitution that no longer have any equivalent provision in the Subordinated Loan Agreement after the Loan Substitution, then such Conditions will cease to apply.

*Clause 5.5 of the Subordinated Loan Agreement provides that VTB may, at its option provided that it has both received the prior consent of the CBR has given at least 30 days’ prior written notice to the Trustee and the Issuer, elect to extend the Repayment Date of the Subordinated Loan and, upon any such election being made by VTB pursuant to such Clause, the date of repayment of the Notes will correspondingly extend so that it falls on the new Repayment Date.*

- (b) **Early Redemption:** If the Subordinated Loan should become repayable in full (and be repaid in full) pursuant to the Clauses 5.2 or 5.3 of the Subordinated Loan Agreement prior to the Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at (i) par together with interest accrued to the date of redemption where the prepayment is as a consequence of a prepayment of the Subordinated Loan Agreement pursuant to Clauses 5.2.3 or 5.3 thereof or, (ii) at par plus one per cent as a commission for early redemption in the circumstances where the prepayment is as a consequence of a prepayment of the Subordinated Loan Agreement pursuant to Clause 5.2.1 or 5.2.2, and in any such case, the Issuer will endeavour to give not less than eight days’ notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

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

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

- (c) **Variation for Tier 1 Compliance:** Pursuant to Clause 2.7 of the Subordinated Loan Agreement, subject to VTB submitting a draft amendment agreement to the CBR and obtaining the approval of the CBR to such draft amendment agreement in accordance with Clause 15.16 of the Subordinated Loan Agreement, if, as a result of any amendment or supplement to, clarification or replacement of, or change in (including a change in interpretation or application of), Regulation No. 215-P or any other applicable requirements from time to time of the CBR made to implement the regulatory guidelines set out in the Basel III Documents (as defined in the Subordinated Loan Agreement), all or part of the principal amount of the Subordinated Loan outstanding at such time would cease to qualify as Tier 1 Capital, VTB is permitted, without any requirement for the consent or approval of the Issuer, the Trustee or the Noteholders, to elect to vary the terms of the Subordinated Loan Agreement:

- (i) once so that the Subordinated Loan Agreement contains a provision implementing requirements applicable for non-viability loss absorption of instruments qualifying as Tier 1 Capital issued by banks through a full or partial write-down of the then outstanding amount of the Subordinated Loan
  - (a) if as a result of there being objective elements to support a determination that the relevant bank is not, or will in the near future no longer be, viable, without taking into account any injection of capital by the Russian Federation (except in its normal role as a shareholder in the relevant bank);
  - (b) is not a result directly of the relevant bank accessing liquidity facilities provided by central banks, including emergency liquidity facilities; and
  - (c) in such a way that creditors do not incur greater losses than would be incurred if the relevant bank would have been wound down under normal insolvency proceedings for credit institutions; and/or
- (ii) once so that the existing Loss Absorption Measures in Clause 7 of the Subordinated Loan Agreement are amended to provide for a full or partial write down (by the minimum amount required to comply with the CBR regulations in relation to the amount to be written down which are applicable at the time of the amendment) of the then outstanding amount of the Subordinated Loan when the N1 Ratio (as defined in the Subordinated Loan Agreement) of VTB at such time is below the lower of (i) 75 per cent. of the minimum required N1 Ratio at such time and (ii) such other lower value of the N1 Ratio applicable to Loss Absorbing Instruments in accordance with rules and regulations applicable to VTB at such time calculated under rules and regulations applicable to VTB at the time of the amendment; and/or
- (iii) once so that the Subordinated Loan becomes perpetual; and/or
- (iv) once so that the existing subordination provisions in Clause 3 of the Subordinated Loan Agreement are amended to reflect any changes to the required status of Tier 1 Capital, provided that the claims of the Issuer against VTB in respect of the Subordinated Loan shall continue to be senior to the claims of holders of VTB's Capital Stock in their capacity as shareholders; and/or
- (v) once so that VTB's discretion to elect to cancel interest in accordance with Clause 4.4.1 of the Subordinated Loan Agreement is applicable in respect of all Interest Payment Dates; and/or
- (vi) in any other way that does not make the Subordinated Loan Agreement materially less favourable to the Issuer,

in each case only if and to the extent that such changes are required by the CBR so that the Subordinated Loan Agreement becomes or, as appropriate, remains a loan agreement that contains terms such that it complies with the then current requirements of the CBR in relation to Tier 1 Capital (as defined in the Subordinated Loan Agreement) and, in respect of Clause 2.7.2 of the Subordinated Loan Agreement, only if the N1 Ratio of VTB at the time of the variation of the terms of the Subordinated Loan Agreement is at least 1 per cent. above the minimum requirement for the N1 Ratio applicable to VTB. Upon any such variation by VTB of the terms of the Subordinated Loan Agreement in accordance with Clause 2.7 of the Subordinated Loan Agreement the terms of the Notes may be varied to reflect such variation to the Subordinated Loan Agreement and, subject to the Trustee receiving the Officer's Certificates from the Issuer and VTB confirming that such amendments are being made to reflect variations made to the Subordinated Loan Agreement

in accordance with and subject to Clause 2.7 of the Subordinated Loan Agreement (upon which certificates of the Trustee shall be entitled to rely without further enquiry and without incurring any liability to any person for so doing) the Trustee shall be obliged to agree to such amendments and the consent of the Noteholders to such amendments shall not be sought and notice of such amendments will be provided promptly thereafter to the Noteholders and the Trustee.

- (d) **Write Down:** Pursuant to Clause 7 of the Subordinated Loan Agreement, if (1) (i) a Loss Absorption Event (as defined in the Subordinated Loan Agreement) has occurred and is continuing and (ii) all sources of Tier 1 Capital (other than the Subordinated Loan and other Loss Absorbing Instruments, as all such terms are defined in the Subordinated Loan Agreement) (“**Other Tier 1 Capital**”) have been exhausted to offset losses or (2) all sources of Tier 1 capital as defined in accordance with Basel standards as applied by VTB for the purpose of calculating the Basel tier 1 capital at such time on a consolidated basis for the Group (other than the Loan and the other additional tier 1 capital instruments that comply with the requirements of the Basel standards as applied by VTB for the purpose of calculating the Basel tier 1 capital at such time and ranking *pari passu* with the Loan) (“**Other Basel Tier 1 Capital**”), as disclosed in the notes to the then latest audited consolidated financial statements prepared under IFRS have been exhausted to offset losses, the Subordinated Loan shall promptly be used by VTB to offset losses. For the avoidance of doubt, prior to exhaustion of Other Tier 1 Capital or Other Basel Tier 1 Capital, only amounts accruing on the Loan on an ongoing basis shall be used to offset losses incurred by VTB. Upon the exhaustion of the Other Tier 1 Capital or Other Basel Tier 1 Capital, the value of the Subordinated Loan may be used to offset losses incurred by VTB *pro rata* with other Loss Absorbing Instruments, subject as provided in Clause 7.3 of the Subordinated Loan Agreement. To the extent that, pursuant to Clause 7 of the Subordinated Loan Agreement, the Subordinated Loan is used to offset such losses and the principal amount of the Subordinated Loan (together with any interest thereon) is reduced, then the principal amount of each of the Notes will be written down on a *pro rata* basis, upon such reduction of the Subordinated Loan, without (subject to Condition 6(e)) any further payments due on such principal amount of each Note that is written down.
- (e) **Potential Reinstatement of the Notes and the Subordinated Loan:** Pursuant to the Subordinated Loan Agreement, to the extent that there are changes to (including as to the clarification, interpretation or application of) Russian law that would mean that the use by VTB, upon a Loss Absorption Event ceasing to exist, of its profits (subject to provisions of Russian law on distribution of profits) prior to their distribution for reinstating any principal amount of the Subordinated Loan that has been written down pursuant to Clause 7.3 of the Subordinated Loan Agreement so that any such reinstatement would not contradict Russian law, then VTB has agreed with the Issuer that the Subordinated Loan Agreement will be amended to provide for such a reinstatement of the principal amount of the Subordinated Loan upon a Loss Absorption Event ceasing to exist, provided that (i) such amendments will not be prejudicial to the rights of the Issuer or the Noteholders or to the regulatory capital treatment of the Subordinated Loan for VTB, (ii) such amendments would not trigger any obligation to pay or withhold any Taxes on the amounts so reinstated, (iii) the Issuer is satisfied that such amendments would not contradict Russian law and (iv) such amendments will provide that, following a Loss Absorption Event and if and for so long as all or part of the value of the Subordinated Loan is being used to offset losses incurred by VTB, VTB shall not exercise any right it may otherwise have to prepay the Subordinated Loan under Clauses 5.2 or 5.3 of the Subordinated Loan Agreement. Upon any such reinstatement of any amount of principal of the Subordinated Loan, the Issuer shall simultaneously procure that a corresponding principal amount of each Note on a *pro rata* basis will be reinstated on such date.

- (f) **Purchases:** The Subordinated Loan Agreement provides that, subject to the prior written consent of the CBR, VTB may from time to time deliver, or procure the delivery of, Notes held by it having an aggregate value of at least US\$1,000,000 to the Issuer together with a request for the Issuer to redeem and thereafter cancel such Notes, whereupon the Issuer shall, pursuant to the Paying Agency Agreement, instruct the Principal Paying Agent to cancel such Notes. Upon any such cancellation of the Notes, with the prior written consent of the CBR, the principal amount of the Subordinated Loan corresponding to the principal amount of such Notes together with any accrued and unpaid interest and other amounts (if any) thereon shall be deemed extinguished for all purposes as of the date of such cancellation.

## **7 Payments and Agents**

- 7.1 Principal:** Subject to Condition 6, payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent or of the Registrar and in the manner provided in the paragraph below.
- 7.2 Interest:** Subject to Condition 5, interest shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest shall be made in U.S. dollars by cheque drawn on a bank in New York and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in U.S. dollars maintained by the payee with a bank in New York and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent.
- 7.3 Payments subject to fiscal and other laws:** All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 or (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- 7.4 Payments on business day:** If the due date for payments of interest or principal is not a business day, a Noteholder shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation and where payment is to be made by transfer to an account maintained with a bank in U.S. dollars, on which foreign exchange transactions may be carried on in the U.S. dollars in New York
- 7.5 Agents:** The names of the initial Paying Agents, the Calculation Agent and the Registrar and their initial specified offices are set out below. The Trust Deed and/or the Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent, the Calculation Agent, any of the Paying Agents, the Registrar or any Transfer Agent and appoint additional or other paying agents, calculation agent, registrar or transfer agents provided that (i) there will be a Registrar and (ii) there will be a Calculation Agent (iii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the

ECOFIN Council meeting of 26–27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such European Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

- 7.6 Accrued Interest:** In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement, provided that, with regard to the Further Notes, in the case of a due date for redemption or repayment falling prior to the Interest Payment Date falling on 6 December 2012, an amount corresponding to interest accrued from 6 August 2012, as though those Further Notes had been issued on 6 August 2012 shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement and, in the case of Accrued Interest on the Further Notes, as a portion of the Further Notes issue proceeds.
- 7.7 Payments by VTB:** Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 7 of the Agency Agreement, require VTB to make all payments of principal and interest and additional amounts if any to be made pursuant to the Subordinated Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the "**Account**"). Under the Charge, the Issuer charges by way of first fixed charge all the rights, title and interest in and to all sums of money from time to time deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

## **8 Taxation**

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

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

- 8.1** to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with the Russian Federation or Ireland other than the mere holding of such Note or the receipt of payments in respect thereof;
- 8.2** in respect of a Note presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
- 8.3** where such withholding or deduction is imposed on a payment by or on behalf of the Issuer to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of

26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- 8.4** in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein, “**Relevant Date**” (i) means the date on which any payment under the Subordinated Loan Agreement first becomes due but (ii) if the full amount payable by VTB has not been received by, or for the account of, the Issuer pursuant to the Subordinated Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

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

## **9 Enforcement**

The Trust Deed provides that only the Trustee (subject to the non-petition covenant contained in Condition 1) may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable period and such failure is continuing.

At any time after the occurrence of an Acceleration Event (as defined in the Subordinated Loan Agreement) or of a Relevant Event (as defined in the Trust Deed), the Trustee may, at its discretion and without notice and shall, if requested to do so by Noteholders owning 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to its being secured and/or indemnified and/or prefunded to its satisfaction, take the action permitted to be taken by the Issuer as lender under the Subordinated Loan Agreement (in the case of an Acceleration Event), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon the repayment of the Subordinated Loan or the receipt in full of all principal amount and interest accrued under the Subordinated Loan pursuant to a winding-up or liquidation of VTB following an Acceleration Event and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

## **10 Meetings of Noteholders; Modification of Notes, Trust Deed and Subordinated Loan Agreement; Waiver; Substitution of the Issuer; Appointment/Removal of Trustees**

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

The Trust Deed provides that a written resolution signed by the holders of 75 per cent. in nominal amount of the Notes outstanding shall take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

Without prejudice to Condition 6, the Trustee may agree, without the consent of the Noteholders, to any other modification of the Notes and the Trust Deed (other than the proviso to paragraph 5 of Schedule 5 of the Trust Deed or any modification referred to in that proviso) or, following the creation of the Security Interests, the Subordinated Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders.

The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions of the Notes or the Trust Deed or, following the creation of the Security Interests, by VTB of the terms of the Subordinated Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Subordinated Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of VTB shall, having obtained the consent of VTB (if such substitution is not to be made at the request of VTB) and the Trustee (which latter consent may be given without the consent of the Noteholders) provided certain conditions have been met (as further set out in the Trust Deed) and subject to and having complied with the reasonable requirements set out in the Trust Deed, substitute any entity in place of the Issuer as creditor under the Subordinated Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Subordinated Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes.

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

The Trust Deed contains provision for the appointment or removal of a Trustee by a meeting of Noteholders passing an extraordinary resolution, provided that in the case of the removal of a trustee, there remains a Trustee hereof (being a trust corporation) in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Issuer provided that such retirement shall not become effective unless there remains a Trustee in office after such retirement.

## **11 Prescription**

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

## **12 Indemnification of Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action or step or proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or VTB and any entity related to the Issuer and/or VTB without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Subordinated Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or for the performance by VTB of its obligations under or in respect of the Subordinated Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising or enforcing the Security Interests.

## **13 Replacement of Notes**

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of the Registrar or at the specified office of any Paying Agent on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## **14 Notices**

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such holders at their respective addresses as shown on the Register and (ii) so long as the Notes are listed on the Ireland Stock Exchange and the rules of that exchange so require, published in a daily newspaper of general circulation in Ireland. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

## **15 Further Issues**

Provided that at such time there has been no cancellation or deferral of interest under the Subordinated Loan Agreement nor any write down of principal of the Subordinated Loan pursuant to Clause 7 of the Subordinated Loan Agreement, the Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single series with the Notes, (i) the Issuer will enter into a subordinated loan agreement supplemental to or amending the Subordinated Loan Agreement with VTB on substantially the same terms as the Subordinated Loan Agreement (or in all respects except

for the amount and the date of the first payment of interest on the further subordinated loan) and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further notes also and/or the Issuer will provide a further fixed charge in favour of the Trustee in respect of certain of its rights and interests under any further or amended Subordinated Loan Agreement and will assign absolutely certain of its rights under such further or amended Subordinated Loan Agreement to secure amounts due on the Notes and such further notes.

**16      Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

**17      Governing Law**

The Notes, these Conditions, the Agency Agreement, the Trust Deed and any non-contractual obligations arising out of or in connection with any of them shall be governed by, and construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England.

## SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

### The Global Notes

The Further Notes will be evidenced on issue by (i) in the case of Regulation S Further Notes, initially by the Temporary Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and upon the Global Note Exchange Date interests then existing in the Temporary Regulation S Global Note will be exchanged in whole, but not in part, for interests in a Permanent Regulation S Global Note (and upon such exchange the Temporary Regulation S Global Note shall become void) and (ii) in the case of Rule 144A Further Notes, the Permanent Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in the Temporary Regulation S Global Note or Permanent Regulation S Global Note, as applicable (in this section referred to as the “**Regulation S Global Note**”) may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—*Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in the Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. Person, that it is located outside the United States, and that, prior to the expiration of 40 days after the later of the commencement of the offering and the Closing Date (the “**distribution compliance period**”), it will not offer, sell, pledge or otherwise transfer such interest except to a non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP, in each case in accordance with any applicable securities laws of any state of the United States. See “*Transfer Restrictions*”.

Beneficial interests in the Permanent Rule 144A Global Note may only be held through DTC at any time. See “—*Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in the Permanent Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See “*Transfer Restrictions*”.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Trust Deed and the Agency Agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Further Notes will bear the legends set forth thereon regarding such restrictions set forth under “*Transfer Restrictions*”. A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Permanent Rule 144A Global Note in denominations greater than or equal to the minimum denomination applicable to interests in the Permanent Rule 144A Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Permanent Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Permanent Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. Person and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Permanent Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Permanent Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Permanent Rule 144A Global Note for as long as it remains such an interest. Any

beneficial interest in the Permanent Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Permanent Regulation S Global Note will, upon transfer, cease to be an interest in the Permanent Rule 144A Global Note and become an interest in the Permanent Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Permanent Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of Definitive Notes. The Notes are not issuable in bearer form.

The Regulation S Global Note is evidence of entitlement only and it is not a document of title.

In addition, the Global Notes will contain a provision which modifies the Conditions as they apply to the Notes evidenced by the Global Notes.

### **Amendments to Conditions**

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- *Payments.* Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.
- *Notices.* So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, notices will also be published by an announcement made at the Companies Announcements Office of the Irish Stock Exchange or otherwise in accordance with the guidelines of the Irish Stock Exchange.
- *Record Date.* Notwithstanding Condition 7 “**Record Date**” shall mean the Clearing System Business Day before the relevant due date for payment where “Clearing System Business Day” means (i) in respect of the Regulation S Global Note, held on behalf of Euroclear or Clearstream, Luxembourg, a day when Euroclear or Clearstream Luxembourg is open for business and (ii) in respect of a the Permanent Rule 144A Global Note held on behalf of DTC, a day when DTC is open for business.
- *Meetings.* The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each U.S.\$1,000 in principal amount of the Notes.
- *Trustee’s Powers.* In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to

do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

## **Exchange for Definitive Notes**

### ***Exchange***

Each Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined below), in whole but not in part, for Notes in definitive, registered form if: (i) the Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a “clearing agency” registered under the U.S. Securities Exchange Act of 1934 (the “**Exchange Act**”) or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

If only one of the Global Notes (the “**Exchanged Global Note**”) becomes exchangeable for Definitive Notes in accordance with the above paragraphs, transfers of the Notes may not take place between, on the one hand, persons holding Definitive Notes issued in exchange for beneficial interests in the Exchanged Global Note and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note.

“**Exchange Date**” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

### ***Delivery***

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of VTB (but against such indemnity as the Registrar or any relevant Transfer

Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of the Permanent Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in the Permanent Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “*Transfer Restrictions*”.

### ***Legends***

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under “*Transfer Restrictions*”, or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

### **Book-Entry Procedures for the Global Notes**

Custodial and depository links have been established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “—*Book-Entry Ownership—Settlement and Transfer of Notes*”.

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**” and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

### ***DTC***

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the

Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Permanent Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Permanent Rule 144A Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “*Exchange for Definitive Notes*”, DTC will surrender the Permanent Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

### **Book-Entry Ownership**

#### ***Euroclear and Clearstream, Luxembourg***

The Temporary Regulation S Global Note initially representing the Regulation S Further Notes will have a temporary ISIN and a temporary Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The Permanent Regulation S Global Note representing the Regulation S Further Notes upon the Global Notes Exchange Date will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

#### ***DTC***

The Permanent Rule 144A Global Note representing the Rule 144A Further Notes will have a CUSIP number, an ISIN and Common Code and will be deposited with a custodian for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, USA.

#### ***Relationship of Participants with Clearing Systems***

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect

of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

### ***Settlement and Transfer of Notes***

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note held through DTC to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

### ***Trading between Euroclear and/or Clearstream, Luxembourg Participants***

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

### ***Trading between DTC Participants***

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement ("**SDFS**") system in same-day funds, if payment is effected in U.S. Dollars.

### ***Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser***

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Permanent Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Permanent Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Permanent Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

### ***Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser***

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Permanent Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Permanent Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Permanent Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

### ***Pre-issue Trades Settlement***

It is expected that delivery of Further Notes will be made against payment therefor on the Further Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Further

Notes may be affected by such local settlement practices, and purchasers of Further Notes between the date of pricing and the Further Closing Date should consult their own advisers.

## SUBSCRIPTION AND SALE

### Summary of the Subscription Agreement

The Managers have, pursuant to a subscription agreement dated November 6, 2012 between VTB, the Issuer and the Managers (the “**Subscription Agreement**”), upon the terms and subject to the conditions therein, severally but not jointly, agreed to subscribe and pay for the Further Notes at the issue price of 100.5% of their principal amount plus Accrued Interest.

The Managers are entitled to commissions and reimbursement of certain expenses from the Issuer. The Managers will retain an amount of the issue proceeds of the Further Notes in respect of such commissions and expenses. The Managers are entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Further Notes.

### Selling Restrictions

#### *United States*

The Notes and the Subordinated Loan have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. Persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Further Notes (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Further Closing Date, within the United States or to, or for the account or benefit of, U.S. Persons, and it will have sent to each dealer to which it sells Further Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Further Notes within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in the preceding two paragraphs have the meanings given to them by Regulation S.

The Further Notes are being offered and sold outside the United States to non-U.S. Persons in reliance on Regulation S. The Subscription Agreement provides that the Managers may directly or through their U.S. broker-dealer affiliates arrange for the offer and resale of Further Notes within the United States only to QIBs and QPs who can represent that (a) they are QIBs within the meaning of Rule 144A who are also QPs, (b) they are not broker-dealers who own and invest on a discretionary basis less than \$25 million in securities of unaffiliated issuers, (c) they are not a participant-directed employee plan, such as 401(k) plan, (d) they are acting for their own account, or the account of one or more QIBs each of which is a QP, (e) they are not formed for the purpose of investing in the Issuer or the Notes, (f) they, and each account for which they are purchasing, will hold and transfer at least \$200,000 in principal amount of Rule 144A Further Notes at any time, (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries, and (h) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

In addition, until 40 days after the commencement of the offering of the Further Notes, an offer or sale of Further Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Prospectus has been prepared by the Issuer and VTB for use in connection with the offer and sale of the Further Notes outside the United States and the resale of the Further Notes in the United States and for the listing of Further Notes on the Irish Stock Exchange. The Issuer and the Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not

constitute an offer to any person in the United States or to any U.S. Person other than any QIB who is also a QP and to whom an offer has been made directly by one of the Managers or its U.S. broker-dealer affiliate. Distribution of this Prospectus by any non-U.S. Person outside the United States or by any QIB/QP within the United States, to any U.S. Person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. Person or QIB/QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. Person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP, is prohibited.

### ***United Kingdom***

Each of the Managers has represented and agreed that:

- (d) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Further Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or VTB; and
- (e) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Further Notes in, from or otherwise involving the United Kingdom.

### ***Russian Federation***

Each of the Managers has represented and agreed that the Further Notes will not be offered, transferred or sold as part of its initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having its usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

### ***Ireland***

Each of the Managers has represented and agreed that:

- (a) it will not underwrite the issue of, or place the Further Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulation 2007 (Nos. 1 to 3) (as amended), including, without limitation, Regulations 7 and 152 thereof and any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;
- (b) it will not underwrite the issue of, or place, the Further Notes, otherwise than in conformity with the provisions of the Central Bank Acts 1942 - 2011 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;
- (c) it will not underwrite the issue of, or place, or do anything in Ireland with respect to the Further Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank; and
- (d) it will not underwrite the issue of, place or otherwise act in Ireland with respect to the Further Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 (as amended) and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank.

## ***Republic of Italy***

Each of the Managers has represented, agreed and acknowledged the following:

The offering of the Further Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) (the Italian securities and exchange commission) pursuant to Italian securities legislation and, accordingly, each of the Managers has represented and agreed that it has not offered, sold or distributed, and will not offer, sell or distribute any Further Notes or any copy of the Prospectus or any other offer document in the Republic of Italy (“**Italy**”), except:

- (i) to qualified investors (*investitori qualificati*), pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998 (the “**Italian Financial Services Act**”), and Article 34-*ter*, first paragraph, letter b) of CONSOB Regulation No. 11971 of May 14, 1999 (“**Regulation No. 11971**”), all as amended from time to time; or
- (ii) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under Article 100 of the Italian Financial Services Act and Article 34-*ter* of Regulation No. 11971, all as amended from time to time.

Moreover, and subject to the foregoing, any offer, sale or distribution of the Further Notes or distribution of copies of the Prospectus or any other document relating to the Further Notes in Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007, and Legislative Decree No. 385 of September 1, 1993 (the “**Banking Act**”), all as amended from time to time;
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, all as amended from time to time, pursuant to which the Bank of Italy may require information on the issue or the offer of securities in Italy; and
- (c) in compliance with any securities, tax, exchange control and any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time, *inter alia*, by CONSOB or any other Italian authority.

Article 100-*bis* of the Italian Financial Services Act affects the transferability of the Further Notes in Italy to the extent that any placing of the Further Notes is made solely with qualified investors and such Further Notes are then systematically resold to non-qualified investors on the secondary market at any time in the 12 months following such placing. Where this occurs, if a prospectus has not been published compliant with the Prospectus Directive, purchasers of Further Notes who are acting outside of the course of their business or profession may in certain circumstances be entitled to declare such purchase void and to claim damages from any authorised person at whose premises the Further Notes were purchased, unless an exemption provided for under the Italian Financial Services Act applies.

Any person that acquires Further Notes in the offering assumes the entire responsibility for confirming that the offer or the resale of the Further Notes so acquired were carried out in accordance with all applicable Italian laws and regulations. The Prospectus and the information contained therein are intended only for the use of the original addressees thereof and are not to be distributed to any third-party resident or located in Italy for any reason. Persons residing or situated in Italy other than one of the original addressees of the Prospectus may not rely on it or its content.

## ***General***

Each of the Managers has represented and agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Further Notes or distributes this Prospectus or any other offering or publicity material relating to the Notes, the Issuer or VTB.

Other than the approval of this Prospectus from the Central Bank of Ireland, no action has or will be taken in any jurisdiction by the Issuer, VTB or any of the Managers that would, or is intended to, permit a public offer of the Further Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Manager has undertaken to the Issuer and VTB that it will not, directly or indirectly, offer or sell any Further Notes or distribute or publish the Prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Further Notes by it will be made on the same terms.

The Managers and their respective affiliates have engaged in transactions with VTB and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of its banking business, and the Managers have performed, and may in the future perform, various investment banking, financial advisory, and other services for VTB and/or other member of the Group, for which they have received, and may in the future receive, customary fees and Commissions.

## TAXATION

*The following is a general description of certain tax laws relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries referred to or elsewhere. Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.*

### Russian Taxation

#### General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as taxation of interest payments on the Subordinated Loan. The summary is based on the laws of Russia in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date (possibly with retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaties and the eligibility of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming and obtaining such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance. Further, the substantive provisions of Russian tax law applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change (possibly with retroactive effect) and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions not provided for by the existing legislation. Similarly, court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a “**Non-Resident Noteholder**” means:

- an individual Noteholder actually present in Russia for an aggregate period of less than 183 calendar days (including days of arrival to Russia and including days of departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted for an individual’s short term departure (less than 6 months) from Russia for medical treatment or education. The interpretation of

this definition by the Ministry of Finance of the Russian Federation states that for tax withholding purposes an individual's tax residence status should be determined on the date of income payment (based on the number of days in Russia in the 12-month period preceding the date of payment). The individual's final tax liability in the Russian Federation for the reporting calendar year should be determined based on the number of days spent in Russia in such calendar year; or

- a legal entity or organisation, in each case not organised under Russian law, which purchases, holds and/or disposes of the Notes otherwise than through a permanent establishment in Russia (as defined by Russian tax law).

A **"Resident Noteholder"** means any Noteholder (including any individual and any legal entity or organisation) who is not a Non-Resident Noteholder.

Russian tax residency rules may be affected by an applicable double tax treaty. It is expected that the Russian tax residency rules applicable to legal entities may change in the future. We recommend that Noteholders seek professional advice on their tax residency in Russia.

The Russian tax treatment of interest payments made by VTB to the Issuer (or to the Trustee, as the case may be) under Subordinated Loan Agreement may affect the Noteholders. See *"Taxation of Interest on the Subordinated Loan"* below.

### ***Taxation of the Notes***

#### ***Non-Resident Noteholders***

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer, subject to what is stated in *"Taxation of Interest on the Subordinated Loan"*.

A Non-Resident Noteholder also generally should not be subject to any Russian taxes in respect of the purchase of the Notes, any gain or other income realised on redemption, sale or other disposition of the Notes outside Russia, provided that the proceeds from such redemption, sale or other disposition are not received from a source within Russia.

A Non-Resident Noteholder who is legal entity or organisation should also not be subject to Russian withholding tax on a sale, redemption or disposition of the Notes even if proceeds from a sale, redemption or disposition of the Notes are received from a source within Russia.

If income from a sale, redemption or disposition of the Notes is received from a source within Russia, a Non-Resident Noteholder who is an individual will generally be subject to Russian personal income tax at a rate of 30% on the gain from such disposal (the gain generally being calculated as the gross proceeds from such disposal less any available cost deduction which includes the purchase price of the Notes), subject to any available double tax treaty relief. According to Russian tax legislation, income received from a sale, redemption or disposition of the Notes should be treated as having been received from a Russian source if such sale, redemption or disposition occurs in Russia. Russian tax law gives no clear indication as to how to identify the source of income received from a sale, redemption or disposition of securities except that income received from the sale of securities "in Russia" will be treated as having been received from a Russian source. The taxable base should be calculated in rubles and, therefore, may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of disposition of the Notes and rubles.

Additionally, acquisition of the Notes by a Non-Resident Noteholder who is an individual may constitute a taxable event pursuant to provisions of the Tax Code relating to the material benefit (deemed income) received by individuals as a result of acquisition of securities. If the acquisition price of the Notes is

below the lower threshold of the range of fair market value calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may be subject to the Russian personal income tax at a rate of 30% (arguably, this would be subject to reduction or elimination under the applicable double tax treaty). As noted above with respect to the disposal of the Notes, under Russian tax legislation, taxation of the income of Non-Resident Noteholders who are individuals will depend on whether this income would be assessed as received from Russian or non-Russian sources. Although Russian tax legislation does not contain any provisions on how the related material benefit should be sourced, the tax authorities may infer that such income should be considered as Russian source income if the Notes are purchased “in Russia”. In the absence of any additional guidance as to what should be considered as a purchase of securities “in Russia”, the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria.

The tax may be withheld at the source of payment or, if the tax is not withheld, the Non-Resident Noteholder may be liable to declare its income in Russia and to pay the tax.

Non-Resident Noteholders should consult their own tax advisers with respect to the tax consequences of an acquisition and disposition of the Notes and the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Notes.

### ***Double Tax Treaty Relief***

Russia has entered into double tax treaties with a number of countries and honours some double tax treaties entered into by the former USSR. These tax treaties may contain provisions that reduce or eliminate Russian tax due with respect to income received from a source within Russia by a Non-Resident Noteholder on disposition of the Notes.

Where proceeds from the disposition of Notes are received from a Russian source, withholding tax on interest or on capital gains (if applicable under Russian domestic tax law) may be reduced or eliminated in accordance with the provisions of an applicable double tax treaty. Advance treaty relief should be available for those eligible, subject to the requirements of the laws of Russia. In order for a Non-Resident Noteholder, whether an individual, legal entity or organisation, to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed. Currently, to rely on tax treaty benefits, a Non-Resident Noteholder who is a beneficial owner which is a legal entity or organisation would need to provide a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of the first payment of income in each calendar year. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate would also be required. A Non-Resident Noteholder who is an individual must provide to the tax authorities (together with other documents) a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes and a confirmation certified by the relevant foreign tax authorities of income received and the tax payment made outside Russia on income with respect to which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, individuals in practice may not be able to obtain an advance relief on receipt of proceeds from a source within Russia and obtaining a refund can be extremely difficult.

Non-Resident Noteholders should consult their own tax advisers regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed on proceeds received from a disposition of Notes.

### ***Refund of Tax Withheld***

Where double tax treaty relief is available but Russian income tax has nevertheless been withheld at source by the payer of the proceeds, an application for the refund of the taxes withheld may be filed by the

Non-Resident Noteholders which are legal entities or organisations within three years from the end of the tax period in which the tax was withheld for Non-Resident Noteholders.

In order to obtain a refund, the Non-Resident Noteholder would need to file with the Russian tax authorities a duly notarised, apostilled and translated certificate of tax residence issued by the competent tax authority of the relevant treaty country, as well as documents confirming receipt of income and withholding of Russian tax. In addition, a Non-Resident Noteholder who is an individual would need to provide appropriate documentary proof of tax payments made outside of Russia on income with respect to which tax refund is claimed. The supporting papers shall be provided within one year after the year to which the treaty benefits relates for Non-Resident Noteholders who are individuals. The Russian tax authorities may, in practice, require a wide variety of documentation confirming a Noteholder's right to benefit under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Tax Code. Obtaining a refund of Russian tax withheld may be a time-consuming process and can involve considerable practical difficulties.

Noteholders, whether individuals or organisations, should consult their own tax advisers should they need to obtain refund of tax withheld on any payments from the Notes.

### ***Resident Noteholders***

A Resident Noteholder will generally be subject to all applicable Russian taxes in respect of the purchase of the Notes and income received on the Notes, including gains from a disposition of the Notes and interest received on such Notes. Resident Noteholders should consult their own tax advisers with respect to their tax position regarding Notes.

### ***Taxation of Interest on the Subordinated Loan***

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal entity or organisation are subject to Russian withholding tax at a rate of 20% subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. The Tax Code provides that Russian borrowers should be released from obligation to withhold the Russian withholding tax provided some conditions are met. VTB believes that it should be released from obligation to withhold the Russian withholding tax from interest payments made to the Issuer under the Subordinated Loan Agreement provided that the Issuer duly confirms its tax residence. For more details see "*Risk Factors—Russian Tax Risks Relating to the Notes—VTB's payments under the Subordinated Loan and the Issuer's payments under the Notes may be subject to withholding tax*".

However, if the Notes are simultaneously (i) delisted from Irish Stock Exchange and (ii) exchanged for duly executed and authenticated registered Notes in definitive form in the limited circumstances specified in the Global Notes, the above exemption will not apply and VTB will be required to withhold Russian withholding income tax from interest payments made by VTB to the Issuer.

It should be noted that Law No. 97-FZ of June 29, 2012, does not provide an exemption from Russian withholding tax for foreign recipients of interest income. Although currently there is no requirement in the Russian tax legislation for foreign income recipients which are legal entities to self-assess and pay tax to the Russian tax authorities, there can be no assurance that such rules will not be introduced in the future.

If interest under the Subordinated Loan becomes payable to the Trustee pursuant to the Trust Deed, there is uncertainty if the Borrower will be released from obligation to withhold the Russian withholding tax from interest payments made to the Trustee. In such a case payments of interest under such Subordinated Loan Agreement to the Trustee may be subject to Russian withholding tax at a rate of 20% (or, potentially, at a rate of 30% in respect to Non-Resident Noteholders who are individuals) or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In such cases, Noteholders may seek a reduction or refund of withholding tax under double taxation treaties entered into between their countries of

residence and Russia, where such treaties exist and to the extent they are applicable. There is no assurance that treaty relief will be available.

If payments under the Subordinated Loan are subject to any Russian withholding tax (as a result of which the Issuer would reduce payments under the Notes, as the case may be, by the amount of such withholding), VTB is obliged (subject to certain conditions) to increase payments as may be necessary so that the net payments received by the Issuer and Noteholders will be equal to the amounts they would have received in the absence of such withholding (the “**Additional Amounts**”). It should be noted, however, that the tax gross up provisions may not be enforceable under Russian law. In the event that VTB fails to make increased payments where it is obliged to do so, such failure would constitute a Payment Default (as defined in the Trust Deed). In such case, the Issuer may, at its discretion and without further notice, institute proceedings in the manner and to the extent contemplated by the applicable Russian law of the insolvency (bankruptcy) of VTB and/or to prove for its debt and claim in any consequent liquidation of VTB.

Interest expenses eligible for deduction should meet general deductibility criteria established by Article 252 of the Russian Tax Code (i.e. they should be economically justified, supported by appropriate documents and incurred by a taxpayer in the course of income-generating activity). Further, specific deductibility criteria established by Article 269 of the Tax Code should be met. Namely, deductibility of interest expenses is subject to limitations established in the form of specific numerical thresholds and thin capitalization rules. Currently the deduction of interest expenses is limited to 0.8 times of the CBR refinancing rate for loans received in foreign currency, and to 1.8 of the refinancing rate of the CBR for loans received in Russian Rubles. These thresholds are established for the period from January 1, 2011 till December 31, 2012. Currently the refinancing rate of the CBR is 8%. Provided that funds are lent at a fixed rate, taxpayers should use the refinancing rate of the CBR at the date of receipt of the loan, i.e. this means that if the loan is obtained now, the current refinancing rate of the CBR (8%) will be fixed for the whole period of the loan for the purposes of interest limits calculation. With respect to other loan obligations (e.g. based on a floating rate or if the loan agreement allows change of interest rate) taxpayers should use the refinancing rate of the CBR at the date of interest expense recognition. Interest payable on the loan should be recognized for taxation purposes when accrued (irrespective of whether it is paid).

### ***Value Added Tax***

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in Russia in respect of interest and principal payments under the Subordinated Loan.

### ***Irish Taxation***

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

### ***Withholding Tax***

In general, tax at the standard rate of income tax (currently 20%), is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- (a) the Notes are Quoted Eurobonds i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish, London or Luxembourg Stock Exchanges) and which carry a right to interest; and
- (b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:
  - (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or
  - (ii) the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and
- (c) one of the following conditions is satisfied:
  - (i) the Noteholder is resident for tax purposes in Ireland; or
  - (ii) the Noteholder is a pension fund, government body or other person (other than a person described in paragraph (c)(iv) below, who is resident in a Relevant Territory(as defined below) and who, under the laws of that territory is exempted from tax that generally applies to profits, income or gains in that territory; or
  - (iii) the Noteholder is subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or
  - (iv) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:
    - (1) from whom the Issuer has acquired assets;
    - (2) to whom the Issuer has made loans or advances; or
    - (3) with whom the Issuer has entered into a swap agreement,

where the aggregate value of such assets, loans, advances or swap agreements represents not less than 75% of the assets of the Issuer, or
  - (v) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iv) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a relevant territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory,

where for these purposes, the term

“**Relevant Territory**” means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

“**Swap Agreement**” means any agreement, arrangement or understanding that—

- (i) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and
- (ii) transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange are held in DTC, Euroclear and/or Clearstream, Luxembourg, and one of the conditions set out in paragraph (c) above is met, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is met.

### ***Encashment Tax***

Irish tax will be required to be withheld at the standard rate of income tax (currently 20%) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

### ***Income Tax, PRSI and Universal Social Charge***

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory. For these purposes, residence is

determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

### ***Capital Gains Tax***

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

### ***Capital Acquisitions Tax***

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 30% if either (i) the disponent or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponent is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

### ***Stamp Duty***

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

### ***EU Directive on Taxation of Savings Income***

Ireland has implemented the EC Council Directive 2003/48/EC on the taxation of savings income into national law. Accordingly, any Irish paying agent making an interest payment on behalf of the Issuer to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State will have to provide details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address) to the Irish Revenue Commissioners who in turn are obliged to provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned. The Issuer shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in Directive 2003/48/EC and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer or any other person to the relevant tax authorities.

## **EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Directive 2003/48/EC)**

The Savings Directive provides that EU Member States are required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the beneficial owner of the interest payment must be allowed to elect that certain provision of information procedures should be applied instead of withholding. The rate of withholding is 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in a Member State to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

A proposal for amendments to the Savings Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment under a Note were to be made by a person in a Member State or another country or territory which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any law implementing or complying with, or introduced in order to conform to the Savings Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such Note as a result of the imposition of such withholding tax. The Issuer is, however, required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive or any such law.

### **Certain United Kingdom Tax Considerations**

The comments below are of a general nature and are based on current UK tax law and published practice of HM Revenue & Customs (“**HMRC**”), the UK tax authorities. Such law may be repealed, revoked or modified (possibly with retrospective effect) and such practice may change, resulting in UK tax consequences different from those discussed below. The comments below deal only with UK rules relating to information that may need to be provided to HMRC in respect of certain payments on the Notes and are not intended to be exhaustive. They do not deal with any other UK tax consequences of acquiring, owning or disposing of the Notes. Noteholders who are in doubt as to their own tax position, both under the tax law of the country in which they are resident for tax purposes and the tax law of the UK, should consult their professional advisers.

### ***Provision of Information***

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual or a partnership containing individuals, or (ii) paying amounts due on redemption of the Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an

individual or a partnership containing individuals, may be required to provide certain information to HMRC regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in relation to the payments contemplated in (ii) above, HMRC published guidance indicates that HMRC will not exercise its power to obtain information where such amounts are paid on or before April 5, 2013. There is no guarantee that equivalent guidance will be published in respect of future years.

### **Certain U.S. Federal Income Tax Consequences**

**TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE (IRS) CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

The following is a summary of certain U.S. federal income tax considerations relevant to U.S. Holders (as defined below) acquiring, holding and disposing of Notes. This summary is based on the U.S. Internal Revenue Code of 1986 (the "Code"), final, temporary and proposed U.S. Treasury regulations, administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect.

This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organisations; (vii) partnerships, pass-through entities, or persons that hold Notes through pass-through entities; (viii) holders that are not U.S. Holders; (ix) holders that own (directly, indirectly or constructively) 10% or more of the voting stock of the Issuer; (x) investors that hold Notes as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes; (xi) investors that have a functional currency other than the U.S. dollar and (xii) U.S. expatriates and former long-term residents of the United States), all of whom may be subject to tax rules that differ significantly from those summarised below. This summary does not address tax consequences applicable to holders of equity interests in a holder of the Notes, U.S. federal estate, gift or alternative minimum tax considerations, or non-U.S., state or local tax considerations. This summary only addresses investors that will acquire Notes in the initial offering, and it assumes that investors will hold their Notes as capital assets (generally, property held for investment). The summary assumes that the Notes will be characterized as equity in the Issuer for U.S. federal income tax purposes.

For the purposes of this summary, a "U.S. Holder" is a beneficial owner of Notes that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the laws of, the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source or (iv) a trust that is subject to U.S. tax on its worldwide income regardless of its source.

Based on the present nature of its activities, including the planned offering, and the present composition of its assets and sources of income, the Issuer expects to become a passive foreign investment company (a "PFIC") for the current year and the foreseeable future. The Issuer's status as a PFIC will subject U.S. Holders of Notes to adverse U.S. federal income tax consequences, which may be mitigated if such U.S. Holders are able to make a QEF election (as discussed below). See "*Passive foreign investment company rules*" below.

## **Dividends**

Subject to the PFIC rules discussed below, a distribution made by the Issuer on the Notes (including amounts withheld in respect of foreign income tax, if any) generally will be treated as a dividend includable in the gross income of a U.S. Holder as ordinary income. Such dividends will not be eligible for the dividends received deduction allowed to corporations.

Dividends on the Notes will not be eligible for the preferential income tax rate on “qualified dividend income” under U.S. federal income tax law because the Issuer is classified as a PFIC.

Dividends on the Notes generally will constitute income from sources outside the United States for foreign tax credit limitation purposes. The amount of any distribution of property other than cash will be the fair market value of the property on the date of the distribution.

## **Sale or other disposition**

Subject to the PFIC rules discussed below, a U.S. Holder generally will recognise gain or loss for U.S. federal income tax purposes upon a sale or other disposition of its Notes in an amount equal to the difference between the amount realised from such sale or disposition and the U.S. Holder’s adjusted tax basis in such Notes, as determined in U.S. dollars. Such gain or loss generally will be capital gain or loss and will be long-term capital gain (taxable at a reduced rate for non-corporate U.S. Holders, such as individuals) or loss if, on the date of sale or disposition, such Notes were held by such U.S. Holder for more than one year. The deductibility of capital loss is subject to significant limitations. Such gain or loss realised generally will be treated as derived from U.S. sources.

## **Passive foreign investment company rules**

In general, a corporation organised or incorporated outside the United States is a PFIC in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (i) at least 75% of its gross income is classified as “passive income” or (ii) at least 50% of the average quarterly value attributable to its assets produce or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

Based on the present nature of its activities, including the planned offering, and the present composition of its assets and sources of income, the Issuer expects to become a PFIC for the current year and the foreseeable future. If the Issuer is classified as a PFIC in any year that a U.S. Holder is a Noteholder, the Issuer generally will continue to be treated as a PFIC for that U.S. Holder in all succeeding years, regardless of whether the Issuer continues to meet the income or asset test described above.

If a U.S. Holder does not make a valid election as discussed below, and the Issuer is a PFIC for any taxable year during which an investor is a U.S. Holder, the investor will be subject to special tax rules with respect to any “excess distribution” received and any gain realised from a sale or other disposition (including a pledge) of Notes. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or the U.S. Holder’s holding period for the Notes will be treated as excess distributions. Under these special tax rules, (i) the excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period for the Notes; (ii) the amount allocated to the current taxable year and other years before the Issuer was a PFIC will be treated as ordinary income; and (iii) the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and an interest charge (at the rate generally applicable to underpayments of tax for the period from such year to the current year) will be imposed on the resulting tax attributable to each such year.

If VTB is also a PFIC a U.S. Holder will generally be subject to similar rules with respect to distributions to the Issuer by, and dispositions by the Issuer of the stock of, VTB, as well as certain distributions by or dispositions of the stock of any direct or indirect subsidiaries of VTB that are also PFICs.

Based on the present nature of its activities, including the planned offering, and the present composition of its assets and sources of income, VTB believes that it was not a PFIC for the year ending on December 31, 2011 and does not expect to become a PFIC for the current year or for any future taxable year. There can be no assurances that VTB will not be considered to be a PFIC for any particular year because PFIC status is factual in nature, generally cannot be determined until the close of the taxable year in question, and is determined annually. If VTB were a PFIC in any taxable year, materially adverse U.S. federal income tax consequences could result for U.S. Holders, as described above. This disclosure assumes that VTB is not and will not become a PFIC.

A U.S. Holder subject to the PFIC rules discussed above or below is required to file IRS Form 8621 with respect to its investment in the Notes in the year such U.S. Holder receives any distribution upon, or makes any disposition of, such Notes.

#### *Mark-to-market election*

To mitigate the adverse consequences of the PFIC rules discussed above, a U.S. Holder may make an election to include gain or loss on the Notes as ordinary income or loss under a mark-to-market method, provided that the Notes are regularly traded on a qualified exchange. The Issuer does not expect that the Notes will be “regularly traded” for purposes of the mark-to-market election.

#### *Qualified electing fund election*

To mitigate the adverse consequences of the PFIC rules discussed above, a U.S. Holder may make an election to treat the Issuer as a qualified electing fund (“QEF”) for U.S. federal income tax purposes. To make a QEF election, the Issuer must provide U.S. Holders with information compiled according to U.S. federal income tax principles. The Issuer expects to comply with all reporting requirements necessary for a U.S. Holder to make a QEF election and to, within reasonable time following the end of any taxable year in which the Issuer determines that it is properly classified as a PFIC, provide to registered U.S. Holders of Notes on written request (in the form of the Note Owner Certificate found in Schedule 3 of the Agency Agreement) information necessary for such an election. VTB currently does not intend to compile such information for U.S. Holders, and therefore it is expected that this election will be unavailable with respect to VTB should VTB become a PFIC, in which case, a QEF election in respect of the Issuer would be of limited benefit to U.S. Holders.

A U.S. Holder that makes a QEF election will be required in each taxable year to include (i) as long-term capital gain its *pro rata* Note of the net capital gain of the Issuer (*i.e.*, the excess of net long-term capital gain over net short-term capital loss for the taxable year of the Issuer ending with or within the U.S. Holder’s taxable year) and (ii) as ordinary income its *pro rata* Note of the ordinary earnings of the Issuer (*i.e.*, the excess of current earnings and profits for such taxable year over such net capital gain), regardless of whether the Issuer distributes such amounts to the U.S. Holder. For this purpose, a U.S. Holder’s *pro rata* Note of the ordinary income and net capital gain of the Issuer is the amount which would have been distributed to the U.S. Holder if, on each day during the taxable year of the Issuer, the Issuer had distributed to each holder of an equity interest a *pro rata* Note of that day’s ratable Note of ordinary earnings and net capital gain for such year. A U.S. Holder will not be eligible for the dividends received deduction in respect of such income or gain. In addition, any losses in a taxable year will not be available to the U.S. Holder and may not be carried back or forward in computing the ordinary earnings and net capital gain of the Issuer in other taxable years.

If the Issuer distributes the income or gain that was previously included in the U.S. Holder’s gross income, such distributions will be non-taxable to the U.S. Holder. For purposes of determining gain or loss on the disposition of Notes, a U.S. Holder’s initial tax basis in the Notes will be increased by the amount so included in gross income with respect to the Notes and decreased by the amount of any non-taxable distributions on the Notes. In general, a U.S. Holder making a timely QEF election will recognise, on the sale or disposition of Notes, capital gain or loss equal to the difference, if any, between the amount realised

upon such sale or disposition and that U.S. Holder's adjusted tax basis in those Notes. Such gain will be long-term if the U.S. Holder held the Note for more than one year on the date of disposition.

Each U.S. Holder who desires to make a QEF election must individually make the QEF election with respect to each PFIC in which the shareholder has a direct or indirect interest. The QEF election is effective for the U.S. Holder's taxable year for which it is made and all subsequent taxable years and may not be revoked without the consent of the IRS. In general, a U.S. Holder must make a QEF election on or before the due date for filing its income tax return for the first year to which the QEF election will apply.

#### **U.S. information reporting, backup withholding and FATCA withholding tax**

A U.S. Holder may be subject to information reporting unless it establishes that payments to it are exempt from these rules. Payments that are subject to information reporting may be subject to backup withholding if a U.S. Holder does not provide its taxpayer identification number and otherwise comply with the backup withholding rules. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules are available to be credited against a U.S. Holder's U.S. federal income tax liability and may be refunded to the extent they exceed such liability, provided the required information is timely provided to the IRS.

Under U.S. federal income tax law and regulations, certain categories of U.S. persons must file information returns with respect to their investment in the equity interests of a foreign corporation. A U.S. person that purchases for cash Notes will be required to file IRS Form 926 or similar form if the transfer, when aggregated with all transfers made by such person (or any related person) within the preceding 12 month period, exceeds U.S.\$100,000. In the event a U.S. Holder fails to file any such required form, the U.S. Holder could be required to pay a penalty equal to 10% of the gross amount paid for such Notes up to a maximum penalty of U.S.\$100,000.

Payments on the Notes may be subject to information reporting and withholding pursuant to FATCA as described in "*Risk Factors—Risks Related to the Notes—U.S. Foreign Account Tax Compliance withholding may affect payments on the Notes.*" FATCA is particularly complex and its application is uncertain at this time. Holders of Notes should consult their own tax advisers on how FATCA may apply to payments on the Notes.

Individual U.S. Holders may be required to report to the IRS certain information with respect to their beneficial ownership of the Notes not held through an account with a domestic financial institution. Investors who fail to report required information could be subject to substantial penalties.

## CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, “**ERISA Plans**”), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labour “plan assets” regulation, 29 CFR Section 2510.3-101, as modified by section 3(42) of ERISA (the “**Plan Assets Rules**”), and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code (together with ERISA Plans, “**Plans**”)) and certain persons (referred to as “**parties in interest**” or “**disqualified persons**”) having certain relationships to such Plans, unless a statutory or administrative exemption applies to the transaction. In particular, an extension of credit between a Plan and a “party in interest” or “disqualified person” may constitute a prohibited transaction.

In addition, under a “look-through rule” set forth in the Plan Assets Rules, if a Plan invests in an “equity interest” of an entity and no other exception applies, the Plan’s assets may include both the equity interest and an undivided interest in each of the entity’s underlying assets. Where the value of an interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity. Because the Further Notes do not represent an interest in any property of the Issuer other than the Subordinated Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the Subordinated Loan. Therefore, no assurance can be given that an investment by a Plan in the Further Notes, if the Notes were deemed to constitute equity interests in the Issuer would not give rise to a prohibited transaction under the applicable provisions of ERISA and the Code. Accordingly, the Further notes should not be acquired by any Plan.

BY ITS PURCHASE AND HOLDING OF A FURTHER NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH FURTHER NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT AND IS NOT ACTING ON BEHALF OF A PLAN OR ANY ENTITY OR ACCOUNT WHOSE UNDERLYING ASSETS ARE TREATED AS PLAN ASSETS PURSUANT TO THE PLAN ASSET RULES AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH FURTHER NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATION AND WARRANTY FROM THAT PERSON.

## TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby.

### Rule 144A Further Notes

Each purchaser of the Rule 144A Further Notes, by accepting delivery of this Prospectus and the Further Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than \$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Further Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Further Notes or the Issuer, and (f) aware, and each beneficial owner of such Further Notes has been advised, that the sale of such Further Notes to it is being made in reliance on Rule 144A.
- (2) It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Further Notes in a principal amount that is not less than \$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book-entry depositories.
- (3) It understands that the Rule 144A Further Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.
- (4) It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Further Notes that is a U.S. Person and is not a QIB and a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Further Notes to a U.S. Person who is not a QIB and a QP.
- (5) It understands and acknowledges that its purchase and holding of such Further Notes or any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Further Notes or any interest therein (a) it is not and is not acting on behalf of a benefit plan investor (as defined in Section 3(42) of ERISA) and (b) it will not sell or otherwise transfer any such Further Note or interest therein to any person without first obtaining these same foregoing representations and warranties from that person.
- (6) It understands that the Permanent Rule 144A Global Note and any Definitive Notes issued in respect thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE SUBORDINATED LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE

OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “**QIB**”) THAT IS A QUALIFIED PURCHASER (“**QP**”) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “**INVESTMENT COMPANY ACT**”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN \$200,000 PRINCIPAL AMOUNT OF NOTES OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS SECURITY. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN \$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT IS PURCHASING, WILL HOLD AND TRANSFER AT LEAST \$200,000 IN PRINCIPAL AMOUNT OF THE NOTE AT ANY TIME; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND A QP THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE

ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100% OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND IS NOT ACTING ON BEHALF OF A BENEFIT PLAN INVESTOR (AS DEFINED IN SECTION 3(42) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED) AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THIS NOTE THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.

- (7) The Issuer, VTB, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Rule 144A Further Notes is no longer accurate, it shall promptly notify the Issuer, VTB and the Managers. If it is acquiring any Further Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
- (8) It understands that the Rule 144A Further Notes will be evidenced by the Permanent Rule 144A Global Note. Before any interest in the Permanent Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

**Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

### **Regulation S Further Notes**

Each purchaser of the Regulation S Further Notes outside the United States and each subsequent purchaser of such Regulations S Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Regulation S Further Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Further Notes are purchased will be, the beneficial owner of such Regulation S Further Notes and (a) it is not a U.S. Person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, VTB or a person acting on behalf of such an affiliate.
- (2) It understands that the Regulation S Further Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Regulation S Further Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is

also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

- (3) It understands that the Regulation S Further Notes will be initially evidenced by the Temporary Regulation S Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Temporary Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Permanent Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (4) It understands and acknowledges that its purchase and holding of such Further Notes and any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period it holds such Notes or any interest therein (a) it is not and is not acting on behalf of a benefit plan investor (as defined in Section 3(42) of ERISA) and (b) it will not sell or otherwise transfer any such Note or interest therein to any person without first obtaining these same foregoing representations and warranties from that person.
- (5) The Issuer, VTB, the Registrar, the Managers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Further Notes is no longer accurate, it shall promptly notify the Issuer, VTB, and the Managers. If it is acquiring any Further Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

## GENERAL INFORMATION

- (1) The Further Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Temporary Common Code for the Regulation S Further Notes while represented by interests in the Temporary Regulation S Global Note is 085169408 and the International Securities Identification Number (“**ISIN**”) for the Regulation S Notes while represented by interests in the Temporary Regulation S Global Note is XS0851694082. The Common Code for the Regulation S Further Notes while represented by interests in the Permanent Regulation S Global Note will be 081059683, the same as the Regulation S Original Notes. The ISIN for the Regulation S Further Notes while represented by interests in the Permanent Regulation S Global Note will be XS0810596832, the same as the Regulation S Original Notes. The CUSIP number of the Rule 144A Further Notes is 91834KAA4 and the ISIN of the Rule 144A Further Notes is US91834KAA43. The Common Code for the Rule 144A Further Notes is 081190682, in each case the same as for the Rule 144A Original Notes.
- (2) Application has been made to the Irish Stock Exchange for the Further Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on the Main Securities Market, through the Listing Agent, Arthur Cox Listing Services Limited (“**ACLSL**”). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Further Notes and is not itself seeking admission to the Official List of the Irish Stock Exchange or trading on the Main Securities Market for the purposes of the Prospectus Directive. Application will also be made to the UK Listing Authority for the Further Notes to be admitted to the Official List of the UK Listing Authority and to trading on the Regulated Market.
- (3) It is expected that the admission of the Further Notes to the Official List of the Irish Stock Exchange and trading on the Market will take place on or about November 8, 2012 subject to the issuance of the Global Notes, while the admission of the Further Notes to the Official List of the Listing Authority and trading on the Regulated Market will take place on or about November 8, 2012.
- (4) For so long as any Notes are outstanding, copies (and English translations where the documents in question are not in English) of the following documents may be obtained free of charge in physical form at the registered office of the Issuer and specified offices of the Trustee and the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
  - the audited consolidated financial statements of the Group as of and for the years ended December 31, 2011, 2010 and 2009;
  - the interim consolidated financial statements of the Group as of and for the six months ended June 30, 2012;
  - the charter of VTB and the Memorandum and Articles of Incorporation of the Issuer;
  - the Trust Deed (including the forms of the Global Notes and Definitive Notes);
  - the Agency Agreement;
  - the Subordinated Loan Agreement (including the Addendum); and
  - this Prospectus, together with any supplement hereto.

Neither the Group nor VTB prepares financial statements in accordance with U.S. GAAP.

- (5) Other than as disclosed in this Prospectus there has been no material change in the prospectus of VTB or the Group since June 30, 2012 and no significant change in the financial or trading position of VTB or the Group since December 31, 2011 (the date of the last published audited financial statements of VTB). There has been no significant change and/or material adverse change in the financial or trading position or prospects of the Issuer since the date of incorporation of the Issuer. The Issuer has no subsidiaries.
- (6) The Issuer and VTB have obtained all necessary consents, approvals and authorisations in Ireland and Russia, respectively, in connection with the issue and performance of the Notes and the making of the Subordinated Loan. The issue of the Further Notes and the making of the Further Subordinated Loan was authorised by a resolution of the Board of Directors of the Issuer dated November 5, 2012. VTB has received all required internal authorisations to drawdown the Further Subordinated Loan.
- (7) No consents, approvals, authorisations or order of any regulatory authorities are required by the Issuer under the laws of Ireland for the issue of the Further Notes and the making of the Subordinated Loan.
- (8) Save as disclosed in this Prospectus, neither VTB nor any of its subsidiaries is involved in, or has been involved in, any governmental, legal or arbitration proceedings that may have had in the twelve months before the date of this Prospectus, a significant effect on the financial position or profitability of the Group, nor, so far as VTB is aware, are any such proceedings pending or threatened.
- (9) The Issuer has not been involved in any governmental, legal or arbitration proceedings that may have had, in the twelve months before the date of this Prospectus, a significant effect on the Issuer's financial position or profitability, nor, so far as the Issuer is aware, are any such proceedings pending or threatened.
- (10) The Trust Deed provides, amongst other things, that the Trustee may act or rely upon the opinion or advice of, or upon a certificate or other information from, any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding the fact that such opinion, advice, certificate or other information contains a monetary or other limit on the liability of any such persons in respect thereof.
- (11) Save for the fees payable to the Managers, the Trustee, the Principal Paying Agent and the Registrar, so far as the Issuer is aware, no person involved in the issue of the Further Notes has an interest that is material to the issue of the Further Notes.
- (12) The Issuer estimates the total expenses related to the admission of the Further Notes to trading on the Market to be EUR3,000.
- (13) Interest and principal on the Subordinated Loan will be paid into an account operated by the Principal Paying Agent for the benefit of the Issuer.
- (14) Neither VTB nor the Issuer intends to provide any post-issuance transaction information regarding the Further Notes or Subordinated Loan.
- (15) Each time the Issuer sends an annual report to the holders of the Rule 144A Notes, the Issuer will include a reminder that: (a) each holder of the Rule 144A Notes that is a U.S. person is required to be a QIB and a QP that can make the representations set forth in "Transfer Restrictions—Rule 144A Notes"; (b) the Rule 144A Notes can only be transferred to a person if such person is a QIB that is

also a QP which is capable of making the same representations; and (c) the Issuer has the right to force any holder of the Rule 144A Notes that is not a QIB and a QP to sell or redeem its Rule 144A Notes.

**ISSUER**  
**VTB Eurasia Limited**  
31 Fitzwilliam Square  
Dublin 2  
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