

## IMPORTANT NOTICE

**IMPORTANT: You must read the following before continuing.** The following disclaimer applies to the Base Prospectus attached to this electronic transmission, and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Base Prospectus. In accessing the attached Base Prospectus 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 ATTACHED BASE PROSPECTUS 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, DIRECTLY OR INDIRECTLY, 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 ATTACHED BASE PROSPECTUS 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 A U.S. PERSON, A PERSON IN THE UNITED STATES OR A 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. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED TO ACCESS THE ATTACHED BASE PROSPECTUS OR USE IT FOR ANY PURPOSE AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation of your representation:** In order to be eligible to view the attached Base Prospectus or make an investment decision with respect to the securities described therein, 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.

The Base 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.

The Base Prospectus, prepared pursuant to the Prospectus (Directive 2003/71/EC) Regulations 2005, will be available from the registered office of the Issuer and the website of the Irish Financial Services Regulatory Authority (the “**Financial Regulator**”).

The securities described in the attached Base Prospectus 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 Base Prospectus is not an offer, or an invitation to make offers, sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian person or entity.

You are reminded that you are accessing the attached Base Prospectus on the basis that you are a person by whom the attached Base Prospectus 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 Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of VEB Finance Limited in such jurisdiction.

The attached Base Prospectus 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 State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”, VEB Finance Limited, nor the Permanent Dealers (as defined below), 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 this Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”, VEB Finance Limited or any Permanent Dealer (as defined below).



VNESHECONOMBANK

STATE CORPORATION  
«BANK FOR DEVELOPMENT AND FOREIGN  
ECONOMIC AFFAIRS (VNESHECONOMBANK)»

U.S.\$30,000,000,000

*Programme for the Issuance of Loan Participation Notes*

to be issued by, but with limited recourse to,

**VEB Finance Limited**

for the purpose of financing loans to

**State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”**

Under the Programme for the Issuance of Loan Participation Notes (the “**Programme**”) described in this Base Prospectus (the “**Base Prospectus**”), VEB Finance Limited (the “**Issuer**”) may, subject to compliance with all relevant laws, regulations and directives, from time to time, issue loan participation notes (the “**Notes**”) on the terms set out herein. Each such issuance will be subject to a final terms supplement (each such final terms, the “**Final Terms**”) setting out the specific terms of such issuance. This Base Prospectus should be read in conjunction with the relevant Final Terms applicable to such issuance. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.\$30,000,000,000 (or the equivalent in other currencies). Notes will be issued in Series (as defined in “*Overview of the Programme*”) and the purpose of issuing each Series will be to finance either a senior loan (a “**Senior Loan**”) or a subordinated loan (a “**Subordinated Loan**”, and, together with a Senior Loan, the “**Loans**”) and each a “**Loan**”) to State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” (“**VEB**”) as borrower, on the terms of either (i) in relation to a Senior Loan, a facility agreement between the Issuer and VEB dated 24 June 2010 (the “**Facility Agreement**”), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on or before each issue date (the “**Issue Date**”) of the relevant Series (each a “**Loan Supplement**”) and, together with the Facility Agreement, the “**Senior Loan Agreement**”), or (ii) in relation to a Subordinated Loan, a subordinated loan agreement between the Issuer and VEB to be dated on or before the Issue Date of the relevant Series (as amended and supplemented from time to time) (the “**Subordinated Loan Agreement**”), and, in either case, any applicable Swap Agreement or Swap Agreements (each as defined below), as the case may be. In this Base Prospectus, “**Loan Agreement**” shall mean either (i) a Senior Loan Agreement (in respect of a Senior Loan) or (ii) a Subordinated Loan Agreement (in respect of a Subordinated Loan), as applicable. The relevant Final Terms in respect of the issue of any Series of Notes will specify whether a Loan being financed by such Series of Notes is a Senior Loan (such Series of Notes being a “**Senior Series**”) or a Subordinated Loan (such Series of Notes being a “**Subordinated Series**”). As provided in the Trust Deed (as defined herein), the Issuer will (a) charge, in favour of BNY Corporate Trustee Services Limited, as trustee (the “**Trustee**”), by way of a first fixed charge as security for its payment obligations (i) in respect of each Series of Notes, (ii) under the Trust Deed and (iii) if applicable, under the relevant Swap Agreement or Swap Agreements, as the case may be, certain of its rights and interests under the relevant Loan Agreement and, if applicable, certain of its rights as counterparty under the relevant Swap Agreement or Swap Agreements, as the case may be, and the relevant Account or Accounts (as defined in the relevant Loan Supplement or the Subordinated Loan Agreement, as the case may be) but excluding any Issuer Reserved Rights (as defined in the Trust Deed) (the “**Charge**”), and (b) assign, in favour of the Trustee, certain of its other rights under the Loan Agreement, including rights in respect of any Loan Assignment (as defined below) but excluding any Issuer Reserved Rights and, if applicable, certain of its rights as counterparty under the relevant Swap Agreement or Swap Agreements, as the case may be, in each case for the benefit of the holders of the corresponding Series of Notes (the “**Noteholders**”), all as more fully described in “*Overview of the Programme*”.

In connection with the payments made in respect of a Series of Notes and the corresponding Loan, the Issuer and any applicable swap counterparty or swap counterparties, as the case may be (each a “**Swap Counterparty**”), and together the “**Swap Counterparties**”), may enter into currency exchange transactions under swap documentation (each a “**Currency Swap Agreement**”), and, together the “**Currency Swap Agreements**”), and/or into interest rate exchange transactions under swap documentation (each an “**Interest Rate Swap Agreement**”), and together the “**Interest Rate Swap Agreements**”), and any such Currency Swap Agreement and Interest Rate Swap Agreement, a “**Swap Agreement**”, and, if more than one Swap Agreement, “**Swap Agreements**”). In these circumstances, the Charge will be held for the benefit of the relevant Swap Counterparties in addition to the Noteholders.

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

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

**THE NOTES AND THE CORRESPONDING LOANS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (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 REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”)). THE NOTES MAY BE OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (“QIBS”), AS DEFINED IN 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, AS AMENDED (THE “INVESTMENT COMPANY ACT”), IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE “RULE 144A NOTES”); AND (II) TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (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 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 OTHER RESTRICTIONS, SEE “SUBSCRIPTION AND SALE” AND “TRANSFER RESTRICTIONS”.**

**The 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 Base Prospectus is not an offer to, or an invitation to make offers to, sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian person or entity.**

The Base Prospectus has been approved by the Irish Financial Services Regulatory Authority (the “**Financial Regulator**”), as competent authority under Directive 2003/71/EC (the “**Prospectus Directive**”). The Financial Regulator only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application will be made to the Irish Stock Exchange (the “**Irish Stock Exchange**”) for Notes issued under the Programme within 12 months of the Base Prospectus to be admitted to the Official List (the “**Official List**”) and trading on its regulated market (the “**Market**”). The Market is a regulated market for the purposes of Directive 2004/39/EC. Such approval relates only to the Notes which are to be admitted to trading on the Market or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Copies of documents in relation to the Notes to be issued during the period of 12 months from the date of the Base Prospectus will be filed with the Financial Regulator for the purposes of the Prospectus Directive. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Irish Stock Exchange (or any other stock exchange) and admitted to trading on the Market (or any other market). Reference in this Base Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to trading on the regulated market of the Irish Stock Exchange.

Regulation S Notes of each Series which are sold in an “offshore transaction” within the meaning of Regulation S will initially be represented by interests in one or more global unrestricted Notes in registered form (each a “**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 Bank SA/NV (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) on or about the relevant Issue Date. Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes of each Series 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*”, will initially be represented by interests in one or more global restricted Notes in registered form (each a “**Rule 144A Global Note**”, and, together with any Regulation S Global Notes, the “**Global Notes**”), without interest coupons, which will, unless otherwise indicated in the relevant Final Terms, be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“**DTC**”) on or about the relevant Issue Date. Beneficial interests in a 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 Notes in Global Form*”. Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

The price and amount of Notes in a Series to be issued under the Programme will be determined by the Issuer, VEB and the relevant Dealer at the time of issue in accordance with prevailing market conditions. The minimum denomination of any Notes issued under the Programme shall be €50,000 (or its equivalent in any other currency as at the date of issue of the Notes). For defined terms, see “*Presentation of Financial and Other Information—Certain Definitions*”.

*Arrangers and Permanent Dealers*

Barclays Capital  
HSBC

Citi  
Société Générale Corporate & Investment Banking

The date of this Base Prospectus is 24 June 2010.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, VEB and VEB's consolidated subsidiaries taken as a whole (the "**Group**") which 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, VEB and the Group.

Each of the Issuer and VEB accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of each of the Issuer and VEB (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. VEB's legal name is State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)". VEB's registration number is 1077711000102 and the address of its registered office is 9 Akademika Sakharova, Moscow B-78, GSP-6, 107996, Russian Federation. The telephone number of the registered office is +7 (495) 721 98 40. The Issuer's legal name is VEB Finance Limited. The Issuer is registered in Ireland under registration number 481529 and its registered address is 53 Merrion Square, Dublin 2, Ireland. The Issuer's telephone number is +353 1 614 6240.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, VEB, the Group, the Trustee, any Swap Counterparty, any Agent, the Dealers or the Arrangers (each as defined under "*Overview of the Programme*") to subscribe for or purchase any of the Notes.

The distribution of this Base Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, VEB, the Group, the Trustee, any Swap Counterparty, the Agents, the Dealers and the Arrangers to inform themselves about, and to observe, any such restrictions. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Base Prospectus is set out under "*Subscription and Sale*".

No person is authorised to provide any information or make any representation not contained in this Base Prospectus and any information or representation not contained in this Base Prospectus must not be relied upon as having been authorised by or on behalf of the Issuer, VEB, the Group, the Trustee, any Swap Counterparty, any Agent, any of the Dealers or the Arrangers. The delivery of this Base 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 VEB and its subsidiaries do not form any part of the contents of this Base Prospectus.

Neither the delivery of this Base 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, VEB or the Group since the date of this Base Prospectus.

None of the Issuer, VEB, the Group, the Trustee, any Swap Counterparty, any Agent, the Dealers or the Arrangers or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant 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 Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Base Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer, VEB, the Group, the Trustee, the Agents, the Arrangers and the Dealers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal and investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any 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 Base Prospectus has been filed with and approved by the Financial Regulator as required by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**"). This Base Prospectus, as approved by the Financial Regulator, will be filed with the Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

Where the Issuer wishes to issue Notes with a maturity of less than one year, it shall ensure that the Notes are issued in accordance with an exemption granted under section 8(2) of the Central Bank Act, 1971, as amended.

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

Under any Currency Swap Agreement, the Issuer will agree to make payments of one currency (the “**Loan Currency**”) (subject to receipt of a corresponding amount thereof in the same currency under the Loan Agreement) against payment by the relevant Swap Counterparty of amounts in a different currency corresponding to the amounts due under the Notes and the Trust Deed from time to time, being the Specified Currency (as set out in the relevant Final Terms). Under any Interest Rate Swap Agreement, the Issuer will agree to make payments calculated on the interest basis set out in the relevant Loan Supplement (the “**Loan Interest Basis**”) against payment by the relevant Swap Counterparty of amounts calculated on the interest basis set out in the relevant Final Terms (the “**Notes Interest Basis**”).

In connection with the issue of any Series of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) in the relevant Final Terms (the “**Stabilising Manager**”), or persons acting on behalf of the Stabilising Manager, may over-allot Notes or effect transactions with a view to supporting the market price of the 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 such stabilisation actions. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of a Series of 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 such Series of Notes and 60 days after the date of allotment of such Series of Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE TRUSTEE, ANY AGENT, THE DEALERS OR THE ARRANGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS BASE PROSPECTUS, AND NOTHING CONTAINED IN THIS BASE PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE DEALERS OR THE ARRANGERS ASSUME ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS BASE PROSPECTUS.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROGRAMME FROM TIME TO TIME MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER, VEB 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 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 NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE 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 LICENCED 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 VEB is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). For so long as either the Issuer or VEB 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 VEB, as the case may be, will, upon request, furnish to each holder or beneficial owner of 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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## ENFORCEABILITY OF JUDGMENTS

VEB is a state corporation established pursuant to the laws of the Russian Federation. All members of VEB's Supervisory Board and Management Board named in this Base Prospectus reside outside the United Kingdom and the United States. Moreover, the majority of VEB's assets and substantially all of the assets of the members of its Supervisory Board or Management Board 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 members of VEB's Supervisory Board or Management Board named in this Base Prospectus; or
- enforce, in English or U.S. courts, judgments obtained outside English or U.S. courts against VEB or any members of its Supervisory Board or Management Board named in this Base Prospectus in any action.

Each Loan Agreement will be governed by English law and will provide for the Issuer to elect for disputes to be settled in the courts of England and Wales. 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. 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), 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 VEB or the members of its Supervisory Board and Management Board. 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 or Noteholders of effective legal recourse for claims related to the investment in the Notes or under the relevant Loans. See *“Risk Factors—Risks Relating to the Russian Federation— It may be difficult to obtain recognition or enforcement in the Russian Federation of a foreign judgment in respect of the Notes”*.

As an alternative to the courts of England and Wales, each Loan Agreement will provide for disputes, controversies and causes of action brought by any party thereto against VEB 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 and the United States 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 or the United States 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 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 each 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.

## **SUPPLEMENT TO THE BASE PROSPECTUS**

The Issuer will, in connection with the listing of the Notes on the Irish Stock Exchange, in the event of any significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on the Irish Stock Exchange.

The Issuer and VEB may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions herein, in which event a supplement to this Base Prospectus, or a prospectus in respect of such Series of Notes, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

The Group's financial information set forth herein has, unless otherwise indicated, been derived from its audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, as at and for the years ended 31 December 2009, 2008 and 2007 (the "IFRS Financial Statements") as set forth on pages F-2 through F-194 of this Base Prospectus. The IFRS Financial Statements for the year ended 31 December 2007 were restated in order to comply with IFRS. References in this Base Prospectus to total loans include loans to customers and amounts due from credit institutions.

### Auditors

The IFRS Financial Statements have been audited in accordance with International Standards on Auditing by CJSC Ernst & Young Vneshaudit who have expressed an unqualified opinion on each of those statements, as stated in their report appearing herein. The address of CJSC Ernst & Young Vneshaudit is Sadovnicheskaya Naberezhnaya 77, Building 1, Moscow 115035, Russian Federation. CJSC Ernst & Young Vneshaudit are independent auditors. CJSC Ernst & Young Vneshaudit is a member of the Non-profit Partnership "Audit Chamber of Russia".

### Certain Definitions

In this Base Prospectus:

"**2007 Memorandum**" means the Memorandum "On Financial Policies" of State Corporation "Bank for Development and Foreign Economic Affairs (Vneshconombank)" approved by Directive of the Government of the Russian Federation No. 1007-r on 27 July 2007, as amended;

"**Basel Accord**" means the report published by the Basel Committee on Banking Supervision in January 1988, which sets out the capital adequacy framework issued in 1988;

"**Belarus**" means the Republic of Belarus;

"**CBR**" or "**Bank of Russia**" means the Central Bank of Russia;

"**CIS**" means the Commonwealth of Independent States and its member states (excluding the Russian Federation) as at the date of this Base Prospectus, being Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;

"**Development Bank Law**" means Federal Law No. 82-FZ "On Bank of Development" passed by the State Duma on 20 April 2007 and approved by the Russian Federation Council on 4 May 2007, as amended;

"**EEA**" means the European Economic Area;

"**EU**" means the European Union;

"**ROSEXIMBANK**" means CJSC ROSEXIMBANK;

"**FSFM**" means the Russian Federal Service for Financial Markets;

"**Federal Budget 2010**" means Federal Law No. 308-FZ "On the Federal budget for 2010 and planning period of 2011-2012" dated 2 December 2009;

"**Financial System Support Law**" means the Federal Law of the Russian Federation dated 13 October 2008 No. 173-FZ "On Additional Measures for Supporting the Financial System of the Russian Federation", as amended;

"**GLOBEXBANK**" means CJSC "GLOBEXBANK";

“**Group**” means VEB and its consolidated subsidiaries taken as a whole;

“**IFRS**” means the International Financial Reporting Standards issued by the International Accounting Standards Board;

“**Non-Commercial Organisations Law 1996**” means Federal Law No. 7-FZ dated 12 January 1996 “On Non-Commercial Organisations”, as amended;

“**NWF**” means the National Welfare Fund of the Russian Federation;

“**Prominvestbank**” means PSC Prominvestbank (Ukraine);

“**RBD**” means Russian Bank of Development OJSC “Rossiyskiy bank razvitiya”;

“**Russia**” means the Russian Federation;

“**Russian Government**” means the Federal government of the Russian Federation;

“**Sviaz-Bank**” means the Interregional Bank for Settlements of the Telecommunications and Postal Services;

“**Ukraine**” means the Republic of Ukraine;

“**VEB**” means, unless the context requires VEB and its consolidated subsidiaries taken as a whole, the State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”;

“**VEB Capital**” means LLC VEB Capital;

“**VEB Engineering**” means LLC “VEB Engineering”;

“**VEB-Leasing**” means OJSC “VEB-Leasing”; and

“**Vnesheconombank of the USSR**” means the Bank for Foreign Economic Affairs of the USSR.

### **Certain Currencies**

In this Base Prospectus:

“**BYR**” or “**Belarusian Rouble**” means the lawful currency of Belarus;

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

“**GBP**”, “**£**” or “**Sterling**” means the lawful currency of the United Kingdom;

“**RUB**” or “**Rouble**” means the lawful currency of the Russian Federation;

“**Ukrainian Hrynia**” means the lawful currency of the Republic of Ukraine; and

“**U.S. Dollar**”, “**U.S.\$**” “**USD**” or “**\$**” means the lawful currency of the United States of America.

### **Rounding**

Certain figures included in this Base 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 Rouble and the U.S. Dollar, based on the official exchange rates quoted by the CBR for the relevant period. Fluctuations in the exchange rate between the Rouble 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 Base Prospectus.

	RUB per \$1.00			
	High	Low	Period end	Period average <sup>(1)</sup>
<b>Year</b>				
2005.....	29.00	27.46	27.78	28.29
2006.....	28.78	26.18	26.33	27.18
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
<b>Month</b>				
January 2010 .....	30.43	29.38	30.43	29.84
February 2010 .....	30.52	29.88	29.95	30.16
March 2010 .....	29.98	29.19	29.36	29.56
April 2010 .....	29.50	28.93	29.29	29.19
May 2010 .....	31.43	29.15	30.50	30.43
June 2010 (through 22 June 2010).....	31.78	30.73	30.73	31.24

Source: CBR

Note:

- (1) The average for the relevant period is based on the average of the exchange rates on each day for which the CBR quotes the Rouble to U.S. Dollar exchange rate during such period.

For convenience, certain figures in this Base Prospectus as at and for the year ended 31 December 2009 have been translated from Roubles into U.S. Dollars (i) in the case of financial position data, at the RUB/U.S.\$ exchange rate published by the CBR as at the end of the date, which was RUB 30.24 per U.S.\$1.00 as at 31 December 2009; and (ii) in the case of statement of income data, at the average of the daily RUB/U.S.\$ exchange rates published by the CBR in 2009, which was RUB 31.72 per U.S.\$1.00. Such translations are not reflective of a translation in accordance with IFRS and should not be construed as a representation that the RUB amounts have been or could be converted into U.S. Dollars at this rate or at any particular rate or at all. No representation is made that any Rouble or U.S. Dollar amounts referred to herein could have been or could be converted into Roubles or U.S. Dollars, as the case may be, at the above rates, at any particular rate or at all.

## Industry and Market Data

In this Base Prospectus, VEB and the Issuer refer to information regarding VEB's business and the market in which VEB operates. VEB and the Issuer obtained this information in part from various third party sources and in part from VEB's own internal estimates. VEB and the Issuer have obtained market and industry data relating to VEB's business from providers of industry and market data, namely the CBR, the Federal State Statistics Service (Rosstat), Cbonds, 000 Interfax-Center for Economic Analysis (htrplx-CEA) 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 VEB 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 VEB and the Issuer confirms that such third party information has been accurately reproduced and, as far as each of VEB 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 Base Prospectus that would render it inaccurate or misleading.

In addition, VEB has made statements in this Base Prospectus regarding the Russian banking industry and its position in this industry based on VEB's own experience and investigation of market conditions. VEB 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.



The language of this Base 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.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Base 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 other similar expressions, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings “*Overview of VEB*”, “*Risk Factors*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Description of VEB’s Business*”. VEB 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 VEB’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 other countries in which VEB operates; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by VEB from time to time (but that are not included in this Base 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 its continuing impact on the global and Russian economies and financial markets;
- the challenging conditions in the global and Russian economies, including the Russian banking sector;
- declines in value and increased volatility in global and Russian securities markets and the resulting impact on borrowing costs and VEB’s ability to issue securities or otherwise secure funds to meet its liquidity needs;
- fluctuations in prices of securities issued by Russian entities and of oil, gas, precious metals and other commodities;
- the impact, or lack thereof, of measures which the Russian Government has enacted or may enact in the future to support the Russian economy in general and the Russian banking sector in particular;
- inflation, interest rate and exchange rate fluctuations in the Russian Federation;
- the effects of, and changes in, the policies of the Russian Government and regulations promulgated by the CBR;
- the governmental policy with respect to state corporations in general and VEB in particular;
- the effects of competition in the geographic and business areas in which VEB conducts its operations and VEB’s expansion into various other geographic and business areas;

- the effects of changes in laws, regulations, taxation or accounting standards or practices in the jurisdictions where VEB conducts its operations;
- the ability of VEB to increase market share for its products and services and control expenses;
- acquisitions or divestitures;
- technological changes; and
- the success of VEB at managing the risks associated with the aforementioned factors.

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

## OVERVIEW OF VEB

*This overview must be read as an introduction to this Base Prospectus and any decision to invest in Notes should be based on a consideration of the Base Prospectus as a whole.*

### GENERAL DESCRIPTION OF VEB

VEB is a state corporation established pursuant to the laws of the Russian Federation. Its status, business purposes, functions and powers are governed by the Development Bank Law and the 2007 Memorandum, whilst certain of its activities, such as its recovery finance activities, are generally governed by the Financial System Support Law and other Russian Federal laws and regulations. VEB operates principally in four capacities: (i) as a development bank; (ii) as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system; (iii) as an agent of the Russian Government, including, in particular, in respect of the management of debt obligations of the Russian Government and the former Soviet Union, as well as foreign financial assets comprising obligations owed to the Russian Federation by debtor countries and other borrowers, and the management of certain pension funds through State Trust Management Company (“STMC”), a separate division of VEB, which is segregated from VEB’s banking and other operations; and (iv) as a universal depositary in the Russian Federation. Under the Development Bank Law, VEB is authorised to conduct banking operations without a licence from the CBR and VEB is generally not required to comply with regulatory requirements of the CBR applicable to commercial banks. See “*Status as a State Corporation and Related Regulatory Environment—Legal and Regulatory Framework*”.

VEB has four banking subsidiaries in the Russian Federation (RBD, ROSEXIMBANK, Sviaz-Bank and GLOBEXBANK), one in Belarus (Belvnesheconombank) and one in Ukraine (Prominvestbank). Other significant subsidiaries include: (i) VEB Capital, the principal activities of which include holding and managing certain of VEB’s investment assets, conducting operations on the Russian financial markets and providing financial advisory services, including, in particular, arranging and placing mortgage-backed bonds; (ii) VEB-Leasing, the principal activities of which include finance leasing of high-technology equipment, helicopters and related equipment, produced by leading manufacturers, to lessees in the Russian Federation; and (iii) VEB Engineering, which is primarily engaged in the provision of engineering support for investment projects currently being implemented or financed by VEB, which include, in particular, those relating to the 2014 Winter Olympics. See “*Description of VEB’s Business—Principal Subsidiaries and Associates*”.

As the principal development bank of the Russian Federation, one of VEB’s principal functions is to increase the competitiveness and diversification of the Russian economy, in particular, by promoting investment activity in sectors that are of strategic importance to the Russian Government. VEB acts as a lender, investor, guarantor, manager, arranger and consultant in connection with its development bank activities. VEB’s core operations, investment and financial priorities, borrower limits and underlying principles for financing activities as a development bank are principally set forth in the Development Bank Law and the 2007 Memorandum. As a development bank, VEB does not compete with commercial lending and financial institutions in providing finance to customers; rather, pursuant to the 2007 Memorandum, VEB gives preference to investment projects, such as infrastructure projects, which are not typically eligible for financing on terms acceptable to commercial banks and other non-specialist market investors. See “*Description of VEB’s Business—VEB as the Development Bank of the Russian Federation*”.

Since October 2008, VEB has also become actively involved, pursuant to the Financial System Support Law and related decisions of the Russian Government, in addressing the effects of the global financial crisis on the Russian economy. As one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system during the global financial crisis, VEB provides recovery finance to Russian banks and corporate entities suffering from the effects of the economic turmoil. As part of its recovery finance activities in support of the financial sector, VEB acquired an 89.9% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009, and a 98.9% interest in GLOBEXBANK in 2009, each of which was in a distressed financial condition as a result of the global financial crisis when acquired. See “*Description of VEB’s Business—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System*”.

As an agent of the Russian Government, VEB manages debt obligations of the Russian Federation and the former Soviet Union, as well as foreign financial assets comprising debt obligations owed to the Russian Federation by sovereign states, financial institutions and commercial entities. In this capacity, its responsibilities include record-keeping, reconciliation, settlement and redemption activities. See “*Description of VEB’s Business—VEB as Agent for the Russian Government*”. In addition, STMC is responsible for managing the

pension savings of insured Russian citizens, who have not transferred their savings to private pension funds or private asset management companies. See “*Description of VEB’s Business—VEB as Agent for the Russian Government—Pension Funds Management (STMC)*”.

VEB acts as a universal depository for a broad range of Russian and foreign securities. In this capacity, VEB delivers a range of depository, settlement, information and custody services for investors and professional participants in the Russian securities and foreign exchange markets. See “*Description of VEB’s Business—Depository Operations*”.

VEB receives the majority of its funding: (i) from the Russian Government in the form of capital contributions, which may be utilised for all general corporate purposes; and (ii) from the CBR and the Russian Government (principally using funds of the NWF) in the form of term deposits, which may be applied only in specific financing programmes. As at 31 December 2009, VEB had charter capital of RUB 382,489 million, which comprised contributions of cash and assets from the Russian Government, and VEB held deposits from the CBR and the Russian Government (principally comprising funds of the NWF) totalling RUB 446,151 million and RUB 501,455 million, respectively. For the year ended 31 December 2009, total funding from the Russian Government and the CBR, as a percentage of VEB’s total equity and liabilities, was 50.9%. VEB also raises funds through the issuance of bonds and other securities in the domestic and international capital markets, as well as pursuant to bilateral and syndicated loans, in each case, in Roubles and foreign currencies, principally U.S. Dollars. Although VEB is not permitted to accept deposits from individual investors, VEB holds some retail deposits inherited as successor to Vnesheconombank of the USSR and some retail deposits through its banking subsidiaries. See “*Status as a State Corporation and Related Regulatory Environment*”.

VEB operates out of its principal office in Moscow, three representative offices within the Russian Federation and eight representative offices outside the Russian Federation (in the United States of America, India, Italy, China, the Republic of South Africa, Germany, France and the United Kingdom).

VEB has prepared its consolidated financial statements in accordance with IFRS since 2007. As at 31 December 2009, VEB had total assets of RUB 1,939,214 million and total loans of RUB 1,310,846 million, whilst VEB had net interest income of RUB 51,936 million and net income of RUB 38,315 million for the year ended 31 December 2009.

#### **VEB AS A STATE CORPORATION AND RELATIONSHIP WITH THE RUSSIAN GOVERNMENT**

VEB is a state corporation, which is a specific form of legal entity under Russian law. As a state corporation, VEB is a non-commercial organisation with no shareholders. VEB’s charter capital comprises funds and other property contributed by the Russian Federation. See “*Status as a State Corporation and Related Regulatory Environment—Charter Capital*”. State corporations are established to pursue defined objectives for the public’s benefit and are assigned specific functions that determine the scope of their business activities and powers. Accordingly, State corporations are permitted to engage in commercial activity only to the extent that such activity is consistent with their purposes and contributes to the accomplishment of their specific goals. See “*Risk Factors—Risks related to VEB’s Business and Industry—VEB is fully controlled by the Russian Government, which, accordingly, has the ability to require VEB to pursue certain activities that may expose VEB to significant risks and that may not generate profit*”. Moreover, as a State corporation, VEB is not governed by standard Russian commercial banking laws and regulations and is instead subject to laws and regulations specific to it, including, in particular, the Development Bank Law and the 2007 Memorandum, and VEB is not required to be licenced by the CBR and is not subject to regulatory oversight by the CBR.

The Russian Government determines the core business areas and principal policies of VEB, which, as at the date of this Base Prospectus, are defined in the Development Bank Law and the 2007 Memorandum, whilst certain of VEB’s activities are governed by the Financial System Support Law and other Russian Federal laws and regulations. Under the 2007 Memorandum, although VEB’s activities are expected to be commercially viable, the generation of profit is not a primary objective for VEB and VEB may engage in entrepreneurial activities only to the extent such activities help to achieve its defined business and policy objectives.

The Russian Government has the right to appoint and dismiss the members of VEB’s Supervisory Board. The Chairman of VEB’s Supervisory Board is the Prime Minister of the Russian Federation (currently Vladimir Putin), whilst the remaining eight members are appointed by the Russian Government and include the Chairman of VEB (currently Vladimir Dmitriev), who is *ex officio* a member of the Supervisory Board and of the Management Board. The Chairman of VEB is appointed by the President of the Russian Federation upon the

recommendation of the Prime Minister. The other members of the Management Board are, in turn, appointed by the Supervisory Board from among VEB's employees based on recommendations of the Chairman of VEB. Accordingly, the Russian Government has substantial control over VEB's management. Through this control, VEB is, in effect, largely an agent of the Russian Government, although Federal, regional and municipal authorities are generally prohibited from intervening in VEB's day-to-day business operations to try to influence the manner in which it realises its purposes.

#### **STRATEGY**

VEB has four principal strategic objectives:

- to act as the principal development bank of the Russian Federation;
- to act as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system through the provision of recovery finance to Russian banks, financial institutions and corporates;
- to act as an agent of the Russian Government, including, in particular, in respect of the management of debt obligations of the Russian Federation and the former Soviet Union, as well as foreign financial assets comprising debt obligations owed to the Russian Federation by sovereign states, financial institutions and commercial entities and the management of certain pension funds through STMC; and
- to act as a universal depository in the Russian Federation.

In addition, to facilitate the achievement of these principal strategic objectives, VEB intends to continue to improve its institutional structure and corporate organisation and develop its internal decision-making policies and procedures.

#### **RISK FACTORS**

An investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment decision with respect to Notes issued under the Programme, see "*Risk Factors*" and "*Forward Looking Statements*".

## OVERVIEW OF THE PROGRAMME

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

Each transaction will be structured as a Loan by the Issuer to VEB of a sum equivalent to the gross proceeds of an issue of a Series of Notes. The Issuer will issue Notes to Noteholders for the purpose of funding such Loan. Each Series of Notes will be constituted by a principal trust deed as further supplemented and amended in respect of such Series of Notes by a supplemental trust deed (together, the “**Trust Deed**”), each entered into between the Issuer and the Trustee. Pursuant to the Trust Deed, the Issuer will (i) charge in favour of the Trustee by way of a first fixed charge as security for its payment obligations in respect of each Series of Notes (a) all rights to principal, interest and other amounts payable by VEB under the relevant Loan Agreement, (b) the right to receive all sums which may be payable by VEB under any claim, award or judgment relating to the relevant Loan Agreement, (c) if applicable, all rights to sums payable by any Swap Counterparty under any applicable Swap Agreement, (d) if applicable, the right to receive all sums payable by a Swap Counterparty under any claim, award or judgment relating to the relevant Swap Counterparty, and (e) all rights, title and interest in and to all sums of money now or in the future deposited in an account, or accounts, as the case may be, established for the relevant Series of Notes with the Principal Paying Agent in the name of the Issuer (the “**Account**”, and, together the “**Accounts**”) including interest from time to time earned thereon (but excluding any Issuer Reserved Rights) and (ii) assign certain of its rights under the relevant Loan Agreement (but excluding any Issuer Reserved Rights (as defined in the Trust Deed)) and, if applicable, certain of its rights under any applicable Swap Agreement, to the Trustee for the benefit of the Noteholders.

The Issuer may make a Loan to VEB in a currency and/or with an interest rate different to the Specified Currency and/or the Notes Interest Basis of the relevant Series of Notes. In this case, the Issuer will also enter into one or more Swap Agreements with one or more Swap Counterparties, in connection with such Loan and the corresponding Series of Notes. In these circumstances, the Charge, as described in (i) of the above paragraph, will be held for the benefit of any relevant Swap Counterparty in addition to the Noteholders.

VEB will be obliged to make payments under each Loan to the Issuer in accordance with the terms of the relevant Loan Agreement. VEB will be obliged under the terms of the relevant Loan Agreement to make payments in respect of principal, interest and additional amounts (if any) to the Issuer to the relevant 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 any Loan Agreement or, if applicable, any Swap Agreement(s) unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to each Loan Agreement or, if applicable, any Swap Agreement(s). 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, “*Terms and Conditions of the Notes—10. Meetings of the Noteholders; Modification of the Notes, Trust Deed, Loan Agreement and Swap Agreements; Waiver; Substitution of Issuer; Appointment/Removal of Trustee*” and shall be binding on the Noteholders. Formal notice of the security interests created by any Trust Deed will be given to VEB and the Principal Paying Agent who will each be required to acknowledge the same.

Each Series of Notes will be limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to Noteholders for payments of principal, interest and other amounts, if any, received by it or for its account under the relevant Loan provided that, for so long as a Swap Agreement is in effect, recourse shall be limited in respect of amounts exchanged pursuant to such Swap Agreement (in each case after deduction or withholding and such taxes or duties as may be required to be made by the Issuer by law in respect of or in relation to such sum or in respect of the Notes or the Swap Agreements 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) either under the Loan Agreement or the Swap Agreements).

In the event that the amount due and payable by the Issuer under such Notes exceeds the sums so received or recovered and retained (net of tax), the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.



**NOTES TO BE ISSUED UNDER THE PROGRAMME**

<b>Issuer</b> .....	VEB Finance Limited.
<b>VEB (as Borrower)</b> .....	State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”.
<b>Description</b> .....	Programme for the Issuance of Loan Participation Notes pursuant to which the Issuer may issue Notes.
<b>Programme Size</b> .....	Up to U.S.\$30,000 million (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. VEB may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein).
<b>Arrangers</b> .....	Barclays Bank PLC, Citigroup Global Markets Limited, HSBC Bank plc and Société Générale.
<b>Dealers</b> .....	Barclays Bank PLC, Citigroup Global Markets Limited, HSBC Bank plc and Société Générale.
	Pursuant to the terms of the Dealer Agreement, the Issuer, on VEB’s instructions, may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers either in respect of one or more Series (as defined herein) of Notes or in respect of the whole Programme. References in this Base Prospectus to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “Dealers” are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.
<b>Trustee</b> .....	BNY Corporate Trustee Services Limited.
<b>Principal Paying Agent</b> .....	The Bank of New York Mellon, London Branch, unless it is specified in the relevant Final Terms relating to a Series of Notes that another principal paying agent is appointed in respect of that Series. References in this Base Prospectus to “Principal Paying Agent” are to The Bank of New York Mellon, London Branch or such alternative principal paying agent or agents, as the case may be.
<b>Registrar</b> .....	The Bank of New York Mellon (Luxembourg) S.A., unless it is specified in the relevant Final Terms relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Base Prospectus to “Registrar” are to The Bank of New York Mellon (Luxembourg) S.A. or such alternative registrar, as the case may be.
<b>Paying Agents</b> .....	The Bank of New York Mellon, London Branch, The Bank of New York Mellon, New York Branch and The Bank of New York Mellon (Ireland) Limited unless it is specified in the relevant Final Terms relating to a Series of Notes that another paying agent is appointed in respect of that Series. References in this Base Prospectus to “Paying Agents” are to The Bank of New York, London Branch, The Bank of New York Mellon, New York Branch, The Bank of New York Mellon (Ireland) Limited or such alternative paying agent, as the case may be.

<b>Transfer Agents .....</b>	The Bank of New York Mellon, London Branch or, in relation to Notes sold pursuant to Rule 144A, The Bank of New York Mellon, New York Branch unless it is specified in the relevant Final Terms relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Base Prospectus to “Transfer Agent” are to The Bank of New York Mellon, London Branch and The Bank of New York Mellon, New York Branch or such alternative transfer agent, as the case may be.
<b>Calculation Agent .....</b>	The Bank of New York Mellon, London Branch unless it is specified in the relevant Final Terms relating to a Series of Notes that another calculation agent is appointed in respect of that Series. References in this Base Prospectus to “Calculation Agent” are to The Bank of New York Mellon, London Branch or such alternative calculation agent, as the case may be.
<b>Method of Issue.....</b>	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be set out in the relevant Final Terms, which shall supplement the Terms and Conditions of the Notes.
<b>Issue Price of Notes.....</b>	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
<b>Status .....</b>	Each Series of Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Loan and, if applicable, any corresponding Swap Agreement 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 corresponding Loan and, if applicable, any sums due or receivable from any relevant Swap Counterparty under any corresponding Swap Agreement all as more fully described in “ <i>Terms and Conditions of the Notes—1. Status</i> ”.
<b>Security.....</b>	The Issuer’s payment obligations in respect of each Series of Notes and, if applicable, under any relevant Swap Agreement will be secured by a first fixed charge on: <ul style="list-style-type: none"> <li>• all of the Issuer’s rights to principal, interest and other amounts now or hereafter payable under the relevant Loan Agreement and, if applicable, any corresponding Swap Agreement and its right to receive all sums which may be or become payable under any claim, award or judgment relating to such Loan Agreement and, if applicable, any corresponding Swap Agreement; and</li> <li>• all the rights, title and interest in and to all sums of money held now or in the future deposited in an account or accounts, as the case may be, specified in the relevant Final Terms, together with the debt represented thereby (including interest from time to time) pursuant to the Trust Deed.</li> </ul>
<b>Assignment of Rights.....</b>	The Issuer will assign its rights under the relevant Loan Agreement (save for any Issuer Reserved Rights and those rights charged above) and, if applicable, its rights as a counterparty under any corresponding Swap Agreement to the Trustee upon the closing of the offering of the

corresponding Series of Notes.

- Swap Agreements** ..... The Issuer may enter into one or more Swap Agreements with one or more Swap Counterparties, in connection with a Series of Notes. Under any Currency Swap Agreement(s), the Issuer will agree to make payments in the Loan Currency (subject to receipt of a corresponding amount thereof in the same currency under the Loan Agreement) against payment by the relevant Swap Counterparty of amounts in the Specified Currency (as set out in the relevant Final Terms). Under an Interest Rate Swap Agreement or Interest Rate Swap Agreements, as the case may be, the Issuer will agree to make payments calculated on the Loan Interest Basis against payment by the relevant Swap Counterparty of amounts calculated on the Notes Interest Basis. If one or more of the applicable Swap Agreements is/are terminated early, then VEB will make any further payments due under the Loan Agreement in the Specified Currency and/or calculated on the Notes Interest Basis, as the case may be. Neither the Issuer nor VEB will have the right to repay the Loan or redeem the Notes in such circumstances.
- Form** ..... Each Series of Notes will be issued in registered form. The Regulation S Notes and the Rule 144A Notes will be represented by the Regulation S Global Note and the Rule 144A Global Note, respectively, in each case without interest coupons. The Global Notes will be exchangeable for Definitive Notes in the limited circumstances specified in the Global Notes.
- Clearing Systems**..... Unless otherwise indicated in the relevant Final Terms, DTC (in the case of Notes sold pursuant to Rule 144A), Euroclear and Clearstream, Luxembourg (in the case of Notes sold pursuant to Regulation S), and such other clearing system(s) as may be agreed between the Issuer, VEB, the Paying Agents, the Trustee and the relevant Dealer(s).
- Initial Delivery of Notes** ..... Unless otherwise indicated in the relevant Final Terms, on or before the issue date for each Series, the Rule 144A Global Notes will be deposited with a custodian for DTC and the Regulation S Global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Unless otherwise indicated in the relevant Final Terms, the Rule 144A Notes will be registered in the name of a nominee of DTC, and the Regulation S Notes will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg, or any other applicable clearing system. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, VEB, the Paying Agents, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing system(s).
- Currencies** ..... Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, VEB and the relevant Dealer(s). Notes will be issued in the Specified Currency (as set out in the relevant Final Terms) that may be different to the Loan Currency, in which case the Issuer will enter into one or more Currency Swap Agreements to exchange amounts received from VEB in the Loan Currency under the Loan Agreement for equivalent amounts due to Noteholders in the Specified Currency.

**Maturities** ..... Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, VEB and the relevant Dealer(s).

Where the Issuer wishes to issue Notes with a maturity of less than one year, it shall ensure that the Notes are issued in full compliance with the conditions set forth in Notice BSD C 01/02 dated 12 November 2002 (as amended from time to time) issued by the Central Bank of Ireland pursuant to section 8(2) of the Central Bank Act, 1971 (as amended) of Ireland, including that the Notes comply with, among other things, the following criteria:

- at the time of issue, the Notes must be backed by assets to at least 100% of the value of the Notes issued;
- at the time of issue, the Notes must be rated at least investment grade by one or more recognised rating agencies;
- the Notes must be issued and transferable in minimum denominations of €300,000 or the foreign currency equivalent;
- the Notes carry the title “Commercial Paper” (unless constituted under the laws of a country other than Ireland and, under those laws, the commercial paper carries a different title in which case it must carry such title) and must identify the issuer by name;
- it must be stated explicitly on the face of the Notes and, where applicable, in the contract between the Issuer and the initial investor in the Notes that they are issued in accordance with an exemption granted by the Financial Regulator under Section 8(2) of the Central Bank Act, 1971, inserted by Section 31 of the Central Bank Act, 1989, as amended by Section 70(d) of the Central Bank Act, 1997;
- it must be stated explicitly on the face of the Notes and, where applicable, in the contract between the Issuer and the initial investor in the Notes that the investment does not have the status of a bank deposit, is not within the scope of the Deposit Protection Scheme operated by the Financial Regulator and that the Issuer is not regulated by the Financial Regulator arising from the issue of the Notes; and
- any issue of Notes which is guaranteed must carry a statement to the effect that it is guaranteed and identify the guarantor by name.

**Denomination** ..... Notes will be in such denominations as may be specified in the relevant Final Terms, save that unless otherwise permitted by the then current laws and regulations (i) Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) will have a minimum denomination of €300,000 (or its equivalent in other currencies) (ii) Notes resold pursuant to Rule 144A Note will be issued in denominations of U.S.\$100,000 or its equivalent in other currencies rounded upwards as agreed between the Issuer, VEB and the relevant Dealer(s) and integral multiples of U.S.\$1,000 in excess thereof, and (iii) the minimum denomination of

any Notes shall in any event be €50,000 (or its equivalent in any other currency as at the issue date of the relevant Notes).

**Rate of Interest.....** The Notes may be issued on a fixed rate or a floating rate basis. The Notes Interest Basis may be different to the Loan Interest Basis, in which case the Issuer will enter into one or more Interest Rate Swap Agreements to exchange amounts received by VEB calculated on the Loan Interest Basis under the Loan Agreement for equivalent amounts due to the Noteholders calculated on the Notes Interest Basis.

**Fixed Rate Notes .....** Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Final Terms.

**Floating Rate Notes .....** Floating Rate Notes will bear interest determined separately for each Series as follows:

- on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or
- by reference to LIBOR or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.

**Interest Periods and Interest**

**Rates .....** The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

**Redemption .....** The relevant Final Terms will specify the basis for calculating the redemption amounts payable and whether there will be any Put or Call options.

**Issuer’s Restrictions and**

**Covenants .....** So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, *inter alia*, incur any other indebtedness for borrowed moneys, or enter into other transactions or engage in any business (other than transactions contemplated by this Base Prospectus), declare any dividends or have any subsidiaries. See “*Terms and Conditions of the Notes—4. Restrictive Covenants*”. 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 any Loan Agreement or, if applicable, any Swap Agreement or Swap Agreements, as the case may be, unless the Trustee has given consent.

**Redemption by the Issuer at the Option of VEB.....**

The Issuer may redeem the Notes in whole, but not in part, at 100% of their aggregate principal amount plus accrued and unpaid interest and all additional amounts, if any, if VEB elects to repay any Loan in the event it is required to pay additional amounts on account of Russian or Irish withholding taxes in respect of certain payments under the corresponding Loan or payments under the corresponding Notes or in the event that VEB is required to pay additional amounts on account of certain costs incurred by the Issuer pursuant to the relevant Senior Loan

Agreement, or, if applicable, any corresponding Swap Agreement(s).

**Put/Call Options** ..... If a call option is specified in the applicable Final Terms (a “**Call Option**”), following notice from VEB of its intention to repay the relevant Senior Loan, the Issuer may redeem all or part of the relevant Notes on the relevant Repayment Date (as specified in the relevant Senior Loan Agreement) at its principal amount together with accrued and unpaid interest (provided that the Issuer has the corresponding funds from VEB).

If a put option is specified in the applicable Final Terms (a “**Put Option**”), the Issuer shall, at the option of any Noteholder redeem such Note on the relevant Put Settlement Date (as defined in the Facility Agreement) at its principal amount together with accrued and unpaid interest (provided that the Issuer has the corresponding funds from VEB). To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed put redemption notice (“**Put Redemption Notice**”) in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days prior to the Put Settlement Date. No Note so deposited may be withdrawn.

**Optional Redemption by the Noteholders upon a Change of Control**.....

In the case of a Senior Series only, upon the occurrence of a Change of Control (as defined in “*Terms and Conditions of the Notes—6 Redemption and Purchase*”), the Notes may be redeemed at the option of a Noteholder at their principal amount together with accrued interest, if any, all as more fully described in the “*Terms and Conditions of the Notes*”.

**Mandatory Redemption** .....

In the case of a Senior Series only, in limited circumstances as more fully described in the relevant Senior Loan Agreement, the Notes may be redeemed by the Issuer in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Notes or, at any time, in the case of Fixed Rate Notes, upon giving notice to the Trustee, at the principal amount thereof, together with accrued and unpaid interest and all additional amounts, if any, to the date of redemption in the event that it becomes unlawful for (i) the Issuer to allow the relevant Notes to remain outstanding or (ii) the Issuer or VEB to allow the relevant Loan to remain outstanding under the relevant Senior Loan Agreement. In either case, the Loan would be repaid in full.

**Redemption Provisions for Subordinated Series**.....

Redemption provisions for Subordinated Series will be set out in the relevant Subordinated Loan Agreement.

**Issuer Relevant Events** .....

In the case of an Issuer 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 and, if applicable, any relevant Swap Counterparty.

**Withholding Tax**.....

All payments of principal and interest in respect of each Series of Notes will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes, which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by 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 VEB to the Issuer under the relevant 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 and retained (net of tax) from VEB and, if applicable, any sums due or receivable from any relevant Swap Counterparty under the corresponding Swap Agreement(s).

**Further Issues** ..... The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series. In the event of such further issuance, the relevant Loan will be correspondingly increased.

**Listing** ..... Application will be made, where specified in the relevant Final Terms, for a Series of Notes to be admitted to the Official List and to trading on the Market or to be listed on such other stock exchange and traded on such other market as shall be specified in the relevant Final Terms or the Series of Notes will remain unlisted.

**Rating** ..... VEB has a stable rating of “BBB” from Standard & Poor’s (“**S&P**”), a stable rating of “Baa1” from Moody’s Investors Service (“**Moody’s**”), and stable rating of “BBB” from Fitch Ratings Ltd. (“**Fitch**”). Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme.

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 VEB 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 will be governed by English law.

**Selling Restrictions** ..... United States, United Kingdom, Ireland, the Russian Federation and any other jurisdiction relevant to any Series. See “*Subscription and Sale*”.

**ERISA Considerations** ..... A Series of Notes issued under the Programme may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset(s) are the Loan and, if applicable, any corresponding Swap Agreement(s). Accordingly, the Notes should not be acquired by any benefit plan investor, regardless of whether the benefit plan investor is itself subject to ERISA. Each purchaser and/or holder of 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 SENIOR LOAN CORRESPONDING TO EACH SENIOR SERIES OF NOTES

<b>Lender</b> .....	The Issuer.
<b>Borrower</b> .....	VEB.
<b>Security and Ranking</b> .....	No Senior Loan will be secured by any collateral of VEB. Obligations under the Senior Loan will rank at least <i>pari passu</i> with all other unsecured and unsubordinated financial indebtedness of VEB.
<b>Currency</b> .....	A Loan may be advanced in a different currency to that of the corresponding Series of Notes, in which case the Issuer will enter into one or more Currency Swap Agreements to exchange amounts received from VEB in the Loan Currency under the Loan Agreement for equivalent amounts due to the Noteholders in the Specified Currency.
<b>Loan Interest Basis</b> .....	Interest will be payable on a fixed or floating rate basis as specified in the relevant Loan Supplement. The Loan may be advanced on a different interest basis to that of the corresponding Series of Notes, in which case the Issuer will enter into one or more Interest Rate Swap Agreements to exchange amounts received by VEB calculated on the Loan Interest Basis under the Loan Agreement for equivalent amounts due to the Noteholders calculated on the Notes Interest Basis.
<b>Redemption of the Option of VEB ...</b>	Each Senior Loan may be prepaid at VEB's option in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Loans or, at any time, in the case of Fixed Rate Loans at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment, for certain tax reasons or by reason of certain increased costs.
<b>Put/Call Options</b> .....	<p>If a call option is specified in the applicable Loan Supplement (a "<b>Call Option</b>") VEB may, at its option, repay the relevant Senior Loan in whole or in part at the Early Redemption Amount (as specified in the relevant Loan Supplement).</p> <p>If a put option is specified in the applicable Loan Supplement (a "<b>Put Option</b>") following notification from the issuer, VEB shall prepay the relevant Senior Loan (without premium or penalty), to the extent of the Aggregate Principal Amount of relevant Notes to be properly redeemed in accordance with the Terms and Conditions of the Notes.</p>
<b>Mandatory Repayments</b> .....	In the event that it becomes unlawful for the Issuer or VEB to fund any Senior Loan or allow such Senior Loan to remain outstanding under the relevant Senior Loan Agreement or allow the corresponding Senior Series of Notes to remain outstanding, VEB may be required to repay such Senior Loan in full.
<b>Redemption upon a Change of Control</b> .....	Each Senior Loan may be repaid in whole or in part by VEB upon the exercise of the Put Option upon a Change of Control (as defined in " <i>Terms and Conditions of the Notes—6. Redemption and Purchase</i> ") by any holder of Notes at the principal amount of the Notes so tendered, together with accrued and unpaid interest and additional amounts, if any.
<b>Certain Restrictions and Covenants</b> .....	The Issuer will have the benefit of certain covenants made by VEB, including a negative pledge and restrictions on disposals, all as more fully described in the relevant Senior Loan Agreement.

- Events of Default**..... In the case of an Event of Default (as defined in the relevant Senior Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Issuer to declare all amounts payable under the relevant Senior Loan Agreement to be due and payable.
- Use of Proceeds of the Notes** ..... The gross proceeds from each offering of a Senior Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Senior Loan to VEB or, if applicable, any corresponding Swap Agreement(s). In connection with the receipt of such Senior Loan, VEB will pay an arrangement fee, as reflected in the relevant Final Terms.
- Withholding Tax**..... All payments of principal and interest under each Senior 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 Senior Loan or, if applicable, the corresponding Swap Agreement(s), the sum payable by VEB under the Senior 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 Senior Loans will be governed by English law.

**SUBORDINATED LOAN CORRESPONDING TO EACH SUBORDINATED SERIES OF NOTES**

The terms of any Subordinated Loan will be as set out in the relevant Subordinated Loan Agreement. A supplement to this Base Prospectus or a prospectus relating to a Series of Notes containing the form of the Subordinated Loan Agreement and, if applicable, any corresponding Swap Agreement(s) will, if required, be published for use in connection with any subsequent issue of any Subordinated Series to be listed on the Irish Stock Exchange.

## RISK FACTORS

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

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

### **Risks related to VEB's Business and Industry**

***VEB is fully controlled by the Russian Government, which, accordingly, has the ability to require VEB to pursue certain activities that may expose VEB to significant risks and that may not generate profit.***

The Russian Government determines the core business areas and principal policies of VEB, which, as at the date of this Base Prospectus, are defined in the 2007 Memorandum. Under the 2007 Memorandum, although VEB's activities are expected to be commercially viable, the generation of profit is not a primary objective for VEB and VEB may engage in entrepreneurial activities only to the extent such activities help to achieve its defined business and policy objectives.

The Russian Government also has the right to appoint and dismiss the members of VEB's Supervisory Board, who shall not be employees of VEB. The Chairman of VEB's Supervisory Board is the Prime Minister of the Russian Federation (currently Vladimir Putin), whilst the remaining eight members are appointed by the Russian Government and include the Chairman of VEB (currently Vladimir Dmitriev), who is *ex officio* a member of the Supervisory Board and of the Management Board. The Chairman of VEB is appointed by the President of the Russian Federation upon the recommendation of the Prime Minister. The other members of the Management Board are, in turn, appointed by the Supervisory Board from among VEB's employees based on recommendations of the Chairman of VEB. Accordingly, the Russian Government has substantial control over VEB's management. Through this control, VEB is, in effect, largely an agent of the Russian Government, although Federal, regional and municipal authorities are generally prohibited from intervening in VEB's day-to-day business operations to try to influence the manner in which it realises its purposes.

In addition, pursuant to the Development Bank Law, VEB operates as the principal vehicle for implementing the Russian Government's policies to promote the competitiveness and diversification of the Russian economy through the encouragement of investment in infrastructure projects and foreign trade and the promotion of the development of the Russian SME sector. Such policy objectives of the Russian Government may conflict with the business interests of VEB.

Based on the combination of the Russian Government's control over VEB and VEB's mandate to fulfil State policy objectives, notwithstanding VEB's objective to ensure that its activities are commercially viable, the Russian Government could require VEB to pursue transactions designed to implement policies of the Russian Government, even if such transactions were to involve increased operational risk and diminished or no financial return for VEB. In addition, in exceptional cases, subject to Supervisory Board approval, VEB may participate in investment projects, which may not meet the criteria established by the 2007 Memorandum. If VEB is required to or determines to enter into any such transactions, this could, in any one case or in the aggregate, have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

***VEB's principal function is to promote the stability and development of the Russian economy. Although VEB has received funding from the Russian Government (principally comprised of funds of the NWF) and the CBR to support these activities, VEB is ultimately at risk for the repayment of the recovery finance it has provided to Russian borrowers.***

Since October 2008, measures announced by the Russian Government and the CBR to support the liquidity and solvency of Russian banks and to increase the availability of credit to Russian businesses have been implemented largely through VEB. Because VEB was the main provider of liquidity in the Russian market in

2008 and 2009, VEB largely bears the risks that the measures taken will not succeed in materially improving the liquidity and financial strength of the Russian economy and markets.

In particular, under the Financial System Support Law, VEB received deposits from the Ministry of Finance of the Russian Government (comprised of funds of the NWF) in the aggregate amount of RUB 404,022 million at interest rates from 7.0% to 8.5% per annum. VEB was required to utilise these deposits to extend subordinated loans: (i) to VTB; (ii) to Russian Agricultural Bank; and (iii) to other Russian banks, subject to certain financial and rating criteria established in accordance with the Financial System Support Law. VEB provided subordinated loans to 17 banks in accordance with the Financial System Support Law outstanding in an aggregate principal amount of RUB 404,022 million, including the loan to VTB Bank (in the amount of RUB 200,000 million at an interest rate of 8.0% per annum and maturing on 23 December 2019), the loan to Russian Agricultural Bank (in the amount of RUB 25,000 million at an interest rate of 8.0% per annum maturing on 23 December 2019) and loans to 15 additional qualifying banks in an aggregate outstanding amount of RUB 179,022 million (at interest rates of 8.0% and 9.5% per annum with maturities for up to 31 December 2019 and December 2020). See “*Lending Policy and Procedures—Credit Approval and Monitoring*”. Under the Financial System Support Law, (i) VEB received additional deposits from the CBR in an aggregate amount of U.S.\$50 billion, which VEB had the right to utilise until 31 December 2009, solely to refinance loans of Russian corporate borrowers extended to them prior to 25 September 2008; and (ii) VEB has the right to receive funding from the Russian Government in the form of deposits in an aggregate amount up to RUB 40,000 million, which VEB has the right to utilise, until 31 December 2011, to extend loans to the Agency for Housing Mortgage Lending (the “AHML”). As at the date of this Base Prospectus, VEB has utilised U.S.\$9.8 billion of the U.S.\$50 billion CBR deposit, of which U.S.\$7.7 billion remains outstanding, to re-finance claims of foreign creditors, whilst VEB has not drawn-down any portion of the RUB 40,000 million credit line from the Russian Government to extend loans to the AHML.

Although, as at the date of this Base Prospectus, loans made or purchased by VEB under the Financial System Support Law have been fully matched in terms of funding by corresponding Russian Government or CBR deposits, which have terms co-extensive with the related loans, VEB ultimately bears the risk of non-payment by the borrowers. VEB’s obligations to return the matching deposits are not limited in recourse or otherwise conditioned, as a matter of law or contract, on the repayment of the matching loans. Moreover, due to the subordinated nature of certain of these loans, VEB’s claims in respect of the payment of principal and interest on such subordinated loans rank junior to the claims of other creditors of the relevant borrower, including depositors. In the case of insolvency, such borrower’s assets will be available to satisfy its obligations under subordinated loans payable to VEB only after the claims of all higher-ranking creditors have been satisfied in full, and the borrower’s remaining assets may not be sufficient to satisfy all or any part of VEB’s claims.

Any failure by a borrower to repay its loans to VEB under circumstances when the matching deposits were withdrawn or thereafter nevertheless required to be repaid could have a material adverse effect on VEB’s business, financial condition, results of operations and prospects.

***VEB could be adversely affected if it does not continue to receive funding from the Russian Government and the CBR.***

VEB has been principally dependent upon capital and other contributions, loans and deposits from the Russian Government and the CBR for its funding. As at 31 December 2009, 2008, 2007, funding from the Russian Government and the CBR, as a percentage of VEB’s total liabilities, represented 66.5%, 63.9% and 18.0%, respectively. Many factors may affect the Russian Government’s ability to provide funding to VEB, including (among others) significant declines in gross domestic product (due to, among other things, depressed oil prices), hyperinflation, an unstable currency, high sovereign debt relative to gross domestic product, widespread tax evasion, corruption and extensive penetration of organised crime into the Russian economy, the growth of “black” and “grey” market economies and political and governmental instability. See “—*Risks Relating to the Russian Federation*”. Accordingly, there can be no assurance that VEB will be able to continue to satisfy all or part of its funding requirements through amounts provided by the Russian Government and the CBR.

To the extent that the Russian Government and the CBR are not willing or able to continue to provide sufficient funding to VEB, VEB may not be able to access alternative sources of funding, such as the international and domestic capital markets or bilateral or syndicated loans, to compensate for any shortfall in funds. See “—*VEB is subject to liquidity risk*”. Accordingly, any reduction in the amount of funding provided to VEB by the Russian Government and the CBR could have a material adverse effect on VEB’s business, financial condition, results of operations and prospects.

***VEB is not subject to external regulatory oversight by the CBR.***

As a State corporation, VEB is not governed by standard Russian commercial banking laws and regulations and is instead subject to laws and regulations specific to it, including, in particular, the Development Bank Law and the 2007 Memorandum. Whilst VEB has established policies and procedures to govern its internal operations largely in accordance with international reporting standards, such as IFRS and the Basel Accord, VEB is not required to be licenced by the CBR and is not subject to regulatory oversight by the CBR. Moreover, although VEB believes it operates pursuant to internal rules and guidelines that are largely in line with CBR regulations imposed on commercial banks, VEB is generally not required to comply with licensing regulations, capital adequacy, mandatory ratios, reserve requirements, financial reporting and other corporate governance requirements customarily applicable to Russian or Western commercial banks and similar financial institutions other than those expressly stated in the 2007 Memorandum and, even in these cases, the Supervisory Board has the authority to approve exceptions. See “*Status as a State Corporation and Related Regulatory Environment—VEB’s Objects and Powers*”. VEB is, however, required to comply with applicable securities laws and regulations in its proprietary securities trading operations and VEB’s licences to conduct professional market activities are subject to revocation by Federal Service for the Financial Markets of the Russian Federation.

Because it is generally not subject to customary regulatory oversight, VEB may conduct its businesses with less transparency than, and without reference to limitations and restrictions customarily imposed on, commercial banks and other financial institutions. In exceptional cases, subject to Supervisory Board approval, VEB may participate in investment projects, which may not meet the criteria established by the 2007 Memorandum. Accordingly, VEB may engage in such activities that are more risky than those ordinarily conducted by commercial banks and other financial institutions, any of which activities, in any one case or in the aggregate, could have a material adverse effect on VEB’s business, financial condition, results of operations and prospects.

***The Russian Government may in its sole discretion replace or amend the 2007 Memorandum when it expires in July 2010, or may decide to reorganise or privatise VEB in 2010 or at a later date, either of which actions may have a material adverse effect on VEB’s business, financial condition, results of operations and prospects.***

The 2007 Memorandum expires on 27 July 2010. The Ministry of Economic Development (with consent from the Ministry of Finance) is required to submit to the Russian Government its proposal either for the extension of the 2007 Memorandum on existing terms or for the replacement thereof with a new memorandum two months before the expiry of the 2007 Memorandum. Under the applicable regulatory framework, if the 2007 Memorandum is not extended or a new memorandum is not adopted, the 2007 Memorandum will be deemed to be extended on its existing terms until the decision on the extension of the 2007 Memorandum or its replacement with a new memorandum is adopted. As at the date of this Base Prospectus, VEB is not aware of a proposal having been submitted by the Ministry of Economic Development to extend the 2007 Memorandum or to replace it. There can be no assurance that the 2007 Memorandum will be extended on its existing terms, if at all. If any fundamental changes are introduced in any extension or renewal of the 2007 Memorandum, these could have a material adverse effect on VEB’s business, financial condition, results of operations and prospects.

Investors should also be aware that the “Concept of the Development of the Russian Civil Law” approved by the Presidential Council on the Codification and Improvement of Russian Civil Law dated 7 October 2009 suggests a general reorganisation of state corporations into state-owned joint stock companies, which should then be privatised. Although the Presidential Council did not discuss VEB specifically, and, in the first quarter of 2010, VEB and the Ministry of Economic Development determined that VEB’s reorganisation or privatisation would not be economically practical or otherwise advisable under current circumstances, there can be no assurance that actions to these effects will not be undertaken in the future. Any such action, in whole or in part, could restrict future financial and political support for VEB by the Russian Government, change decision-making processes or subject VEB to different corporate governance procedures or otherwise have a material adverse effect on VEB’s business, financial condition, results of operations and prospects.

***VEB’s lending and investment policies are different from those of a standard commercial bank.***

VEB’s lending and investment policies are different from those of a standard commercial bank, in that VEB’s business activities are generally driven by Russian economic policy as a whole, rather than purely commercial considerations. See “*—VEB is fully controlled by the Russian Government, which, accordingly, has the ability to require VEB to pursue certain activities that may expose VEB to significant risks and that may not generate profit*”. As a development bank, VEB does not compete with commercial lending and financial institutions in

providing finance to customers; rather, pursuant to the 2007 Memorandum, VEB gives preference to investment projects, such as infrastructure projects, which are not typically eligible for financing on terms acceptable to commercial banks and other non-specialist market investors. Loans and investments made by VEB often involve relatively large principal amounts, have longer-term maturities, are not secured by liquid collateral and are extended at preferential rates, all of which make these activities of relatively high risk and low return. For example, VEB has provided substantial long-term funding for infrastructure projects, such as for a number of infrastructure development projects in connection with the 2014 Winter Olympics and for the construction of the Moscow-St. Petersburg highway. In addition, in exceptional cases, subject to Supervisory Board approval, VEB may participate in investment projects, which may not meet the criteria established by the 2007 Memorandum. It is unlikely that these investments will return any profit in the foreseeable future. The higher-risk and lower-return nature of any such loans, investments or other transactions could, in any one case or in the aggregate, have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

***A decline in the value or liquidity of collateral securing VEB's loans may adversely affect VEB's loan portfolio. Moreover, it may be difficult for VEB to enforce its rights in respect of collateral or guarantees provided in its favour under Russian law.***

A substantial portion of VEB's loans to corporate customers are secured by collateral, such as shares and other securities, real property, inventory, trade receivables and assigned claims against third parties. The recent global financial crisis has resulted, and may continue to result, in declines in the value of such collateral to levels below the respective amounts of the outstanding principal and accrued interest on the loans secured thereby. Although most of the security arrangements put in place in respect of VEB's loans require the posting of additional collateral if loan-to-value ratios are not maintained, in the event that collateral values are significantly impaired, VEB may be required to reclassify the related loans and establish additional allowances for loan impairment. For example, as at 31 December 2009, loans to VEB's three largest borrowers included a group of loans to an associate of VEB in the amount of RUB 121,760 million and comprising 12.6% of VEB's loan portfolio, a portion of which was applied to finance such associate's purchase of real estate and other assets from certain borrowers of GLOBEXBANK to permit such borrowers to repay obligations owed by them to GLOBEXBANK in connection with the rehabilitation of GLOBEXBANK to restore its financial viability following the global financial crisis. As at 31 December 2009, VEB recorded allowance for impairment of these loans to its associate in an aggregate amount of RUB 37,370 million; notwithstanding this provision, VEB has significant further exposure associated with these loans since the current fair value of the purchased assets is less than the purchase price paid as a result of the continuing impact of the global financial crisis on real estate values.

Any requirement to establish additional provisions in light of declining collateral values or otherwise could have a material adverse effect on VEB's business, financial condition, results of operations and prospects. In addition, as a result of enforcement proceedings following a loan default, VEB may acquire controlling or minority interests in companies, which operate in sectors outside VEB's core business areas and in respect of which VEB has no operational or management expertise. If VEB were unable to liquidate its interests in such companies following foreclosure, the requirement to conduct these businesses or maintain the values of these companies may detract from the ability of VEB's management to focus on VEB's core businesses, which could, in turn, materially adversely affect VEB's business, financial position, results of operations and prospects.

Under Russian law, collateral and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the secured or guaranteed obligation terminates or becomes void. Moreover, the enforcement of rights in collateral in the Russian Federation may require a court order and, in some cases involving pledges and mortgages, a public sale of the collateral. VEB may, therefore, have difficulty foreclosing on collateral or otherwise enforcing its security interests in the event that its borrowers default on loans. In addition, even if VEB is successful in foreclosing on collateral, it may be difficult for VEB to sell acquired assets at their assessed fair market value or at all as VEB may be unable to find willing buyers or no ready market may otherwise exist for such assets. Any failure to liquidate collateral and realise an amount sufficient to cover the balances due to VEB may expose VEB to additional losses and require VEB to record additional allowance for impairment and, accordingly, could materially adversely affect VEB's business, financial position, results of operations and prospects.

***VEB is not subject to Russian insolvency laws and procedures generally applicable to Russian commercial entities.***

Insolvency legislation applicable to banking institutions and other Russian companies generally does not apply to VEB. VEB may be liquidated or wound up only on the basis of a specific law establishing the basis,

procedures and timing for a liquidation or a winding up and stipulating the process for distribution of any assets. In the event that VEB were unable to pay its debts as and when due, remedies legally available to creditors of Russian banks and corporate entities generally are likely to be unavailable to creditors of VEB. In particular, it is impossible to predict how claims against VEB by the Trustee on behalf of the Noteholders would be resolved in the event of VEB's liquidation or winding up.

***VEB is subject to credit risk in respect of its borrowers.***

VEB is subject to risks regarding the credit quality of, and the recovery on, loans to customers and amounts due from credit institutions. VEB's total loans have grown significantly from RUB 272,897 million as at 31 December 2007 to RUB 1,310,846 million as at 31 December 2009. Continued and improved monitoring of the credit quality of VEB's loan portfolio, and the adequacy of its provisioning levels, is required, particularly as the loan portfolio continues to grow. See "*Risk Management*". Allowance for impairment of total loans was RUB 122,694 million as at 31 December 2009, which represented 8.6% of VEB's total loans as at 31 December 2009 and included primarily allowance for impairment of loans held by GLOBEXBANK, Sviaz-Bank and Prominvestbank upon VEB's acquisitions of these banking subsidiaries. See "*Description of VEB's Business—Principal Subsidiaries and Associates*".

Few of VEB's customers have extensive credit histories and credit reference agencies are relatively new to the Russian Federation and, accordingly, VEB may be unable to evaluate correctly the current financial condition of existing or prospective borrowers and their long-term financial outlook. Moreover, because VEB generally finances projects which would typically not be eligible for finance by, or otherwise be commercially attractive for, commercial banks, and, because, in exceptional cases, subject to Supervisory Board approval, VEB may participate in investment projects, which may not meet the criteria established by the 2007 Memorandum, many of VEB's loans, investment projects or other transactions, in any one case or in the aggregate, are subject to more significant credit risk, which may expose VEB to additional losses and require VEB to record additional allowance for impairment and, accordingly, could materially adversely affect VEB's business, financial position, results of operations and prospects.

In addition, as more fully discussed below, VEB's loan portfolio is characterised by both borrower and economic sector concentrations. See "*—VEB has made large loans to certain borrowers in specific sectors of the Russian economy. Any continuing effects of the global financial crisis or further deterioration affecting these sectors could have a material adverse effect on VEB's business, financial condition, results of operations and prospects*".

Changes in the credit quality of VEB's borrowers, or arising from systemic risks in the Russian and global financial systems or in economic sectors in which VEB's loans are concentrated, have reduced, and may continue to reduce, the value of VEB's assets and have increased, and may continue to increase, VEB's loan losses and allowances for loan impairment. In addition, many businesses in the Russian Federation have considerably less operating experience in competitive market conditions than their counterparts in more developed economies and, accordingly, the financial performance of Russian companies is generally more volatile, and the credit quality of Russian companies less predictable, than similar companies doing business in more mature markets and economies. If VEB's borrowers were to experience continued or renewed poor financial performance due to a reversal of recent improvements in the Russian economy or otherwise, or volatility, in certain sectors of the Russian economy, this could adversely affect the credit quality of VEB's loan portfolio. There can be no assurance that VEB's historic level of loan recovery will be maintained in the future. Any need to recognise additional provisions or any increase in loan losses as a result of increased credit risk could have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

***VEB has made large loans to certain borrowers in specific sectors of the Russian economy. Any continuing effects of the global financial crisis or further deterioration affecting these borrowers or these sectors could have a material adverse effect on VEB's business, financial condition, results of operations and prospects.***

VEB was established (among other reasons) to implement Russian Government policies in, and provide credit and other banking services at preferential interest rates to, certain sectors of the Russian economy. As a result of this objective, VEB's loan portfolio is, from time to time, characterised by concentration in one or more particular economic sectors. As at 31 December 2009, loans outstanding to borrowers in construction and reconstruction, metallurgy, manufacturing (including heavy machinery and military), oil and gas and finance sectors comprised 20.4%, 18.1%, 15.9%, 9.2% and 8.0%, respectively, of VEB's total loan portfolio. These sectors, some of which were among the most affected by the global financial downturn in 2008 and 2009, may



also be adversely affected by any failure of the initial recovery of, or further deterioration in, the Russian or international economic and financial environment.

Moreover, as at 31 December 2009, loans outstanding to VEB's three largest borrowers aggregated RUB 311,696 million and comprised 32.3% of the total loan portfolio. As at 31 December 2009, these loans included (i) a group of related loans to a group of leading Russian metallurgy companies, in the amount of RUB 143,905 million and comprising 14.9% of VEB's loan portfolio; (ii) a group of loans to an associate of VEB, in the amount of RUB 121,760 million and comprising 12.6% of VEB's loan portfolio, a portion of which was applied to finance such associate's purchase of real estate and other assets from certain borrowers of GLOBEXBANK to permit such borrowers to repay obligations owed by them to GLOBEXBANK in connection with the rehabilitation of GLOBEXBANK to restore its financial viability following the global financial crisis; and (iii) a loan to a leading Russian telecommunications company, in the amount of RUB 46,031 million and comprising 4.8% of VEB's loan portfolio as at 31 December 2009. As at 31 December 2009, VEB recorded allowance for impairment of these loans to its three largest borrowers in an aggregate amount of RUB 37,583 million, of which RUB 37,370 million was recorded in respect of the loans to an associate to finance the purchase of real estate and other assets from certain borrowers of GLOBEXBANK. Notwithstanding this provision, VEB has significant further exposure associated with these loans since the current fair value of the purchased assets is less than the purchase price paid as a result of the continuing impact of the global financial crisis on real estate values. In addition to these loans to VEB's three largest borrowers, VEB has outstanding loans to ten further major borrowers or groups of related borrowers in the aggregate amount of RUB 240,050 million, or 24.9% of total loans, as at 31 December 2009. For the year ended 31 December 2009, VEB recorded allowance for impairment of these ten large loans in a total amount of RUB 7,946 million.

The directed nature of VEB's recovery lending activities may, from time to time, result in VEB having continuing concentrated exposures to particular industries or economic sectors and particular borrowers and, ultimately, could adversely affect the diversity of VEB's overall loan portfolio. As a result of any such concentrations, VEB may experience higher losses in its loan portfolio than would be the case if it had a more diversified portfolio, which could, in turn, have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

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

VEB issues guarantees, letters of credit, export credit insurance and other similar types of finance as a result of which VEB has significant off-balance sheet credit related commitments that may lead to potential losses. As at 31 December 2009, VEB had issued guarantees amounting to RUB 131,577 million, letters of credit amounting to RUB 33,285 million and other undrawn credit lines and commitments to extend credit amounting to RUB 231,321 million. In particular, as at the date of this Base Prospectus, VEB's largest guarantee accounted for 11.6% of the total off-balance sheet credit-related commitments issued by VEB. All such credit-related commitments are classified as off-balance sheet items in the IFRS Financial Statements. Although VEB has established allowances for its off-balance sheet credit-related commitments, there can be no assurance that these allowances will be sufficient to cover related losses that VEB may potentially incur and, accordingly, any such losses could have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

***VEB is subject to liquidity risk.***

Although VEB's main sources of liquidity are currently matched in terms of funding by loans or deposits from the CBR or the Russian Government and include a portfolio of marketable securities, there can be no assurance that VEB will continue to have the same level of liquidity as it has in recent years. See "*Certain Statistical Data and Other Information—Securities Portfolio*". Russian banks (including VEB's banking subsidiaries) have experienced a reduction in the availability of affordable finance both in the inter-bank and short-term funding markets, as well as in the longer-term capital markets and syndicated and bilateral lending markets. Further, a number of Russian financial institutions have suffered severe liquidity problems and, in certain cases, the majority shareholders have had to sell their shares to other Russian institutions. These developments could also have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

VEB may be required to, or may choose to, rely on other sources of funding to finance its operations and expected future growth. VEB intends to continue to diversify its funding sources by continuing to access the domestic and international capital markets and borrow under bilateral and syndicated loan facilities. Its ability to do so, including to refinance outstanding debt as it falls due, could, however, be adversely affected by a number

of factors, including conditions generally affecting the Russian and global economies and the Russian banking and financial sector. VEB's recourse to other funding sources to finance its current operations and expected future growth may pose additional risks, including increased exposure to liquidity risk arising out of resulting mismatches between the maturities of VEB's assets and liabilities and the possibility that other funding sources may be more expensive and less flexible. In the event that VEB increasingly funds its operations through the international and domestic capital markets and borrowings under bilateral and syndicated loans, either because its existing funding sources become less available or in an effort to reduce its dependence on the Russian Government and the CBR or to lengthen the maturity profile of its funding base, VEB may encounter difficulties in meeting its payment obligations in a timely manner if its assets mature or reprice differently than its liabilities.

Furthermore, there can be no assurance that VEB will be successful in diversifying its funding sources. The recent global financial crisis reduced VEB's access to funding from international markets at commercially acceptable costs. VEB'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 a reversal in the recent improvements in the Russian and international economies, financial systems and markets. There can be no assurance that VEB will be able to refinance its existing indebtedness as it matures or replace current funding sources when these expire on terms that are favourable or acceptable to VEB or at all. A failure to refinance outstanding indebtedness or find replacement sources of funds could have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

***VEB is subject to interest rate risk.***

VEB is exposed to interest rate risk resulting from mismatches between the interest rates on its interest-earning assets and the interest rates on its interest-bearing liabilities. From time to time, the maturities of VEB's assets and liabilities are not balanced and, accordingly, an increase or decrease in interest rates could have an adverse effect on VEB's net interest margin and results of operations. To the extent that VEB's liabilities reprice substantially more frequently than its assets, if interest rates rise, VEB's interest expense will increase more rapidly than its interest income, which could negatively affect interest margins and result in liquidity problems.

In addition, an increase in interest rates generally raises VEB's funding costs. Such an increase could also generally decrease the market value of fixed rate debt securities, as it did for banks generally in 2008. In addition, an increase in interest rates may reduce overall demand for new loans and increase the risk of customer defaults. General volatility in interest rates may result in a mismatch between VEB's interest-rate sensitive assets and liabilities. Since August 2007, there has been a period of unprecedented high and volatile inter-bank lending rates, which, together with a shortening maturity of deposits, has exacerbated the risk of such mismatch. VEB has incurred, and may continue to incur, additional costs and has been exposed, and may continue to be exposed, to other risks arising from the need to adjust to such asset and liability positions through the use of derivative instruments. Interest rates are sensitive to many factors beyond VEB'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 VEB will be able to protect itself from the adverse effects of future interest rate fluctuations. Any fluctuations in market interest rates could lead to a reduction in net interest income and adversely affect VEB's business, financial condition, results of operations and prospects.

In addition, some of the loans provided by VEB to Russian companies in 2009 have become subject to revised interest rates pursuant to certain amendments to the Financial System Support Law. The provisions of these amendments authorising the repricing of loans made by VEB to certain borrowers are currently the subject of debate between VEB and the borrowers. If the interpretation proposed by the borrowers prevails, VEB may be subject to a mismatch between the rate of interest VEB is permitted to charge under the loans and the rate of interest VEB is required to pay in respect of the corresponding CBR deposits used to fund the loans. Such a mismatch would negatively impact VEB's net interest margin and, in some cases, could result in losses to VEB, which could have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Primary Factors Affecting VEB's Results of Operations and Capital Structure—Fluctuations in Interest Rate and Exchange Rates*" and Note 30 to the IFRS Financial Statements for the year ended 31 December 2009 for a more detailed interest rate sensitivity analysis relating to VEB.

***VEB may become increasingly subject to exchange rate risk.***

VEB trades in foreign currencies on behalf of its clients and maintains open currency positions, which give rise to exchange rate risk. VEB's income from its foreign currency operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in exchange rates, government actions and general market volatility.

Although VEB's assets and liabilities are largely matched by currency, as at the date of this Base Prospectus, VEB's exposure to exchange rate risk may increase, particularly as it continues to access international capital markets and foreign currency syndicated and bilateral lending markets. Accordingly, future changes in currency exchange rates, which can be particularly volatile in times of national or global financial instability, such as the recent period of economic turmoil, could have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

***VEB is subject to market risk, in particular, in respect of its securities portfolio.***

From 2007 to 2009, the value of VEB's securities portfolio increased by 267.2%, from RUB 108,265 million to RUB 397,574 million, primarily due to the purchase of securities of certain Russian companies in connection with VEB's activities in support of the Russian securities market in response to the recent global financial crisis. Although VEB acquired many of the investments in its securities portfolio with funds comprised of deposits from the Russian Government (principally comprising funds of NWF), VEB has repaid such deposits and now owns and trades the securities in its portfolio, comprising both equity and debt securities, on a proprietary basis without any matching or offsetting liability.

VEB'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. Market price fluctuations may adversely affect the value of the securities in VEB's portfolio, which could, in turn, have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

***Insurance coverage may not adequately cover the full value of VEB's assets or assets pledged to it by borrowers.***

VEB is not legally required to maintain insurance covering its assets. Although VEB voluntarily maintains some insurance on its material assets and requires that certain collateral posted by its borrowers be insured, most of VEB's assets are not covered by insurance and the amount of insurance coverage is more limited than that which would normally be acquired in respect of similar assets in more developed economies. Furthermore, the Russian insurance industry is not well-developed and many forms of insurance offered in developed countries are unavailable to VEB on commercially reasonable terms, if at all. VEB may incur material losses from uninsurable or uninsured risks or insufficient insurance coverage. Any uninsured losses or claims against VEB could have a material adverse effect on VEB's business, financial condition, results of operation or prospects.

***VEB may be unable to recruit or retain experienced and qualified personnel.***

VEB's continuing success depends, in significant part, on its ability to attract, retain and motivate qualified and experienced banking and management personnel. VEB is dependent on its senior management for the implementation of its strategy and the operation of its day-to-day activities. In addition, relationships of members of senior management with Russian Government agencies and ministries and regional and local authorities are important to the conduct of VEB's business. No assurance can be given that the key members of VEB's senior management will remain at VEB or that important business relationships with Russian Government agencies and ministries and regional and local authorities will endure. The departure of key management, any failure of VEB to recruit and retain necessary personnel qualified to conduct VEB's operations or the loss or damage of key relationships with the Russian Government could have a material adverse effect on VEB business, financial condition, results of operations and prospects.

***VEB's business activities entail operational risks. In particular, VEB is dependent on its information technology systems, and disruptions in service may adversely affect VEB's business, financial condition, results of operations and prospects.***

VEB's financial performance, its ability to meet its strategic objectives and its ability to manage risks arising out of the current market environment depend and will continue to depend to some extent upon the functionality of

its information technology and its ability to increase systems capacity and functionality in line with the emphasis of its activities. VEB's information technology systems remain less sophisticated and less integrated in certain respects than those of banks in more developed countries. The lack of well-integrated IT systems increases VEB's operational risks, including the risk of fraud by employees or outsiders, unauthorised transactions by employees and operational errors, such as clerical or record-keeping errors, settlement errors, model errors, errors resulting from faulty computer or telecommunications systems and natural disasters.

VEB's operational reporting systems may also be less advanced than those used by banks in more developed markets. In particular, VEB's ability to monitor its loan and securities portfolios in the aggregate on a daily basis and management's ability to obtain certain other financial and operational data may be limited. Although the number of transactions routinely undertaken by VEB is significantly lower than the volume of business conducted by commercial financial institutions engaged in retail banking, the lack of immediately available consolidated financial and operating data may hinder the ability of VEB's management to make decisions, to react promptly to changes in market conditions and to detect fraud and non-compliance with internal procedures. Moreover, as VEB's loan portfolio and overall business activities have grown, and continue to grow, VEB's information, technology, operational reporting and risk management systems have been put under increasing strain. Overall, VEB's systems may not permit management to assess risks related to VEB's current and growing business accurately and in a timely manner. As such, VEB may be exposed to unidentified risks in connection with certain transactions and may incur higher levels of loan losses resulting in the requirement to make larger provisions, which could have a material adverse effect on VEB's financial condition, results of operations and prospects.

VEB maintains systems designed to protect its computer network and IT infrastructure and keep operational and technological risk at acceptable levels. See "*Risk Management—Risk Management Policies*". There can be no assurance, however, that these controls will operate as intended to detect or contain operational and technological risk in the future. See "*Description of VEB's Business—Information Technology*". Disruptions (even short-term) in service, processing delays or other problems affecting VEB's operational and information technology systems could also have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

In addition, whilst VEB has implemented comprehensive measures in accordance with applicable Russian legislation aimed at the prevention of money laundering and terrorist finance, there can be no assurance that VEB's anti-money laundering and anti-terrorist finance measures will be completely effective. If VEB were to be associated with money laundering or terrorist finance, VEB would suffer reputational damage, which could have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

***The preparation of the IFRS Financial Statements requires management to make certain judgments, estimates and assumptions, which necessarily involve uncertainties, which could have a material adverse effect on amounts reported in VEB's IFRS Financial Statements.***

The preparation of VEB's IFRS Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of VEB's assets, liabilities, income and expenses and are critical to an understanding of VEB's IFRS Financial Statements. The judgments, estimates and assumptions that VEB's management makes are based on information available at the time such judgments, estimates and assumptions were made. Should circumstances change, the outcome may be materially different from what was envisaged at the time the judgments, estimates and assumptions were made. Actual results may differ from estimates, and such differences may be material and, accordingly, have a material adverse effect on the amounts of assets, liabilities, income and expenses reported in VEB's IFRS Financial Statements. See Note 2 to the IFRS Financial Statements for the year ended 31 December 2009 for a discussion of these estimates and assumptions.

***VEB may fail to properly manage its growth or integrate newly acquired subsidiaries.***

VEB's banking operations have grown significantly in recent years. In particular, during the three-year period ended 31 December 2009, VEB's total assets grew from RUB 554,623 million as at 31 December 2007 to RUB 1,939,214 million as at 31 December 2009. Although VEB expects to continue to expand its business through internal growth, particularly because VEB's recent growth was in large part driven by its recovery finance activities, which VEB expects will lessen as the global financial crisis passes, there can be no assurance that VEB will be able to sustain its current levels of growth in the future.

VEB's recent asset growth in part also reflects a number of significant acquisitions, including VEB's acquisitions of a 53.6% interest in Belvnesheconombank in 2007, which was subsequently increased to 97.2% in 2008 and 97.4% in 2009; a 50.0% interest plus one share in VEB-Leasing in 2008, which was subsequently increased to 78.1% in 2009 and further to 98.1% in 2010; an 89.9% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009; a 75.0% interest plus three shares in Prominvestbank in 2009; and a 98.9% interest in GLOBEXBANK in 2009. Certain claims have been brought by minority shareholders challenging the validity of VEB's investment in Prominvestbank. See "*—Litigation*".

VEB's recent acquisitions, and the related growth in VEB's assets, liabilities and net income, as well as its ongoing operations, have required and will continue to require significant allocation of management resources, further development of VEB's financial controls, internal controls and information technology systems, continued upgrading and streamlining of VEB's risk management systems and additional training and recruitment of management and other key personnel. The integration of new businesses can be difficult because operational practices and business cultures may differ, cost-cutting measures may be required and internal controls, including controls over cash flows and expenditures, may be more difficult to maintain. VEB may make or be forced to make significant additional acquisitions in the future, including controlling or minority interests in defaulting companies, which operate in sectors that are not core to VEB's business and in respect of which VEB has no operational or management expertise. Future acquisitions could also give rise to similar integration risks, as well as financial risks. There can be no assurance that VEB will be able to fully integrate newly-acquired businesses in line with its strategy and business practices. Any failure to successfully manage growth and development, including through the hiring, retention and training of experienced managers and other personnel and the expansion and upgrading of VEB's operating and IT systems, or to integrate past or future acquisitions, could adversely affect VEB's business, financial condition, results of operations and prospects.

***Several of VEB's largest subsidiaries engage in traditional commercial banking activities and are, accordingly, exposed to a variety of risks customarily affecting such businesses.***

Several of VEB's largest subsidiaries, including GLOBEXBANK, Sviaz-Bank and Prominvestbank, engage in traditional commercial banking activities and are, accordingly, exposed to a variety of risks customarily affecting such businesses, which include, but are not limited to, the following:

- continued instability and dislocation in the global credit markets;
- the impact of external factors on cash generation, liquidity and debt service;
- the inability to accurately assess the credit risk of potential borrowers;
- a decline in the value or illiquidity of collateral and difficulties in the enforcement of security interests under applicable laws;
- exposure to interest rate risk, currency risk, credit risk, operational risk and liquidity risk;
- volatility in the income from proprietary securities and currency operations;
- competition;
- off-balance sheet credit-related commitments;
- operational and technological risks;
- unidentified and unanticipated risks arising from less sophisticated and less integrated risk management policies and procedures and accounting systems;
- the failure of employees to adhere to internal compliance procedures;
- difficulties in attracting and retaining qualified senior management and key personnel;
- covenant restrictions and events of default that may limit business development activities; and

- revisions to applicable central bank or Basel Accord capital adequacy standards and related requirements for additional capital.

In addition, the deterioration of general economic conditions in the Russian Federation and the other markets in which VEB operates, and the declining growth of the Russian banking sector in particular, have adversely impacted VEB's banking subsidiaries in 2008 and 2009. See "*—Risks Relating to the Russian Federation*".

Any of the above-outlined risks or any failure in the initial recovery of, or further deterioration in relevant economies could have a material adverse effect on VEB's banking subsidiaries and, in turn, on VEB's business, financial condition, results of operations and prospects.

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

*The continuation of turmoil in the global financial markets has adversely affected, and may continue to adversely affect, the Russian economy and the Russian banking industry. Both as the development bank of the Russian Federation and as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system during the global financial crisis, VEB must assume the risks resulting from measures designed to respond to such turmoil. These risks could adversely affect VEB's business, financial condition, results of operations and prospects.*

The credit markets, both globally and in the Russian Federation, have faced significant volatility, dislocation and liquidity constraints since the summer of 2007. In addition to its exposure to the Russian economy, VEB is also exposed to the possibility of continuing deterioration of economic conditions in certain CIS countries, including Ukraine and Belarus.

In response to the global financial crisis affecting the global banking sector and financial markets, many countries, including the Russian Federation, have announced, and in many cases have begun to implement, significant rescue packages, which include, among other things, the recapitalisation of banks through state-sponsored purchases of common and preferred equity securities, state-sponsored guarantees of certain forms of bank debt, state-sponsored purchases of distressed assets from banks and other financial institutions and the provision by the state of guarantees of distressed assets held by banks and other financial institutions. In the first instance, there can be no assurance that such measures will succeed in returning stability to the global banking sector and financial markets in the short term or beyond. Moreover, in the Russian Federation, many of these measures have been implemented through VEB. Accordingly, VEB is particularly exposed to the risk that measures to redress the crisis will not be successful in assisting the entities to which VEB has provided financial support, either through loans or capital investments, in recovering sufficiently (if at all) to enable them to repay their obligations to VEB or for VEB to yield a return on its investments.

Moreover, some of the development projects financed by VEB were initiated by the Russian Government for political and social reasons to increase the competitiveness and diversification of the Russian economy, in particular, by promoting investment activity in sectors that are of strategic importance to the Russian Government. Should the general downturn in the global or Russian economy force the Russian Government to withdraw or suspend its participation or support of such projects, this could result in losses to VEB.

Any failure by VEB's borrowers to repay their obligations, of VEB's investments to return a positive yield or termination of VEB-funded projects (among other things) could have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

*Any material reduction in the price of crude oil or natural gas may materially adversely affect the revenues and financial condition of the Russian Federation.*

The Russian Federation's revenues are affected by international oil and natural gas prices, which have fluctuated widely in recent years in response to global supply and demand, general economic conditions, competition from other energy sources and other factors. In 2008, for example, the peak price of Urals oil was U.S.\$137.40 per barrel and the average monthly price per barrel was U.S.\$94.40, as compared to a peak price of U.S.\$78.10 and an average monthly price of U.S.\$61.00 in 2009. The average price per barrel of Urals oil in the first five months of 2010 was U.S.\$76.3 and the spot price of Urals oil was U.S.\$71.2 on 11 June 2010. Russia's 2010 Budget Law assumes an average price per barrel of Urals oil of U.S.\$58, increasing to U.S.\$59 in 2011 and to U.S.\$60 in 2012. Natural gas prices have likewise fluctuated significantly in recent years, in part because crude oil prices often provide a benchmark for natural gas prices. In 2008, the peak price of natural gas was

U.S.\$13.31 per mmbtu and the average monthly price was U.S.\$8.85 per mmbtu, as compared to a peak price of U.S.\$6.14 and an average monthly price of U.S.\$3.96 in 2009. Whilst the existing price for Urals oil is substantially above the price assumed in the 2010 Budget Law for 2010, 2011 and 2012, any material reduction in the price of crude oil or natural gas will have a significant effect on Russia's budgetary revenues and foreign reserves, and may materially adversely affect the Russian Federation's financial condition, including the Russian Federation's ability to continue to provide funding to VEB.

***The Russian Federation's economy, like many economies, particularly in emerging markets, is vulnerable to external shocks. The recent global financial crisis, significant future economic difficulties of the Russian Federation's major trading partners and more general "contagion" effects all could have a material adverse effect on the Russian Federation's economic growth and the market for the Notes.***

The Russian Federation's economy and finances have been adversely affected by the recent global financial crisis. Real GDP, for example, declined by 7.9% in 2009 as compared to 2008, and the average unemployment rate (using the definition of the International Labour Organisation (the "ILO")) increased from 7.1% in the fourth quarter of 2008 to 8.0% in the fourth quarter of 2009. The value of the Rouble against the Dollar also declined in 2009, by 12.2% in real terms, as did the value of the real effective exchange rate, which fell by 5.6%. The depreciation of the Rouble against the U.S. Dollar or other major currencies may adversely affect the financial condition of the Russian Federation, as well as the Russian Federation's ability to continue to provide funding to VEB.

The Russian Federation's economy remains vulnerable to further external shocks, including as a result of the ongoing global economic crisis. A significant decline in the economic growth of the EU or any of the Russian Federation's other major trading partners could have a material adverse effect on the Russian Federation's balance of trade and adversely affect the Russian Federation's economic growth.

Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavoured by international investors—so-called "contagion effects." The Russian Federation has been adversely affected by contagion effects in the past, and it is possible that the market for investments relating to the Russian Federation, including the Notes, will be similarly affected in the future by negative economic or financial developments in other countries, particularly those whose economies or credit ratings are similar to those of the Russian Federation.

There can be no assurance that the current economic crisis, or a future external economic crisis, will not have a negative effect on investors' confidence in the Russian Federation's markets, economy or ability to raise capital in the international debt markets, all of which could have a material adverse effect on the Russian Federation's economy and, in turn, its ability to continue to provide funding to VEB.

***It may be difficult to obtain recognition or enforcement in the Russian Federation of a foreign judgment in respect of the Notes.***

A final judgment rendered by a foreign court will generally be recognised and enforced in the Russian Federation if there is an international treaty in effect between the Russian Federation and the country where the judgment is rendered providing for the mutual recognition and enforcement of judgments.

As at the date of this Base Prospectus, there are no international treaties in effect providing for the mutual recognition and enforcement of foreign judgments rendered by courts in the Russian Federation and courts in most of the countries where investors in Notes are likely to reside, including the United Kingdom and the United States. 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. Whilst 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. Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy. As a result, it may be difficult to obtain recognition or enforcement in the Russian Federation of a foreign judgment in respect of the Notes.

## **Risks Relating to the Issuer**

***Examiners, preferred creditors under Irish law and floating charges may impose additional risks on the Notes.***

### *Centre of Main Interest*

As the Issuer has its registered office in Ireland, 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 29 May 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 in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

### *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 (i) a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals and (ii) 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 (iii) 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 whilst any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and

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:

under the terms of the Trust Deed, the Notes will be secured in favour of the Trustee for the benefit of itself and the Noteholders by security over the Loan Agreement and sums held in the related account with the Principal Paying Agent. 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;

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, such as the Charge, may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and

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.

### **Risks Relating to the Notes and the Trading Market**

#### ***Payments under a Series of Notes are limited to the amount of certain payments received under the relevant Loan Agreement.***

The Issuer is only obliged to make payments under a Series of Notes to the relevant Noteholders in an amount equal to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer from VEB pursuant to the relevant Loan Agreement less any amounts in respect of the Issuer Reserved Rights provided that, for so long as a Swap Agreement is in effect, recourse shall be limited in respect of amounts exchanged pursuant to such Swap Agreement. To the extent any relevant Swap Counterparty does not make payments due under any relevant Swap Agreements, VEB will be required to make such payments to the Issuer directly. In such circumstances, Noteholders will also be reliant on VEB making such payments under the Loan Agreement. Consequently, if VEB fails to meet its payment obligations under the relevant Loan Agreement in full, this will result in the Noteholders of a Series of Notes receiving less than the scheduled amount of principal, interest and additional amounts (if any) on the relevant due date.

#### ***Payments of principal and interest made in Roubles are subject to the settlement procedures of the general Russian banking system, which may be different from corresponding Western systems.***

Payments of principal and interest under the relevant Loan and relevant Notes may be made in Roubles. All payments of Roubles to, from or between Rouble accounts located outside the Russian Federation will be made via onshore correspondent accounts within the Russian banking system. The general Russian banking and settlement system is based on periodic daily settlement cycles, which may not be similarly suited to deal with payments relating to Eurobonds or similar international debt instruments as many of its Western counterparts. Consequently, there is a risk that payments of both principal and interest under the relevant Loan and relevant Notes, which need to pass through the Russian banking and settlement system, will be subject to delays and disruptions which may not exist in more mature banking markets.

#### ***Noteholders have no direct recourse to VEB.***

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

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

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

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

***VEB’s payments under any Loan may be subject to Russian withholding tax.***

In general, interest or other payments akin to interest on borrowed funds made by a Russian entity to a non-resident legal entity or organisation having no registered presence and/or no permanent establishment in the Russian Federation are subject to Russian withholding tax at a rate of 20%, unless tax is reduced or eliminated pursuant to the terms of an applicable double taxation treaty. Based on professional advice VEB has received from its tax counsel, VEB believes that interest payments on the relevant Loan made to the Issuer should not be subject to withholding tax under the terms of the Agreement between the Government of Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation with respect to Taxes on Income signed on 29 April 1994 (the “Convention”). However, there can be no assurance that such relief will be available in practice or will continue to be available throughout the term of any Loan.

In particular, there is a risk that the Russian tax authorities may disallow application of the Convention if they do not view the Issuer as the beneficial owner, and, instead, look at the tax residence of the Noteholders. A draft law envisaging the introduction of the concept of “actual recipient of income” to the Tax Code of the Russian Federation became available in December 2009. Although the draft law neither uses the term “beneficial owner” nor defines the term “actual recipient of income” (which is used in the Russian versions of double taxation treaties), it is likely that the intent of the proposed amendments is to introduce a concept of beneficial ownership in the Russian tax legislation and to combat the abuse of double taxation treaties where the beneficiary of income resides in a jurisdiction which has not concluded a double taxation treaty with the Russian Federation. The draft law, if enacted as currently drafted, would increase the existing uncertainty and inconsistency in the application of tax treaties in the Russian Federation. It may result in the inability for foreign entities to claim benefits under a double taxation treaty through structures which historically were subject to double taxation treaty protection in the Russian Federation. It is currently uncertain if and when this draft law may be introduced, as well as how it would be interpreted and applied by the tax authorities and/or courts in practice. If and when introduced, such changes could have an impact on the tax treatment of the transactions structured as established by the Base Prospectus.

In circumstances where payments under any Loan Agreement become payable to the Trustee pursuant to the Trust Deed, any benefit of the double taxation treaty between the Russian Federation and Ireland will cease and payments of interest should be subject to Russian withholding tax at the rate of 20% (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 taxation treaty under such circumstances. In such cases, the Noteholders may seek reduction or refund of withholding tax under applicable double taxation treaties entered into between their countries of residence and the Russian Federation, where such treaties exist and to the extent they are applicable. There is no assurance that the treaty relief will be available.

If payments under the relevant Loan are subject to any Russian withholding tax (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), VEB will be obliged to increase the amounts payable as may be necessary to ensure that the Issuer receives a net amount that will not be less than the amount it would have received in the absence of such withholding taxes.

It should be noted, however, that the tax gross-up provisions may not be enforceable under Russian law. In the event that VEB fails to make increased payments, such failure would constitute an Event of Default pursuant to the Loan Agreement. If VEB is obliged to increase payments, it may (without premium or penalty), subject to certain conditions, prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to, but not including, the date of redemption.

***The Issuer may enter into Swap Agreements with Swap Counterparties, which will share security with Noteholders.***

The Issuer may enter into one or more Swap Agreements with one or more Swap Counterparties in respect of a Series of Notes and any such Swap Agreements will be subject to the same security arrangements as the relevant Series of Notes. Swap Agreements may be entered into in relation to currency and/or interest rate swaps. Any early termination of such Swap Agreements could, in the circumstances set out below, lead to an Event of Default under the relevant Loan Agreement and ultimately result in the Notes becoming due and payable prior to their maturity date. In the event of an Event of Default under any relevant Loan Agreement, the Trustee will, pursuant to the Trust Deed, enforce the Security Interests for the benefit of the Noteholders and any applicable Swap Counterparty *pari passu* and rateably, which may, in the event of a shortfall in funds recovered, lead to Noteholders receiving less than the full amount available for distribution by the Trustee.

Any Swap Counterparty may have existing or future business relationships with VEB or the Issuer (including, but not limited to, lending, depositary, risk management, advisory and banking relationships), and, in such circumstances, may pursue actions and take steps that it deems or they deem necessary or appropriate to protect its or their interests arising therefrom without regard to the consequences for any of the Noteholders.

To the extent that one or more relevant Swap Agreements are terminated early for any reason, VEB will, under the relevant Loan Agreement, be obliged to pay such additional amounts as may be necessary to ensure that, in addition to being able to discharge in full its obligations under the Notes, the Issuer is able to meet any termination or other payment due under the relevant Swap Agreements. If VEB fails to make such additional payments in respect of any termination or other payment due under the relevant Swap Agreements, then this would result in an Event of Default under the relevant Loan Agreement, following which the relevant Swap Counterparty or Swap Counterparties, as the case may be, may direct the Trustee to enforce the Security Interests, which could result in the Notes becoming due and payable prior to their scheduled maturity date.

**Risks Relating to Taxation in the Russian Federation**

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

VEB is subject to a broad range of taxes and other compulsory payments imposed at Federal, regional and local levels, including, but not limited to, value added tax, property taxes, compulsory insurance payments and other taxes (although VEB is not subject to profit tax in the Russian Federation). Tax laws, such as the Tax Code of the Russian Federation (the "**Tax Code**"), have been in force for a short period relative to tax laws in more developed market economies and the implementation of Russian tax laws is often unclear or inconsistent. Despite the Russian Government taking some steps to reduce the overall tax burden in recent years in line with its objectives and the fact that the quality of the Russian tax legislation has generally improved with the introduction of the first and second parts of the Tax Code, the Russian Federation's ineffective tax collection system and potential budgetary funding requirements increase the likelihood that the Russian Federation may impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on VEB's business, financial condition, results of operations or prospects.

There also can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. In general, it is expected that Russian tax legislation will progressively become more sophisticated. VEB cannot provide prospective investors with any assurance that additional Russian tax exposures will not arise whilst the Notes of any Series are outstanding. Additional tax exposures could have a material adverse effect on VEB's business, financial condition, results of operations and prospects.

The Russian Federation's Federal, regional and local tax laws and regulations are subject to frequent change, varying interpretations and inconsistent enforcement. In some instances, the Russian Federation tax authorities have applied new interpretations of tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period several times. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the Federal, regional and local levels, creating uncertainties and inconsistent enforcement.

Taxpayers and the tax authorities often hold differing opinions regarding such interpretations. Therefore, the taxpayers often have to resort to court proceedings to defend their positions against the tax authorities on this and other tax matters. Recent events within the Russian Federation suggest that the tax authorities may be taking

a more assertive position in their assessments and their interpretation of legislation, and it is possible that transactions and activities that have not been challenged in the past may now be challenged. Furthermore, in the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

In its decision of 25 July 2001, the Constitutional Court of the Russian Federation (the “**Constitutional Court**”) also introduced the concept of “a taxpayer acting in bad faith” without clearly stipulating the criteria for it. Similarly, this concept is not defined in Russian tax law. Nonetheless, the tax authorities have made increasing use of this concept, including denying the taxpayers’ right to rely on the letter of the tax law. The tax authorities often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation (the “**Supreme Arbitration Court**”) issued Resolution No. 53, which introduced recommendations to courts to apply the concept of “unjustified tax benefit” for resolving tax disputes which is defined mainly by reference to specific examples of such tax benefits (e.g. absence of business purpose) which may lead to disallowance of the application of that benefit for tax purposes. To date, there has been little guidance or interpretation of this concept by the tax authorities or by the courts, but it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the explicit intention of this ruling was to combat abuse of tax law, the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been intended by the Supreme Arbitration Court. To date, in the majority of cases where this concept has been applied, the courts have ruled in favour of taxpayers, but it is too early to determine whether the courts will follow these precedents in the future.

***VEB and VEB’s Russian direct and indirect subsidiaries are subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities.***

Tax returns together with related documentation are subject to review and investigation by the tax authorities, which are enabled by Russian law to impose severe fines and penalties. Generally, tax returns remain open and 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 adopted. The fact that a year has been reviewed by the tax authorities does not close that year, or any tax returns applicable to that year, from further review during the three year period. In particular, a repeated tax audit may be conducted by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or in connection with the reorganisation or liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable.

The statute of limitations for tax liabilities and penalties for a tax offence is three years from the date on which it was committed or from the next date following the date of the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence).

On 14 July 2005, the Constitutional Court issued a decision that allows the statute of limitations for tax liabilities and penalties to be extended beyond the three-year term set forth in the Tax Code of the Russian Federation if a court determines that a taxpayer has obstructed or hindered a field tax audit. Moreover, the Tax Code of the Russian Federation provides for the extension of the three year statute of limitations for tax penalties if the actions of a taxpayer create insurmountable obstacles for a tax audit. Because the term “create insurmountable obstacles” is not defined in Russian law, the tax authorities may attempt to interpret this term 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 term. Therefore, the statute of limitations for tax penalties is not entirely effective. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate relevant business decisions. This uncertainty could possibly expose VEB to significant fines and penalties and to enforcement measures, despite VEB’s best efforts at compliance, and could result in a greater than expected tax burden.

***Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may impact VEB’s results of operations.***

Transfer pricing legislation in the Russian Federation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions (except for those conducted at state regulated prices and tariffs), provided that the transaction price of goods, works or services differs upwards or downwards from the market price of identical or similar goods, works or services by more than 20%. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade

transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price of goods, works or services in such transaction differs from prices applied to identical or similar goods, works or services within a short period of time by more than 20%). Special transfer pricing rules apply to securities transactions and derivatives. The Tax Code has no direct provisions on the application of transfer pricing rules to interest on loans, and differing interpretations have been given on this issue by the Russian tax authorities and courts.

The transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by the tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by the tax authorities, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction.

A new draft law radically amending the transfer pricing legislation was approved by the State Duma in the first reading on 19 February 2010 with the second and third readings scheduled for July 2010. The law is expected to come into force effective 1 January 2011. The proposed amendments, if adopted, would result in stricter transfer pricing rules.

Imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on VEB's business, financial condition and results of operations, and the value of the Notes.

***A non-resident Noteholder's disposal of Notes in the Russian Federation may be subject to Russian withholding tax***

If a non-resident Noteholder that is a legal entity sells any Notes and receives proceeds from a source within the Russian Federation, there is a risk that the part of the payment, if any, representing accrued interest may be subject to a 20% Russian withholding tax, although such tax may be reduced or eliminated under an applicable tax treaty subject to compliance with the treaty clearance formalities. There can be no assurance that such reduction or elimination will be available in practice.

Where proceeds from the disposition of Notes are received from a source within the Russian Federation by an individual Noteholder that is not a Russian resident for tax purposes, a withholding tax would be charged at a rate of 30% on gross proceeds from such disposition of Notes less any available documented cost deductions. Although such tax may be reduced or eliminated under an applicable tax treaty subject to compliance with the treaty clearance formalities, in practice, individuals would not be able to obtain advance treaty relief on the receipt of proceeds from a source within the Russian Federation, whilst obtaining a refund of the taxes withheld as it is extremely difficult, if not impossible. Furthermore, even though the Tax Code requires only a Russian licensed broker, asset manager or management company which performs asset management of a unit investment fund property, or another person acting in a similar capacity to withhold the tax from payment to an individual associated with disposition of securities, there is no guarantee that other Russian companies or foreign companies with a registered presence in the Russian Federation or an individual entrepreneur located in the Russian Federation would not seek to withhold the tax. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See "*Taxation—Russian Federation*".

In addition, whilst some Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double taxation treaties, there is no assurance that such exemption or reduction will be available in practice under such circumstances.

## **USE OF PROCEEDS**

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to VEB and, if applicable, any corresponding Swap Agreement(s). The gross proceeds of such Loan will be used by VEB for general corporate purposes (unless otherwise specified in the relevant Loan Agreement). In connection with the receipt of each Loan, VEB will pay an arrangement fee to the Issuer (including the costs of the Issuer entering into any applicable Swap Agreement(s)), as reflected in the relevant Final Terms.

## CAPITALISATION

In accordance with the Development Bank Law, VEB's charter capital is formed from: (i) assets of Vnesheconombank of the USSR; (ii) the shares of RBD and ROSEXIMBANK previously owned by the Russian Government; and (iii) other assets contributed by the Russian Government. The following table sets forth VEB's consolidated capitalisation as at 31 December 2009, which has been derived from the IFRS Financial Statements as at 31 December 2009. For further information regarding VEB's financial condition, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the IFRS Financial Statements as at 31 December 2009 included elsewhere in this Base Prospectus.

	<b>As at 31 December 2009</b>	
	<i>(U.S.\$ millions)<sup>(1)</sup></i>	<i>(RUB millions)</i>
<b>Long-term debt<sup>(2)</sup></b>		
Senior long-term debt .....	17,911	541,643
<b>Total long-term debt</b> .....	<b>17,911</b>	<b>541,643</b>
<b>Equity</b>		
Charter capital .....	12,648	382,489
Accumulated deficit .....	(126)	(3,809)
Unrealised gains/(losses) on investment securities available for sale .....	2,445	73,940
Foreign currency translation reserve .....	13	382
Equity .....	14,980	453,002
Minority interest .....	74	2,234
Equity .....	<b>15,054</b>	<b>455,236</b>
<b>Total capitalisation</b> .....	<b>32,966</b>	<b>996,879</b>

Notes:

- (1) For convenience, these figures have been translated into U.S.\$ at the RUB/U.S.\$ exchange rate published by the CBR as at 31 December 2009, which was RUB 30.24 per U.S.\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the Rouble amounts have been or could be converted into U.S. Dollars at this rate or any other rate.
- (2) Long-term debt includes only amounts due to credit institutions, due to the Russian Government and the CBR and debt securities issued, all with remaining contractual maturities of over one year.

Except as described below, there have been no material changes in VEB's capitalisation since 31 December 2009.

Since 31 December 2009, VEB has incurred the following long-term debt:

- On 14 January 2010, VEB entered into a syndicated loan facility with a number of leading international banks, including the Bank of Tokyo-Mitsubishi UFJ Limited, Barclays Capital, BNP Paribas, Calyon, Citigroup, Deutsche Bank AG, HSBC Bank plc, Intesa Sanpaolo Bank Ireland PLC, Société Générale Corporate & Investment Banking, Sumitomo Mitsui Corporation Europe Limited, UBS AG, UniCredit Group and West LB AG, to provide financing, in the aggregate principal amount of U.S.\$700 million plus EUR 100 million and with a final maturity of 14 January 2013, for VEB's current investment activities;
- On 22 January 2010, VEB entered into a syndicated loan facility with a number of leading international banks, including Calyon, Deutsche Bank AG, Frankfurt Branch, Intesa Sanpaolo Bank Ireland PLC, ING Bank N.V., Frankfurt Branch, Société Générale, KfW IPEX-Bank GmbH, Sumitomo Mitsui Corporation Europe Limited, to provide financing, in the aggregate principal amount of U.S.\$534 million, for the construction of facilities for the production of polypropylene in the city of Tobolsk in the Tyumen region; as at the date of this Base Prospectus, VEB has not drawn down any portion of this loan and the parties have agreed, under the facility agreement, the maturity of amounts drawn down will be agreed between the parties at the time of drawdown;
- On 16 February 2010, GLOBEXBANK placed Rouble-denominated bonds on the Moscow Interbank Stock Exchange with a nominal value of RUB 5,000 million and with a final maturity in February 2013;

- On 2 March 2010, VEB-Leasing entered into loan facility with JP Morgan Chase Bank, N.A., London Branch, in the principal amount of U.S.\$100 million and with final maturity of 11 March 2013;
- In March 2010, ROSEXIMBANK entered into a three year loan facility with CJSC Bank Intesa, in the principal amount of U.S.\$100 million and with maturity in 2013;
- On 6 April 2010, VEB-Leasing entered into a loan facility with VTB Bank (Deutschland) AG in the principal amount of U.S.\$100 million payable and with repayment in equal instalments beginning in 2011 through 2015; and
- On 12 May 2010, VEB-Leasing entered into a loan facility with Credit Suisse International in the principal amount of U.S.\$100 million payable and with repayment in equal instalments beginning in 2011 through 2015.



## SELECTED CONSOLIDATED FINANCIAL INFORMATION

VEB's selected financial information presented below has been prepared in accordance with IFRS and derived from the IFRS Financial Statements included elsewhere in this Base Prospectus and should be read in conjunction with such IFRS Financial Statements and with "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Selected Statement of Income Data	For the year ended 31 December			
	2009 <sup>(1)</sup> <i>(U.S.\$ millions)</i>	2009 <i>(RUB millions)</i>	2008 <i>(RUB millions)</i>	2007 <b>(restated)</b> <i>(RUB millions)</i>
<b>Interest income</b> .....	<b>4,375</b>	<b>138,794</b>	<b>43,408</b>	<b>23,522</b>
<b>Interest expense</b> .....	<b>(2,738)</b>	<b>(86,858)</b>	<b>(21,058)</b>	<b>(16,192)</b>
<b>Net interest income</b> .....	<b>1,637</b>	<b>51,936</b>	<b>22,350</b>	<b>7,330</b>
(Provision for) / reversal of impairment of interest earning assets .....	<u>(3,620)</u>	<u>(114,837)</u>	<u>(8,601)</u>	<u>35</u>
<b>Net interest income after (provision for) / reversal of impairment of interest earning assets</b> .....	<b><u>(1,983)</u></b>	<b><u>(62,901)</u></b>	<b><u>13,749</u></b>	<b><u>7,365</u></b>
Net fee and commission income .....	227	7,189	1,625	1,878
Gains less losses from securities.....	2,221	70,464	(49,182)	2,651
Gains less losses from foreign currencies:				
- dealing .....	397	12,603	(10,242)	(582)
- translation differences .....	(66)	(2,100)	16,644	781
Gains on initial recognition of financial instruments .....	286	9,087	—	—
Share in net income / (loss) of associates.....	2	56	(266)	346
Excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost.....	751	23,832	—	—
Dividend income.....	83	2,620	386	337
Other operating income .....	54	1,715	948	3,184
<b>Non-interest income / (expenses)</b> .....	<b><u>3,955</u></b>	<b><u>125,466</u></b>	<b><u>(40,087)</u></b>	<b><u>8,595</u></b>
<b>Non-interest expenses</b> .....	<b><u>(751)</u></b>	<b><u>(23,833)</u></b>	<b><u>(53,984)</u></b>	<b><u>(9,402)</u></b>
<b>Income / (loss) before income tax</b> .....	<b>1,221</b>	<b>38,732</b>	<b>(80,322)</b>	<b>6,558</b>
Income tax benefit / (expense).....	(13)	(417)	(947)	2,903
<b>Net income / (loss) for the year</b> .....	<b><u>1,208</u></b>	<b><u>38,315</u></b>	<b><u>(81,269)</u></b>	<b><u>9,461</u></b>

Note:

- (1) For convenience, these figures have been translated into U.S.\$ at the average of the daily RUB/U.S.\$ exchange rates published by the CBR in 2009, which was RUB 31.72 per U.S.\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the Rouble amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

**Selected Statement of Financial Position Data**
**As at 31 December**

	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>(U.S.\$ millions)<sup>(1)</sup></i>	<i>(RUB millions)</i>	<i>(RUB millions)</i>	<b>(restated)</b> <i>(RUB millions)</i>
<b>Assets:</b>				
Cash and cash equivalents .....	5,586	168,916	281,673	157,635
Financial assets at fair value through profit or loss.....	1,703	51,507	52,089	40,723
Amounts due from credit institutions.....	15,453	467,308	311,510	44,879
Loans to customers .....	27,895	843,538	725,640	228,018
Investment securities:				
- available for sale .....	11,003	332,739	228,607	67,542
- held to maturity .....	740	22,366	11,752	—
Due from the Russian Government.....	7	207	194	1,290
Investments in associates .....	181	5,462	5,708	4,463
Property and equipment.....	675	20,404	8,026	4,739
Income tax assets .....	28	856	1,573	541
Other assets.....	371	11,219	11,937	2,238
<b>Total assets<sup>(2)</sup> .....</b>	<b>64,127</b>	<b>1,939,214</b>	<b>1,644,741</b>	<b>554,623</b>
<b>Liabilities:</b>				
Amounts due to credit institutions .....	6,651	201,137	373,460	218,225
Due to the Russian Government and the Bank of Russia.....	32,658	987,563	913,889	59,682
Amounts due to customers.....	6,687	202,223	111,341	39,304
Debt securities issued.....	2,609	78,896	8,225	9,538
Income tax liabilities.....	64	1,948	282	13
Provisions .....	82	2,467	1,362	31
Other liabilities .....	199	6,030	6,352	2,926
<b>Total liabilities<sup>(2)</sup> .....</b>	<b>49,073</b>	<b>1,483,978</b>	<b>1,429,445</b>	<b>331,916</b>
<b>Equity:</b>				
Charter capital.....	12,648	382,489	261,489	186,390
Accumulated deficit.....	(126)	(3,809)	(43,981)	38,616
Unrealised gains/(losses) on investment securities available for sale .....	2,445	73,940	(4,639)	(3,100)
Foreign currency translation reserve.....	13	382	856	144
<b>Equity.....</b>	<b>14,980</b>	<b>453,002</b>	<b>213,725</b>	<b>222,050</b>
<b>Minority interest .....</b>	<b>74</b>	<b>2,234</b>	<b>1,571</b>	<b>657</b>
<b>Total equity .....</b>	<b>15,054</b>	<b>455,236</b>	<b>215,296</b>	<b>222,707</b>
<b>Total equity and liabilities .....</b>	<b>64,127</b>	<b>1,939,214</b>	<b>1,644,741</b>	<b>554,623</b>

**Notes:**

- (1) For convenience, these figures have been translated into U.S.\$ at the RUB/U.S.\$ exchange rate published by the CBR as at 31 December 2009, which was RUB 30.24 per U.S.\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the Rouble amounts have been or could be converted into U.S. Dollars at this rate or any other rate.
- (2) Some components of minor significance of totals assets and total liabilities, as the case may be, are omitted from the above table and, therefore, the figures for total assets and total liabilities in the table (in each case, as determined in accordance with IFRS) do not equal the sum of the components presented.

## Key Ratios

	As at and for the year ended 31 December		
	2009	2008	2007
<b>Profitability Ratios:</b>			
Net interest margin <sup>(1)</sup> .....	3.0%	3.7%	2.3%
Operating expenses <sup>(2)</sup> as a percentage of net interest income before provisions for impairment losses .....	43.3%	45.4%	126.8%
Operating expense as a percentage of average total assets.....	1.2%	1.5%	2.1%
Return on average assets <sup>(3)</sup> .....	2.0%	(12.2%)	2.1%
<b>Liquidity Ratios:</b>			
Loans to customers as a percentage of total assets.....	49.7%	44.8%	41.7%
Liquid assets <sup>(4)</sup> as a percentage of total assets.....	20.3%	25.1%	41.9%
<b>Equity Ratios:</b>			
Capital adequacy ratio .....	19.1%	14.7%	44.3%
Single borrower (or group of related borrowers) exposure <sup>(5)</sup> .....	82.2%	106.9%	45.4%
Maximum exposure to large credit risk <sup>(6)</sup> .....	353.6%	414.0%	121.9%

### Notes:

- (1) Net interest margin is calculated as net interest income before provision for impairment of interest-earning assets divided by average interest-earning assets.
- (2) Operating expenses include non-interest expenses less expenses on goodwill write off and provision for other impairment.
- (3) Return on average assets is calculated as net income for the year divided by average total assets.
- (4) Liquid assets include cash and cash equivalents and financial assets at fair value through profit or loss, trading securities pledged under repurchase agreements, investment securities and investment securities pledged under repurchase agreements with remaining contractual maturities of less than one month.
- (5) Pursuant to the 2007 Memorandum, VEB's exposure, at any one time, to a single borrower, or a group of related borrowers, may not exceed 25% of VEB's total equity. For this purpose, total equity is calculated in accordance with Russian accounting standards.
- (6) Pursuant to the 2007 Memorandum, VEB's exposure to large credit risks (a loan or loans to a borrower or group of related borrowers exceeding 5% of VEB's total equity) at any one time may not exceed 800% of VEB's total equity. For this purpose, total equity is calculated in accordance with Russian accounting standards.

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

The following discussion of VEB's financial condition and results of operations should be read in conjunction with VEB's IFRS Financial Statements and the related notes thereto included elsewhere in this Base Prospectus. This section contains forward-looking statements that involve risks and uncertainties. VEB'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

VEB is a state corporation established pursuant to the laws of the Russian Federation. Its status, business purposes, functions and powers are governed by the Development Bank Law, the Financial System Support Law, the 2007 Memorandum and other Russian Federal laws and regulations. VEB operates principally in four capacities: (i) as a development bank; (ii) as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system; (iii) as an agent of the Russian Government, including, in particular, in respect of the management of debt obligations of the Russian Government and the former Soviet Union, as well as obligations owed to the Russian Federation by debtor countries and other borrowers, and the management of certain pension funds through STMC, an separate division of VEB, which is segregated from VEB's banking and other operations; and (iv) as a universal depository in the Russian Federation. Under the Development Bank Law, VEB is authorised to conduct banking operations without a licence from the CBR and VEB is generally not required to comply with regulatory requirements of the CBR applicable to commercial banks. See "*Status as a State Corporation and Related Regulatory Environment—Legal and Regulatory Framework*".

VEB has four banking subsidiaries in the Russian Federation (RBD, ROSEXIMBANK, Sviaz-Bank and GLOBEXBANK), one in Belarus (Belvnesheconombank) and one in Ukraine (Prominvestbank). Other significant subsidiaries include: (i) VEB Capital, the principal activities of which include holding and managing certain of VEB's investment assets, conducting operations on the Russian financial markets and providing financial advisory services, including arranging and placing mortgage-backed bonds; (ii) VEB-Leasing, the principal activities of which include finance leasing of high-technology equipment, helicopters and related equipment, produced by leading manufacturers, to lessees in the Russian Federation; and (iii) VEB Engineering, which is primarily engaged in the provision of engineering support for investment projects currently being implemented or financed by VEB, which include those relating to the 2014 Winter Olympics. See "*Description of VEB's Business—Principal Subsidiaries and Associates*".

As the principal development bank of the Russian Federation, one of VEB's main functions is to increase the competitiveness and diversification of the Russian economy, in particular, by promoting investment activity in sectors that are of strategic importance to the Russian Government. VEB acts as a lender, investor, guarantor, manager, arranger and consultant in connection with its development bank activities. VEB's core operations, investment and financial priorities, borrower limits and underlying principles for financing activities as a development bank are principally set forth in the Development Bank Law and the 2007 Memorandum. As a development bank, VEB does not compete with commercial lending and financial institutions in providing finance to customers; rather, pursuant to the 2007 Memorandum, VEB gives preference to investment projects, such as infrastructure projects, which are not typically eligible for financing on terms acceptable to commercial banks and other non-specialist market investors. As part of its recovery finance activities in support of the financial sector, VEB acquired an 89.9% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009, and a 98.9% interest in GLOBEXBANK in 2009, both of which were in a distressed financial condition as a result of the global financial crisis. See "*Description of VEB's Business—VEB as the Development Bank of the Russian Federation*".

Since October 2008, VEB has also become actively involved, pursuant to the Financial System Support Law and related decisions of the Russian Government, in addressing the effects of the global financial crisis on the Russian economy. As one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system during the global financial crisis, VEB provides recovery finance to Russian banks and corporate entities suffering from the effects of the economic turmoil. See "*Description of VEB's Business—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System*".

As an agent of the Russian Government, VEB manages debt obligations of the Russian Federation and the former Soviet Union, as well as debt obligations owed to the Russian Federation by sovereign states, financial institutions and commercial entities. In this capacity, its responsibilities include record-keeping, reconciliation

and settlement activities. See “*Description of VEB’s Business—VEB as Agent for the Russian Government*”. In addition, STMC is responsible for managing the pension savings of insured Russian citizens, who have not transferred their savings to private pension funds or private asset management companies. See “*Description of VEB’s Business —VEB as Agent for the Russian Government—Pension Funds Management (STMC)*”.

VEB acts as a universal depositary for a broad range of Russian and foreign securities. In this capacity, VEB delivers a range of depositary, settlement, information and custody services for investors and professional participants in the Russian securities and foreign exchange markets. See “*Description of VEB’s Business—Depositary Operations*”.

VEB operates out of its principal office in Moscow, three representative offices within the Russian Federation and eight representative offices outside the Russian Federation (in the United States of America, India, Italy, China, the Republic of South Africa, Germany, France and the United Kingdom).

VEB has prepared its consolidated financial statements in accordance with IFRS since 2007. As at 31 December 2009, VEB had total assets of RUB 1,939,214 million and total loans of RUB 1,310,846 million, whilst VEB had net interest income of RUB 51,936 million and net income of RUB 38,315 million for the year ended 31 December 2009.

VEB receives the majority of its funding: (i) from the Russian Government in the form of capital contributions, which may be utilised for all general corporate purposes; and (ii) from the CBR and the Russian Government (principally using funds of the NWF) in the form of term deposits, which may be applied only in specific financing programmes. As at 31 December 2009, VEB had charter capital of RUB 382,489 million, which comprised contributions of cash and assets from the Russian Government, and VEB held deposits from the CBR and the Russian Government (principally comprising funds of the NWF) totalling RUB 446,151 million and RUB 501,455 million, respectively. For the year ended 31 December 2009, total funding from the Russian Government and the CBR as a percentage of VEB’s total equity and liabilities was 50.9%. VEB also raises funds through the issuance of bonds and other securities in the domestic and international capital markets, as well as pursuant to bilateral loans, in each case, in Roubles and foreign currencies, principally U.S. Dollars. Although VEB is not permitted to accept deposits from individual investors, VEB holds some retail deposits inherited as successor to Vnesheconombank of the USSR and some retail deposits through its banking subsidiaries. See “*Status as a State Corporation and Related Regulatory Environment*”.

## **RECENT DEVELOPMENTS**

On 27 April 2010, VEB raised U.S.\$1,000 million (RUB 30,941 million) through a private placement of domestic U.S. Dollar-denominated, non-convertible bearer bonds (series 2) due 2011, which bear interest at an annual rate of six-month LIBOR+1%. On 3 June 2010, VEB repaid, at their maturity, U.S.\$2,000 million of non-convertible bearer bonds (series 1), which bore interest at an annual rate of six-month LIBOR+1%.

In March 2010, VEB purchased 11.5% of the share capital of JSC “United Aircraft Corporation” for RUB 21,000 million. In order to finance this purchase of shares, the Russian Government made a matching, additional contribution to the charter capital of VEB in December 2009.

In March 2010, VEB, together with SNC-Lavalin (a leading Canadian engineering and construction group), formed VEB Engineering. VEB owns 51% of the charter capital of VEB Engineering. VEB Engineering is primarily engaged in the provision of engineering support for investment projects currently being implemented or financed by VEB, which include, in particular, those relating to the 2014 Winter Olympics. See “*Description of VEB’s Business—Principal Subsidiaries and Associates*”.

In February and March 2010, GLOBEXBANK, one of VEB’s banking subsidiaries, purchased additional shares of VEB-Leasing representing a total of 20.0% of the charter capital of VEB-Leasing for an aggregate purchase price of RUB 1,240 million. As a result of this purchase, as at the date of this Base Prospectus, VEB owns, directly and indirectly, 98.1% of the share capital of VEB-Leasing.

On 22 January 2010, VEB entered into a syndicated loan facility with a number of leading international banks, including Calyon, Deutsche Bank AG, Frankfurt Branch, Intesa Sanpaolo Bank Ireland PLC, ING Bank N.V., Frankfurt Branch, Société Générale, KfW IPEX-Bank GmbH, Sumitomo Mitsui Corporation Europe Limited, to provide financing, in the aggregate principal amount of U.S.\$534 million, the construction of facilities for the production of polypropylene in the city of Tobolsk in the Tyumen region. See “*Description of VEB’s Business—*

*VEB as the Development Bank of the Russian Federation—Acting as Lender or Equity Investor in Investment Projects—Certain Significant Investment Projects*”. As at the date of this Base Prospectus, VEB has not drawn down any portion of this loan and the parties have agreed, under the facility agreement, the maturity of amounts drawn down will be agreed between the parties at the time of drawdown.

On 3 February 2010, the Management Board approved the acquisition of additional common shares of GLOBEXBANK in the aggregate amount up to RUB 50,000 million by way of an increase in the share capital of GLOBEXBANK. On 11 June 2010, an extraordinary general meeting of shareholders of GLOBEXBANK approved the issuance and sale of 49,999,405 additional common shares to VEB at a price of RUB 100 per share. VEB intends to acquire the new shares in the beginning of July and will use its own funds for payment of the purchase price.

In January 2010, VEB raised U.S.\$700 million and EUR 100 million through a syndicated loan facility with a number of leading international banks. The term of the loan is three years. See “*Certain Statistical Data and Other Information*”.

Since 31 December 2009, various subsidiaries of VEB have also incurred long-term debt. See “*Capitalisation*”.

#### **PRIMARY FACTORS AFFECTING VEB’S RESULTS OF OPERATIONS AND CAPITAL STRUCTURE**

The primary factors that have affected VEB’s results of operations during the three years ended 31 December 2009, and that can be expected to affect VEB’s results of operations in the future, include: (i) the current conditions characterising the Russian economy and financial system; (ii) the continuing effects of the global financial crisis and overall conditions in the global economy, international financial markets and the economies of the Russian Federation and neighbouring CIS countries where VEB has operations; (iii) changes in the mix of business activities conducted by VEB; (iv) the overall growth of VEB’s assets and liabilities, including as a result of its recent acquisition of a number of banking subsidiaries in the Russian Federation and other CIS countries; (v) fluctuations in the value of VEB’s securities portfolio; and (vi) the impact of the interest rate and exchange rate environment in which VEB operates.

#### **The Russian Economy and Financial System**

The majority of VEB’s assets and investments are located in the Russian Federation. As a result, VEB is substantially affected by Russian economic conditions. See “*Risk Factors—Risks Relating to the Russian Federation*”. The Russian economy has been severely impacted by the recent weak global economic conditions and turmoil in the global financial markets. 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 falls in the prices of these commodities in the international market in the second half of 2008 resulted in sharp decreases in the revenues of the Russian Government and of privately held Russian companies operating in these sectors, which in turn has had a severely negative effect on the overall Russian economy. In particular, world prices for oil have been and are characterised by significant fluctuations that are determined by the global balance of supply and demand. Crude oil prices were particularly volatile over the course of 2008 and 2009, before beginning to recover in the second half of 2009. Whilst oil prices increased overall in 2009 by 86.4% to U.S.\$74/bbl in December 2009, as compared to prices in December 2008, as at the date of this Base Prospectus, the price of crude oil remains significantly below the record high prices of U.S.\$145/bbl in July 2008.

Whilst the Russian Federation experienced significant economic growth in 2007 and 2008, the worsening effects of the global financial crisis contributed to a slowdown in growth in the fourth quarter of 2008. According to the CBR, as compared to the corresponding periods in the previous year, real GDP grew by 8.1% for the year in 2007 and by 9.3%, 7.7% and 6.6% in the first, second and third quarters of 2008, respectively, mainly as a result of improved productivity, as well as rapid expansion in private consumption fuelled by high commodity prices and a significant expansion in credit. In the fourth quarter of 2008, however, real GDP growth dropped to 1.2% due to a decline in gross investments and net exports and despite a nominal increase in both private and public consumption. As a result, on an annual basis, real GDP grew by only 5.6% for the year in 2008, reflecting the slowest annual rate of growth recorded since 2002. Due to the continuing effects of the global financial crisis, and a related contraction in private-sector consumption and gross investments, the Russian economy contracted by 7.9% in 2009. Net exports rose in 2009, largely as a result of a disproportionate drop in imports resulting from lower domestic demand and the depreciation of the Rouble. According to the CBR, whilst the value of the Rouble was relatively stable from March through December 2009, the average Rouble/U.S. Dollar exchange rate fell overall by 27.4% in 2009, as compared to 2008. As at 16 June 2010, the official exchange rate of the

Rouble to the U.S. Dollar as published by the CBR was RUB 31.46 per U.S. Dollar, which represented a further depreciation of the Rouble relative to the U.S. Dollar of 3.9% since 31 December 2009.

In the event of worsening or continued weak economic conditions, VEB's role as one of the key State-owned vehicles for the stabilisation of the Russian economy may lead to further growth in VEB's lending volumes and net interest income. This growth, however, has increased and is likely to increase further the volume of bad debts carried by VEB and VEB's risk exposure, particularly if VEB is again required to acquire controlling or significant stakes in distressed commercial banks requiring liquidity and financial support. Moreover, many of VEB's existing borrowers continue to be adversely affected by the deterioration in economic conditions resulting from the global economic crisis. Factors, including increased unemployment, reduced corporate liquidity and profitability and increased corporate and personal insolvencies, have affected and continue to affect the ability of certain of VEB's borrowers' to repay amounts due to VEB and have resulted and continue to result in VEB having to fulfil obligations under guarantees issued by it in favour of third parties upon the failure of the underlying counterparty. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. As a result of all of the foregoing, VEB has made significant allowance for impairment of loans in 2009, including principally in respect of loans held by VEB's newly acquired banking subsidiaries, and VEB may be required to make additional allowances in the future.

In addition, a reversal in the recently improved prices of Russian securities or a further weakening of the Russian securities markets could result in further losses, particularly if VEB was again required to provide support to the securities market.

### **Impact of Global Financial Market Conditions**

Whilst the majority of VEB's assets and investments are in the Russian Federation, VEB is also impacted by the international financial markets and the Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in lower GDP levels, continued capital markets instability, a deterioration in liquidity and tighter credit conditions within the Russian Federation and other countries where VEB conducts its business. These effects were particularly pronounced from mid-September 2008, when the crisis began to escalate, and continued through much of 2009, before the normal functioning of Russian and international capital markets began to recover.

In response to the onset of the global financial crisis, the Russian Government and the CBR announced and have implemented, largely through VEB, measures intended to support the liquidity and solvency of Russian banks and to increase the availability of credit to other Russian businesses. Whilst these measures have been seen as critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy, which, in turn, should support and improve VEB's business, financial condition, results of operations and prospects, because VEB has been the main provider of liquidity in the Russian market over this period, VEB largely bears the risks if the measures that have been taken do not succeed in materially improving the liquidity and financial strength of the Russian economy and markets. There continues to be uncertainty regarding the access to and cost of capital for VEB's customers and borrowers may continue to be affected by economic instability and deterioration in liquidity, which could in turn impact their ability to repay in a timely manner amounts owed to VEB or its subsidiaries.

### **Changes in the Mix of Business Activities**

VEB was established in 2007 as the principal development bank in the Russian Federation and initially its activities were focused on providing financial support to investment projects in circumstances where commercial lending and financial institutions are unable or unwilling to provide finance. See "*Description of VEB's Business—VEB as the Development Bank of the Russian Federation*". In 2008, VEB's principal business objectives were expanded to include acting, on behalf of the Russian Government, as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system. See "*Description of VEB's Business—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System*". In this expanded role, in 2008, VEB provided significant recovery finance to Russian banks and corporate entities suffering from the effects of the economic turmoil and supported the Russian securities markets by purchasing significant equity and debt positions. In 2009, as the Russian economy began to stabilise, VEB began to refocus its activities on its core development bank business. These differences in the focus of VEB's activities in late 2008 and through 2009 have resulted in different areas of growth, changes in VEB's asset concentrations and revenue drivers and variations in VEB's risk profile, on a year-on-year basis. For example, as the primary source for recovery finance in the Russian Federation, VEB was able to impose relatively higher interest rates in

2008 in line with international funding rates and reflecting the overall illiquidity in the market, whilst its development bank lending in 2009 generally involved the provision of financing at lower rates. Similarly, volatility in the securities markets in 2008 and early 2009 resulted in losses on VEB's securities portfolio, whilst the improvements in prices overall in 2009 translated into significant gains. The acquisition of several distressed commercial banks in late 2008 and 2009 required VEB to record significant one-time provisions in 2009 once it had the opportunity to assess the poor credit quality of the acquired loan portfolios.

### **Overall Growth and Acquisitions**

During the three-year period ended 31 December 2009, VEB's total assets have grown to RUB 1,939,214 million as at 31 December 2009, from RUB 1,644,741 million as at 31 December 2008 and RUB 554,623 million as at 31 December 2007, primarily as a result of VEB's provision of recovery finance as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system during the recent global financial crisis and, to a lesser extent, as a result of its development bank activities.

A portion of this growth has resulted from VEB's recent acquisitions. In particular, VEB acquired a 53.6% interest in Belvnesheconombank in 2007, which was subsequently increased to 97.2% in 2008 and then to 97.4% in 2009; a 50.0% interest plus one share in VEB-Leasing in 2008, which was subsequently increased to 78.1% in 2009 and further to 98.1% in March 2010; an 89.9% interest in Sviiaz-Bank in 2008, which was subsequently increased to 99.5% in 2009; a 75.0% interest plus three shares in Prominvestbank in 2009; and a 98.9% interest in GLOBEXBANK in 2009.

Whilst not material to VEB's total assets as at the date of this Base Prospectus, the acquisitions of Sviiaz-Bank, Prominvestbank and GLOBEXBANK, in particular, had a material impact on VEB's net profit in 2009 as VEB was required to record significant provisions for impairment of bad loans acquired with these banking subsidiaries. In addition, although these banking subsidiaries were generally purchased at nominal amounts, utilising funds provided by the CBR in the form of deposits, VEB has also provided recovery finance and other financial support to restore the liquidity and financial viability of these banks. As the operations of these banking subsidiaries are stabilised and begin to grow, these acquisitions could continue to have a significant impact on VEB's assets and liabilities and its results of operations.

### **Fluctuations in the Value of Securities**

The aggregate value of financial assets at fair value through profit or loss and investment securities held by VEB was RUB 419,940 million as at 31 December 2009, as compared to RUB 295,892 million and RUB 108,265 million as at 31 December 2008 and 2007, respectively. Although a large portion of VEB's securities portfolio was purchased at, or near, the lowest levels of the Russian stock market in late 2008 and early 2009 in connection with VEB's role as the key State-owned vehicle for the stabilisation of the Russian securities market, the value of securities held by VEB was lower as at 31 December 2008, than at 31 December 2007, as a result of the severe overall decline in the Russian securities market, which impacted the values of securities previously acquired and led to the related losses recorded by VEB in 2008. In particular, VEB recorded a net loss on operations with financial assets at fair value through profit or loss of RUB 27,988 million and a net loss on operations with investment securities available-for-sale of RUB 21,194 million in 2008. In contrast, as the Russian stock market stabilised in 2009, and prices generally returned to pre-crisis levels or above, VEB experienced a significant gain in the overall value of its securities portfolio, comprised of a net gain of RUB 27,524 million for financial assets at fair value through profit or loss and a net gain of RUB 42,940 million for investment securities available-for-sale for the year ended 31 December 2009.

Subject to market conditions and its responsibility not to disrupt the normal operations of the securities market, VEB intends to continue to sell down certain of its securities positions over a period of time to focus on its banking activities rather than securities trading and investment operations. In any event, however, VEB is likely to continue to experience fluctuations in the value of its securities portfolio in the future. As in the past, such fluctuations may have a direct impact on VEB's assets and liabilities and its results of operations.

### **Fluctuations in Interest Rates and Exchange Rates**

Changes in interest rates affect VEB's net interest income, net interest margin and overall results of operations. During the height of the global financial crisis in 2008, as the primary source for recovery finance in the Russian Federation, VEB was able to impose relatively higher interest rates in line with international funding rates and



reflecting the overall illiquidity in the market, whilst its development bank lending in 2009 generally involved the provision of financing at lower rates.

Since its inception, VEB has generally been able to use its own capital, as well as relatively low-rate deposits from the CBR and the Russian Government (principally using funds of the NWF), to fund its business activities and, accordingly, has not incurred significant funding costs. An increase in interest rates may generally raise VEB's funding costs in the future. In addition, an increase in interest rates may reduce overall demand for new loans and increase the risk of customer defaults, as well as generally decrease the market value of fixed-rate debt securities held by VEB. The high-interest rate environment in late 2008 and early 2009 did result in lower values of certain fixed-rate debt securities held in VEB's investment portfolio. Moreover, although a significant portion of the financing provided by VEB has historically been matched in terms of funding by the Russian Government and the CBR, particularly in connection with its role as one of the key State-owned vehicles for the stabilisation of the Russian economy, from time to time, maturities of assets and liabilities are not balanced. As a result, VEB is exposed to interest rate risks resulting from mismatches between the rates it earns on its interest-earning assets and the rates it pays on its interest-bearing liabilities.

Interest rates are sensitive to many factors beyond VEB's control, including the policies of central banks, such as the CBR, adverse domestic and international economic conditions and political factors. General volatility in interest rates may result in a mismatch between VEB's interest-rate sensitive assets and liabilities. Since August 2007, there has been a period of unprecedented high and volatile inter-bank lending rates, which, together with a shortening maturity of deposits, has exacerbated the risk of such mismatches. VEB has incurred, and may continue to incur, additional costs and has been exposed, and may continue to be exposed, to other risks arising from the need to adjust such asset and liability positions through the use of derivative instruments. VEB's intentions to diversify its funding sources by continuing to access the domestic and international capital markets and borrow under bilateral and syndicated loan facilities may increase these risks. To the extent that VEB's liabilities reprice substantially more frequently than its assets, if interest rates rise, VEB's interest expense will increase more rapidly than its interest income, which could negatively affect interest margins and results of operations and result in liquidity problems.

Similarly, fluctuations in exchange rates impact VEB's financial condition and results of operations. VEB maintains open currency positions, which give rise to exchange rate risk. Although nearly all of VEB's assets and liabilities are match-funded, as at the date of this Base Prospectus, VEB's exposure to exchange rate risk may increase, particularly as it continues to access international capital markets and foreign currency syndicated and bilateral lending markets. VEB's exposure to exchange rate risk depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in exchange rates, government actions and general market volatility.

The Rouble depreciated significantly against the U.S. Dollar between October 2008 and the end of the first quarter of 2009, due in part to the significant fall in prices of oil and commodities that are the principal generators of the Russian Federation's export earnings. In 2009, whilst the Rouble depreciated overall in real terms by 12.2% against the U.S. Dollar and by 8.3% against the Euro, the Rouble remained relatively stable from March 2009 through the end of the year. As at 16 June 2010, the official exchange rate of the Rouble to the U.S. Dollar as published by the CBR was RUB 31.46 per U.S. Dollar, which represented further depreciation of the Rouble relative to the U.S. Dollar of 3.9% since 31 December 2009. For a presentation on developments in the Rouble to U.S. Dollar exchange rates from 2007 through 16 June 2010, see "*Presentation of Financial and Other Information—Exchange Rate Information*". Future changes in currency exchange rates, which can be particularly volatile in times of national or global financial instability, such as the recent period of economic turmoil, could have a material adverse effect on VEB's business, financial condition, results of operations and prospects. See Note 30 to the IFRS Financial Statements for more detailed information on VEB's interest-rate and exchange rate sensitivity analyses.

## **CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements requires VEB's management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as at the date of the IFRS Financial Statements. The actual IFRS results may differ from these estimates and it is possible that these differences may have a material effect on the Financial Statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### **Fair Value of Financial Instruments**

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs used in these models are taken from observable market values where possible; where this is not feasible, a degree of judgment is required in establishing fair values. See Note to the IFRS Financial Statements for further information on VEB's financial assets and their value through profit or loss.

### **Allowance for Impairment of Loans and Receivables**

VEB regularly reviews its loans and receivables to assess impairment. VEB's management uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to, for example, similar borrowers. Similarly, VEB estimates changes in future cash flows based on observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. VEB's management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. VEB's management uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. Changes in the allowance are reported in the income statement for the relevant period. VEB cannot predict when conditions may change and what effect any change could have on the adequacy of the allowances for loan impairment.

### **Impairment of Goodwill**

VEB determines at least annually whether goodwill is impaired. This requires an estimation of the value of the cash-generating units in use to which the goodwill is allocated. Estimating this value requires VEB to make an estimate of the expected future cash flows from the cash-generating unit in use and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying value of goodwill amounted to RUB 1,381 million as at both 31 December 2009 and 2008.

## **RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007**

### **Net Interest Income**

The following table sets forth VEB's interest income, interest expense and net interest income before provisions for impairment for the years indicated:

	<b>For the year ended 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
		<i>(RUB millions)</i>	<b>(restated)</b>
Interest income .....	138,794	43,408	23,522
Interest expense .....	(86,858)	(21,058)	(16,192)
<b>Net interest income before provisions for impairment .....</b>	<b>51,936</b>	<b>22,350</b>	<b>7,330</b>

Net interest income before provision for impairment is derived from the difference between the interest income generated by VEB's interest-earning assets and the interest expense incurred on VEB's interest-bearing liabilities. See "*Certain Statistical Data and Other Information*". Net interest income before provisions for impairment increased by 132.4% to RUB 51,936 million for the year ended 31 December 2009 from RUB 22,350 million for the year ended 31 December 2008, principally reflecting the increase in absolute terms in interest income which was, in turn, primarily due to the increase in average interest-earning assets, in each case, in 2009, as compared to 2008. This increase in interest income was partially offset by a higher proportional increase in interest expense in 2009, as compared to 2008, as both average balances of and average rates on interest-bearing liabilities were higher in 2009. Net interest income before provisions for impairment increased by 204.9% in 2008 from RUB 7,330 million for the year ended 31 December 2007, principally reflecting VEB's

increasing utilisation of its capital for investment in interest-earning assets over the full year in 2008, as compared to its use of its capital in a lower count for only part of 2007.

### **Interest Income**

VEB generates interest income from loans to customers, amounts due from credit institutions and cash equivalents and its securities portfolio. The following table sets forth the breakdown of VEB's interest income, by source, for the years indicated:

	<b>For the year ended 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007 (restated)</b>
<b>Interest income</b>		<i>(RUB millions)</i>	
Loans to customers.....	89,648	24,395	17,284
Amounts due from credit institutions and cash equivalents....	34,742	13,614	3,200
Trading and investment securities .....	14,404	5,399	3,038
<b>Total interest income</b> .....	<b>138,794</b>	<b>43,408</b>	<b>23,522</b>

Total interest income increased by 219.7% to RUB 138,794 million for the year ended 31 December 2009, from RUB 43,408 million for the year ended 31 December 2008, principally due to the overall growth in VEB's loans to customers as a result of the extension of recovery finance in late 2008, as well as the acquisition of the interest-earning assets of VEB's newly-acquired banking subsidiaries largely in 2009. The higher average rate of interest earned during 2009, as compared to 2008, which largely reflected the delayed effect of higher interest rates imposed during the global financial crisis as interest became due in 2009, also contributed to the increase in interest income in 2009. Total interest income increased by 84.5% in 2008 from RUB 23,522 million for the year ended 31 December 2007, primarily as a result of the growth in VEB's provision of recovery finance and related amounts due from credit institutions. See "Description of VEB's Business—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System".

#### *Interest Income on Loans to Customers*

The major part of VEB's interest income is generally attributable to interest income on loans to customers, which represented 64.6%, 56.2% and 73.5% of total interest income in 2009, 2008 and 2007, respectively. Interest income on loans to customers increased by 267.5% to RUB 89,648 million for the year ended 31 December 2009 from RUB 24,395 million for the year ended 31 December 2008, after having increased by 41.1% in 2008 from RUB 17,284 million for the year ended 31 December 2007.

The increase in interest income on loans to customers in 2009, as compared to 2008, largely reflected the impact of the increased volume of loans to customers outstanding for an entire year in 2009, as compared to only three months in 2008, as well as the consolidation of interest income earned by VEB's newly-acquired banking subsidiaries. In addition, the average rates charged by VEB on its loans to customers were higher in 2009, as compared to 2008, primarily reflecting the relatively higher interest rates that VEB was able to impose on the portion of the increased volume of loans to customers comprising recovery finance in 2008 as a result of the overall illiquidity in the market and the delayed effect of these rates as interest became due in 2009.

The fluctuating contribution of interest income on loans to customers to total interest income over the three years ended 31 December 2009 primarily reflects the changes in the mix of VEB's business activities and in the environment in which these activities were conducted. In 2009, VEB refocused its activities on development bank activities, which generally involve the provision of financing at lower rates. In addition, as the global economy began to grow towards the end of 2009, liquidity began to return and alternative funding sources at more favourable rates became available to some of VEB's customers, which then obtained refinancing from other sources and reduced their levels of borrowing from VEB. In contrast, during the height of the global financial crisis in 2008, VEB focused its activities on higher-rate recovery finance.

#### *Interest Income on Amounts due from Credit Institutions and Cash Equivalents*

Interest income on amounts due from credit institutions and cash equivalents represented 25.0%, 31.4% and 13.6% of total interest income in 2009, 2008 and 2007, respectively. Interest income on amounts due from credit institutions and cash equivalents increased by 155.2% to RUB 34,742 million for the year ended 31 December 2009 from RUB 13,614 million for the year ended 31 December 2008, after having increased by 325.4% in

2008 from RUB 3,200 million for the year ended 31 December 2007. These year-on-year increases in interest income on amounts due from credit institutions and cash equivalents, both in absolute terms and as a percentage of total interest income, largely reflected the continuing growth in the size of the average balances of these amounts to RUB 604,996 million in 2009 from RUB 204,796 million in 2008 and RUB 62,867 million in 2007, which rose over the period principally as a result of VEB's role as the primary source of recovery finance in the Russian Federation during the global financial crisis, as well as a refocusing on VEB's core development bank activities as the crisis eased. See "*Certain Statistical Data and Other Information*". Interest income on amounts due from credit institutions and cash equivalents was also affected by the average rate earned by VEB on these balances, which decreased to 5.7% in 2009 from 6.6% in 2008, after having increased in 2008 from 5.1% in 2007. The fluctuations in the average rate largely resulted from changes in inter-bank lending rates, which rose in 2008 and the beginning of 2009 during the global financial crisis and then fell overall in 2009 as the crisis began to ease.

#### *Interest Income on Trading and Investment Securities*

Interest income on VEB's securities portfolio represented 10.4%, 12.4% and 12.9% of total interest income in 2009, 2008 and 2007, respectively. The increase in interest income on trading and investment securities for the year ended 31 December 2009, as compared to the year ended 31 December 2008, primarily reflected the impact for a full year of the increase in the size of VEB's portfolio of available-for-sale and held-to-maturity debt securities to RUB 195,886 million as at 31 December 2009 from RUB 87,351 million as at 31 December 2008, as most of these securities were purchased in the fourth quarter of 2008 when VEB expanded its securities market operations to support the Russian securities markets following the global financial crisis. The increase in interest income on trading and investment securities for the year ended 31 December 2008, as compared to the year ended 31 December 2007, primarily reflected the higher average interest rate earned on fixed-income securities held in VEB's investment portfolio, which rose to 8.0% in 2008 from 6.0% in 2007, in line with trends in international interest rates, as well as the growth in the size of VEB's portfolio of available-for-sale and hold-to-maturity debt securities in 2008, which increased from RUB 34,300 million as at 31 December 2007 as a result of VEB's purchases of securities to support the Russian securities market following the global financial crisis.

#### *Interest Expense*

VEB's interest expense consists of interest expense in respect of amounts due to credit institutions and the CBR, amounts due to customers and the Russian Government and debt securities issued. The following table sets forth the breakdown of VEB's interest expense for the years indicated:

	<b>For the year ended 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
		<i>(RUB millions)</i>	<b>(restated)</b>
<b>Interest expense</b>			
Amounts due to credit institutions and the Bank of Russia ....	39,575	12,843	13,865
Amounts due to customers and the Russian Government.....	45,920	7,598	1,655
Debt securities issued .....	<u>1,363</u>	<u>617</u>	<u>672</u>
<b>Total interest expense.....</b>	<b><u>86,858</u></b>	<b><u>21,058</u></b>	<b><u>16,192</u></b>

Total interest expense increased by 312.5% to RUB 86,858 million for the year ended 31 December 2009 from RUB 21,058 million for the year ended 31 December 2008, principally due to the impact of the higher average balance of deposits held by VEB for an entire year in 2009, as compared to only three months in 2008, as well as the higher average rates paid in 2009, as compared to 2008. As a result of the worsening of the global financial crisis in late 2008, and the issuance by the CBR in November 2008 of a recommendation issued to Russian banks to maintain their foreign assets, VEB received higher levels of deposits from customers, which had no alternative investment opportunities. See "*Certain Statistical Data and Other Information—Sources of Funding—Amounts Due to Credit Institutions*". In addition, VEB received funding, in the form of deposits, from the Russian Government (principally comprised of funds of the NWF) and the CBR, which it held from time to time on a temporary basis prior to on-lending the funds for their intended purposes. In line with international interest rates, the average interest rate paid by VEB on its interest-bearing liabilities increased to 5.9% in 2009 from 4.9% in 2008, whilst the average interest rate paid in 2007 was 6.5%. Total interest expense increased by 30.1% in 2008 from RUB 16,192 million for the year ended 31 December 2007, primarily due to the overall growth in VEB's liabilities in 2008 and, in particular, the receipt of funding in the second half of 2008 to finance the initiation of recovery finance activities.

### *Interest Expense on Amounts due to Credit Institutions and the CBR*

Interest expense on amounts due to credit institutions and the CBR increased by 208.1% to RUB 39,575 million for the year ended 31 December 2009 from RUB 12,843 million for the year ended 31 December 2008, primarily due to the receipt of additional deposits from the CBR under the Financial System Support Law in late 2008 and in 2009. As interest is payable semi-annually on these deposits, the first instalments of interest were due to the CBR in 2009. Interest expense on amounts due to credit institutions and the CBR decreased by 7.4% in 2008 from RUB 13,865 million for the year ended 31 December 2007, primarily due to the decrease in the average rate paid to 4.3% in 2008, as compared to 6.6% in 2007, notwithstanding the higher average balance of these amounts in 2008, as compared to 2007.

Although in absolute terms, VEB incurs the highest amount of interest expense on amounts due to credit institutions and the CBR, as a percentage of total interest expense, interest expense due to credit institutions and the CBR decreased to 45.6% of total interest expense in 2009, as compared to 61.0% in 2008, after having decreased in 2008 from 85.6% in 2007. This decreasing trend in interest expense on amounts due to credit institutions and the CBR, as a percentage of total interest expense, primarily reflected the expansion of VEB's funding sources to include deposits placed by the Russian Government (principally using the funds of the NWF) and the consolidation of deposits held by VEB's newly-acquired subsidiaries, in addition to deposits from the CBR, and the higher average rates paid on these alternative sources of funding, as compared to the rates paid to the CBR on its deposits.

### *Interest Expense on Amounts due to Customers and the Russian Government*

Interest expense on amounts due to customers and the Russian Government represented 52.9%, 36.1% and 10.2% of VEB's total interest expense in 2009, 2008 and 2007, respectively. Interest expense on amounts due to customers and the Russian Government increased by 504.4% to RUB 45,920 million for the year ended 31 December 2009 from RUB 7,598 million for the year ended 31 December 2008 and by 359.1% in 2008 from RUB 1,655 million for the year ended 31 December 2007. These year-on-year increases in interest expense on amounts due to customers and the Russian Government were primarily due to the deposits received from the Russian Government (principally comprised of funds of the NWF) in connection with VEB's recovery finance activities under the Financial System Support Law in late 2008 and in 2009 as well as the acquisitions of GLOBEXBANK and the acquisition of Sviaz-Bank in 2008 and the consolidation of customers' deposits held by these banks when acquired.

### **Provision for Impairment**

In 2009, VEB recorded additional provisions for impairment of interest-earning assets of RUB 114,837 million, as compared to provisions of RUB 8,601 million in 2008. In 2007, VEB recorded a net recovery of provisions in the amount of RUB 35 million. The increase in provisions for impairment in 2009, as compared to both 2008 and 2007, was largely driven by VEB's acquisitions of its banking subsidiaries. As VEB's newly-acquired banking subsidiaries held predominantly distressed assets when acquired, VEB recorded significant one-time provisions for impairment against their respective loan portfolios in 2009, including RUB 30,512 million in provisions against loans held by Sviaz-Bank and an additional RUB 14,104 million in provisions against loans held by Prominvestbank, once it had the opportunity to assess the credit quality of the relevant loans. In addition, in 2009, VEB created an additional provision in the amount of RUB 37,370 million for the loans extended by VEB in 2008 to its associate to finance the purchase of real estate and other assets from certain borrowers of GLOBEXBANK in connection with the rehabilitation of GLOBEXBANK to restore its financial viability following the global financial crisis. Notwithstanding this provision, VEB has significant further exposure associated with these loans since the current fair value of the purchased assets is less than the purchase price paid as a result of the continuing impact of the global financial crisis on real estate values. See "*Risk Factors—VEB has made large loans to certain borrowers in specific sectors of the Russian economy. Any continuing effects of the global financial crisis or further deterioration affecting these sectors could have a material adverse effect on VEB's business, financial condition, results of operations and prospects*".

Provision for impairment is determined by VEB's management in line with established policies and procedures. See "*Critical Accounting Policies—Allowance for Impairment of Loans and Receivables*".

## Non-Interest Income

VEB generates non-interest income principally from net fee and commission income, net gains (losses) from securities and net gains (losses) from foreign currencies. In addition, in 2009, VEB recorded the excess of its interest in the net fair value of the identifiable assets of its newly-acquired banking subsidiaries, as well as a gain on the initial recognition of financial instruments.

The following table sets forth the breakdown of VEB's non-interest income for the years indicated:

	For the year ended 31 December		
	2009	2008	2007
		(RUB millions)	(restated)
Net fee and commission income.....	7,189	1,625	1,878
Gains less losses from securities .....	70,464	(49,182)	2,651
Gains less losses arising from foreign currencies:			
- dealing .....	12,603	(10,242)	(582)
- translation differences .....	(2,100)	16,644	781
Gains on initial recognition of financial instruments.....	9,087	—	—
Share in net income/(losses) of associates.....	56	(266)	346
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost.....	23,832	—	—
Dividend income .....	2,620	386	337
Other operating income .....	1,715	948	3,184
<b>Total non-interest income/(expenses).....</b>	<b>125,466</b>	<b>(40,087)</b>	<b>8,595</b>

VEB's non-interest income for the year ended 31 December 2009 comprised net income of RUB 125,466 million, as compared to a net expense of RUB 40,087 million for the year ended 31 December 2008 and net income of RUB 8,595 million for the year ended 31 December 2007. Non-interest income in 2009 was principally derived from net gains from securities of RUB 70,464 million, the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of RUB 23,832 million and the gain on initial recognition of financial instruments of RUB 9,087 million, whilst VEB's net non-interest expense in 2008 reflected primarily a net loss from securities of RUB 49,182 million for the year ended 31 December 2008. Movements in exchange rates also impacted non-interest income in both 2009 and 2008.

## Net Fee and Commission Income

The following table sets forth the breakdown of VEB's net fee and commission income for the years indicated:

	For the year ended 31 December		
	2009	2008	2007
		(RUB millions)	(restated)
<b>Fee and commission income</b>			
Cash and settlement operations .....	3,380	686	560
Guarantees and letters of credit .....	3,291	1,002	1,006
Agency fees.....	535	—	—
Trust management of pension funds.....	211	—	198
Operations with securities .....	154	52	61
Other operations .....	1,291	558	141
<b>Fee and commission income.....</b>	<b>8,862</b>	<b>2,298</b>	<b>1,966</b>
<b>Fee and commission expense .....</b>	<b>(1,673)</b>	<b>(673)</b>	<b>(88)</b>
<b>Net fee and commission income.....</b>	<b>7,189</b>	<b>1,625</b>	<b>1,878</b>

Net fee and commission income increased by 342.4% to RUB 7,189 million for the year ended 31 December 2009 from RUB 1,625 million for the year ended 31 December 2008, principally as a result of the increases in fees and commissions received for cash and settlement operations, the provision of guarantees and letters of credit and other operations (comprising principally fees for ordinary course banking services provided by VEB's banking subsidiaries), which were only partially offset by an increase in fee and commission expense. Net fee and commission income decreased by 13.5% in 2008 from RUB 1,878 million for the year ended 31 December 2007, principally due to the increase in fee and commission expense in 2008, as compared to 2007, against the relatively stable amounts of fees and commissions received.

### *Gains Less Losses from Securities*

The following table sets forth the breakdown of VEB's gains less losses from securities recognised in the statement of income for the years indicated:

	<b>For the year ended 31 December</b>		
	<b>2009</b>	<b>2008</b> <i>(RUB millions)</i>	<b>2007</b> <b>(restated)</b>
Gains less losses arising from financial instruments at fair value through profit or loss .....	27,524	(27,988)	2,651 <sup>(1)</sup>
Gains less losses on sale of investment securities available for sale, previously recognised in other comprehensive income .....	42,721	748	—
Losses on impairment of investment securities available for sale .....	(13,778)	(20,655)	—
Other gains (losses) from redemption of investment securities .....	13,997	(1,287)	—
<b>Total gains less losses from financial instruments at fair value through profit or loss and investment securities available for sale .....</b>	<b>70,464</b>	<b>(49,182)</b>	<b>2,651</b>

Notes:

(1) In 2007, VEB did not record gains less losses from different classes of securities separately.

Gains less losses from securities recorded a net gain of RUB 70,464 million for the year ended 31 December 2009, as compared to a net loss of RUB 49,182 million for the year ended 31 December 2008 and a net gain of RUB 2,651 million for the year ended 31 December 2007. The net gain recognised in 2009 comprised principally the positive revaluation of securities of Russian blue chip companies acquired with funds provided by the Russian Government (primarily comprised of funds of the NWF) to support the Russian securities market, as the market value of these securities increased following the recovery and stabilisation of share prices as the global financial crisis eased in 2009. The realisation of gains on the sale of securities also contributed to the net gain in 2009 as VEB began to sell down its investment securities portfolio to refocus on banking activities as conditions improved in 2009. Additional provisions from impairment of investment securities still held in VEB's portfolios, which VEB was required to make when it decided not to sell those securities as they were continuing to trade at market prices below their respective purchase prices and resulted in some offsetting losses. The net loss in 2008 principally reflected the recognition of impairment of VEB's holding of EADS N.V. shares through the transfer of a negative revaluation of RUB 20,655 million, as well as the negative revaluation of financial instruments at fair value through profit or loss comprised of shares of Russian blue chip companies acquired to support the Russian securities market.

### *Gains Less Losses from Foreign Currencies*

The following table sets forth the breakdown of VEB's gains less losses from foreign currencies for the years indicated:

	<b>For the year ended 31 December</b>		
	<b>2009</b>	<b>2008</b> <i>(RUB millions)</i>	<b>2007</b> <b>(restated)</b>
Gains less losses arising from foreign currencies:			
- dealing .....	12,603	(10,242)	(582)
- translation differences .....	(2,100)	16,644	781
<b>Total gains less losses arising from foreign currencies .....</b>	<b>10,503</b>	<b>6,402</b>	<b>199</b>

Gains less losses from foreign currencies increased by 64.1% to RUB 10,503 million for the year ended 31 December 2009 from RUB 6,402 million for the year ended 31 December 2008, after having increased in 2008 from RUB 199 million for the year ended 31 December 2007. The year-on-year increase in 2009, as compared to 2008, primarily reflected the revaluation of the Rouble against most major world currencies during the second half of 2009, including the U.S. Dollar and the Euro, which, in turn, generated profits on swap operations undertaken by VEB to fund its foreign currency financing activities. In contrast, in 2008, when VEB began providing project finance in foreign currencies, VEB was required to engage in loss-making swap operations to convert its Rouble-denominated funding into foreign currencies. The losses realised on these currency swaps,

however, were more than offset by translation gains recognised on the value of VEB's Euro-denominated investment in EADS N.V. shares, which resulted from the general strengthening of the Euro against the Rouble in 2008.

#### ***Gains on Initial Recognition of Financial Instruments***

In 2009, VEB obtained two deposits from the CBR in the aggregate amount of RUR 121,383 million at annual interest rates ranging from 5.3% to 5.8%. Since the interest rates on these deposits were substantially below market rates, VEB calculated a gain on initial recognition of financial instruments of RUB 9,087 million in that year. No such amounts were recorded in 2008 and 2007.

#### ***Excess of Acquirer's Interest in the Net Fair Value of Acquiree's Identifiable Assets, Liabilities and Contingent Liabilities over Cost***

In 2009, VEB recorded the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost attributable to its acquisitions of Prominvestbank and GLOBEXBANK in the amounts of RUB 4,826 million and RUB 19,006 million, respectively. No similar amounts were recorded in 2008 or 2007.

#### **Non-Interest Expenses**

VEB's non-interest expenses are generally comprised principally of payroll and other staff costs, expenses for occupancy and equipment and other operating expenses. In addition, in 2008, VEB wrote off goodwill, which increased its non-interest expenses for that year.

The following table sets forth the breakdown of VEB's non-interest expenses for the years indicated:

	<b>For the year ended 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b> <b>(restated)</b>
		<i>(RUB millions)</i>	
Payroll and other staff costs.....	10,152	4,605	3,275
Occupancy and equipment .....	4,123	1,025	938
Depreciation .....	1,421	454	260
Taxes other than income taxes.....	804	258	293
Goodwill written off.....	—	41,841	—
Provision for other impairment and provisions .....	1,327	1,995	(110)
Other operating expenses .....	6,006	3,806	4,746
<b>Total non-interest expenses.....</b>	<b>23,833</b>	<b>53,984</b>	<b>9,402</b>

Non-interest expenses decreased by 55.9% to RUB 23,833 million for the year ended 31 December 2009 from RUB 53,984 million for the year ended 31 December 2008, after having increased in 2008 from RUB 9,402 million for the year ended 31 December 2007. The higher level of non-interest expenses in 2008, compared to both 2009 and 2007, resulted primarily from the write-off of goodwill in 2008, whilst payroll and other staff costs and occupancy and equipment expenses generally increased over the three-year period ended 31 December 2009.

#### ***Payroll and Other Staff Costs***

Payroll and other staff costs increased by 120.5% to RUB 10,152 million for the year ended 31 December 2009 from RUB 4,605 million for the year ended 31 December 2008, after having increased by 40.6% in 2008 from RUB 3,275 million for the year ended 31 December 2007. The year-on-year increases in payroll and other staff costs principally reflected the increasing number of VEB's employees, principally as a result of the consolidation of its newly-acquired banking subsidiaries, which added 11,291 employees in 2009 and 3,594 employees in 2008.

#### ***Goodwill Written Off***

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over VEB's interest in the net fair value of assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. In 2008, VEB wrote off goodwill of RUB 41,841



million relating to its acquisition of Sviaz-Bank as VEB did not believe the goodwill was recoverable due to the poor quality of the acquired assets. VEB did not write off any goodwill in 2009 or 2007.

### ***Other Operating Expenses***

The following table sets forth the breakdown of VEB's other operating expenses for the years indicated:

	<b>For the year ended 31 December</b>		
	<b>2009</b>	<b>2008</b> <i>(RUB millions)</i>	<b>2007</b> <b>(restated)</b>
Impairment charge for property and equipment .....	806	—	—
Administration expenses .....	615	574	560
Advertising expenses .....	579	668	597
Audit and consulting .....	403	286	204
Legal services .....	396	198	174
Deposit insurance .....	297	22	—
Amortisation of intangibles .....	277	79	30
Marketing and research .....	262	275	213
Insurance .....	239	90	30
Loss in initial recognition of financial assets.....	224	—	—
Charity.....	219	245	193
Sponsorship.....	125	135	108
Penalties incurred.....	26	7	1,962
Contributions to non-state pension fund.....	2	400	—
Other.....	1,536	827	675
<b>Total other operating expenses.....</b>	<b>6,006</b>	<b>3,806</b>	<b>4,746</b>

Other operating expenses increased by 57.8% to RUB 6,006 million for the year ended 31 December 2009 from RUB 3,806 million for the year ended 31 December 2008, primarily reflecting the recognition of impairment charge for property and equipment, as well as increases in a number of types of ordinary course business expenses. Other operating expenses decreased by 19.8% in 2008 from RUB 4,746 million for the year ended 31 December 2007, primarily reflecting the one-time payment of penalties incurred for breach of a settlement agreement with a client in 2007, partially offset by the making of contributions to a non-state pension fund, as well as increases in a number of types of ordinary course business expenses, in 2008.

### **Income Taxation Expense/(Benefit)**

Although its banking and other subsidiaries are taxed in their respective jurisdictions of incorporation, VEB itself is not subject to income tax in the Russian Federation. Accordingly, VEB's income tax expense is not significant.

### **Net Income**

As a result of the combined effects of all of the foregoing, VEB had net income of RUB 38,315 million for the year ended 31 December 2009, as compared to a net loss of RUB 81,269 million for the year ended 31 December 2008 and net income of RUB 9,461 million for the year ended 31 December 2007.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash and Cash Equivalents, Net

The following table sets forth VEB's net cash and cash equivalents for the years indicated:

	As at 31 December		
	2009	2008 <i>(RUB millions)</i>	2007 <i>(restated)</i>
Cash on hand .....	11,037	5,124	975
Due from the Bank of Russia .....	12,785	57,361	3,814
Correspondent nostro accounts with Russian credit institutions and current stock broker accounts.....	13,549	22,235	32,965
Correspondent nostro accounts with OECD-based credit institutions.....	21,297	53,029	5,934
Correspondent nostro accounts with other credit institutions.....	10,009	4,771	656
Interest-bearing loans and deposits with the Bank of Russia up to 90 days.....	8,127	—	—
Interest-bearing loans and deposits with OECD-based credit institutions up to 90 days.....	41,523	85,491	10,044
Interest-bearing loans and deposits with non-OECD based credit institutions up to 90 days.....	1,368	979	454
Interest-bearing loans and deposits with Russian credit institutions up to 90 days.....	35,781	42,891	98,964
Reverse purchase agreements with credit institutions for up to 90 days.....	13,440	9,792	3,829
<b>Total cash and cash equivalent, net.....</b>	<b>168,916</b>	<b>281,673</b>	<b>157,635</b>

VEB's total net cash and cash equivalent positions decreased by 40.0% to RUB 168,916 million as at 31 December 2009 from RUB 281,673 million as at 31 December 2008, after having increased by 78.7% in 2008 from RUB 157,635 million as at 31 December 2007. The overall decrease in cash as at 31 December 2009, as compared to 31 December 2008, reflected the overall use of cash to support growth in VEB's business activities, whilst the increase in cash as at 31 December 2008, as compared to 31 December 2007, reflected VEB's receipt of an additional contribution of RUB 75,000 million to its charter capital from the Russian Government at the end of 2008. In addition, correspondent nostro accounts with OECD banks fluctuated as a result of the recommendation issued by the CBR to Russian banks in November 2008 to maintain their foreign assets. In order to implement the recommendation, the Russian banks had no practical alternative but to deposit the recommended level of assets with VEB. Due to improved conditions in the local foreign exchange market, the CBR determined to allow the recommendation to lapse and these banks withdrew their deposits. Cash used by VEB itself of RUB 191,428 million was partially offset by the consolidation in 2009 of Prominvestbank and GLOBEXBANK, which together held cash of RUB 29,767 million as at 31 December 2009, and by an increase in the amount of cash held by Sviaz-Bank to RUB 32,410 million as at the same date in connection with the restoration of its liquidity.

### Cash Flows

The following table sets forth the breakdown of VEB's cash flows for the years indicated:

	For the year ended 31 December		
	2009	2008 <i>(RUB millions)</i>	2007 <i>(restated)</i>
Net cash from/(used in) operating activities .....	(148,377)	50,384	(37,274)
Net cash from/(used in) investing activities .....	(135,584)	(417,692)	(35,906)
Net cash from/(used in) financing activities .....	171,204	491,334	188,592

#### *Net Cash Flows from Operating Activities*

Net cash flows used in operating activities were RUB (148,377) million for the year ended 31 December 2009, as compared to net cash flows from operating activities RUB 50,384 million for the year ended 31 December 2008 and net cash flows used in operating activities RUB 37,274 million for the year ended 31 December 2007.

The cash used in operating activities in 2009 principally reflected the repayment in 2009 of RUB 18,237 million in short-term funding received from the Russian Government (principally comprising funds of the NWF) and the CBR, which had been provided predominantly in 2008, as well as the repayment of short-term inter-bank loans in the amount of RUB 96,822 million and the growth in the size of VEB's loan portfolio in the amount of RUB 125,616 million as at 31 December 2009, which was due to an increase in the level of VEB's business in both the provision of recovery finance and development bank activities. The positive cash flow in 2008 was primarily attributable to the increase in funding levels provided by credit institutions and the Russian Government and the CBR, but not yet fully utilised by VEB in its recovery finance and development bank activities in that year. The negative operating cash flow position in 2007 reflected the use of the initial contribution to VEB's charter capital of RUB 180,000 million to commence operations.

#### ***Net Cash Flows Used in Investing Activities***

Net cash flows used in investing activities were RUB 135,584 million for the year ended 31 December 2009, as compared to RUB 417,692 million for the year ended 31 December 2008 and RUB 35,906 million for the year ended 31 December 2007. The lower level of cash used in investing activities in 2009, as compared to 2008, was primarily attributable to the lower levels of investment in securities and in the provision of subordinated loans to banks in 2009, as compared to 2008, as VEB refocused its activities on development banking rather than its support of the Russian economy. The lower level of net cash used in investing activities in 2009 also reflected the receipt of cash from VEB's sale of trading securities and securities available-for-sale as the securities markets recovered with the easing of the global financial crisis in that year. The higher level of cash used in investing activities in 2008, as compared to 2007, was primarily attributable to the expansion of VEB's business activities to include acting, on behalf of the Russian Government, as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system. See "*Description of VEB's Business—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System*".

#### ***Net Cash Flows from Financing Activities***

Net cash flows from financing activities were RUB 171,204 million for the year ended 31 December 2009, as compared to RUB 491,334 million for the year ended 31 December 2008 and RUB 188,592 million for the year ended 31 December 2007. The lower level of cash used in financing activities in 2009, as compared to 2008, was primarily attributable to the lower amount of special purpose financing provided by the Russian Government in 2009, as compared to 2008. The high level of cash flows from financing activities in 2008, as compared to 2007, was primarily attributable to long-term special purpose financing provided by the Russian Government using funds from the NWF in connection with VEB's recovery finance activities under the Financial System Support Law, as well as an additional contribution to charter capital.

#### **Contingencies, Commitments and Derivative Financial Instruments**

VEB enters into certain financial instruments with off-balance sheet risk, particularly in the furtherance of its role as a development bank supporting the Russian import-export sector and the development of SMEs in the Russian Federation. 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 VEB's consolidated statement of financial position. VEB uses similar credit approval policies in undertaking credit related commitments not recorded in its consolidated statement of financial position as it does for its operations comprising the positions included in its consolidated statement of financial position. See "*Lending Policies and Procedures*" and "*Risk Management*".

The following table sets forth VEB's credit related commitments for the years indicated:

	<b>As at 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b> <b>(restated)</b>
		<i>(RUB millions)</i>	
Guarantees.....	131,577	61,741	46,369
Undrawn loan commitments.....	231,321	156,733	13,330
Letters of credit.....	33,285	2,266	1,217
<b>Total credit-related commitments.....</b>	<b>396,183</b>	<b>220,740</b>	<b>60,916</b>

As at 31 December 2009, VEB had issued 192 guarantees for a total amount of RUB 131,577 million, as compared to 122 guarantees for a total amount of RUB 61,741 million as at 31 December 2008 and 113 guarantees for a total amount of RUB 46,369 million as at 31 December 2007. The increase in the amount of guarantees issued as at 31 December 2009, as compared to 31 December 2008, was primarily attributable to VEB's increased focus in 2009 on supporting the Russian export market, whilst the increase in the amount of guarantees issued as at 31 December 2008, as compared to 31 December 2007, was primarily attributable to the overall growth in VEB's development bank activities over this period.

As at 31 December 2009, credit commitments in relation to undrawn credit lines were RUB 231,321 million, as compared to RUB 156,733 million as at 31 December 2008 and RUB 13,330 million as at 31 December 2007. These year-on-year increases were primarily attributable to the overall growth in VEB's development bank activities over this period, as well as the acquisition of its banking subsidiaries.

## CONCLUSION

Overall, VEB's return to net profit in 2009, as compared to 2008, reflected a number of key internal factors affecting VEB's operations and funding, combined with overall improvements in external macroeconomic factors. Positive factors affecting VEB's 2009 results included the following actions implemented by the Russian Government and VEB's management:

- the Russian Government's further contributions to VEB's charter capital of RUB 75,000 million in November 2008, RUB 100,000 million in June 2009 and RUB 21,000 million in December 2009;
- VEB's issuance of U.S. Dollar-denominated domestic bonds by VEB in the amount of U.S.\$2,000 million in June 2009 at a favourable interest rate of six-month LIBOR+1%;
- VEB's acquisitions of a 53.6% interest in Belvnesheconombank in 2007, which was subsequently increased to 97.2% in 2008 and then to 97.4% in 2009; a 50.0% interest plus one share in VEB-Leasing in 2008, which was subsequently increased to 78.1% in 2009 and further to 98.1% in 2010; an 89.9% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009; a 75.0% interest plus three shares in Prominvestbank in 2009; and a 98.9% interest in GLOBEXBANK in 2009 (although these acquisitions also resulted in the need to make significant provisions for impairment of loans in 2009; see "*—Provision for Impairment*");
- the overall improvement in the dynamics of Russian and international stock markets and the gradual realisation by VEB of a significant portion of its portfolio of investment securities available-for-sale during a period of favourable market conditions;
- the receipt of significant amounts of financing from the CBR at favourable interest rates; and
- changes in Russian laws extending the maturity for the repayment of obligations due to the CBR.

The positive impact of the foregoing factors was slightly offset by the delayed effects of the deterioration of the credit quality of VEB's borrowers as a result of the global financial crisis, which were realised predominantly in 2009.

Particular improvements in macroeconomic conditions, which contributed positively to VEB's net income included:

- the value of the Rouble, which is VEB's functional currency, was relatively stable from March through December 2009 (notwithstanding that the Rouble depreciated against the U.S. Dollar in the second half of 2008 through the first quarter of 2009);
- the beginning of the recovery of the Russian economy in the second half of 2009 (despite an overall decline in GDP for 2009), as the global financial crisis eased;

- lower yields and stronger liquidity in financial instruments in the domestic financial markets;  
and
- the imposition of prudent monetary policies by the CBR and the provision of strong support for the financial system on the part of the Russian Government, which resulted in the strengthening of consumer confidence.

## CERTAIN STATISTICAL DATA AND OTHER INFORMATION

### AVERAGE BALANCE SHEET AND INTEREST RATES

The table below presents the average balances for VEB's interest-earning assets and interest-bearing liabilities, together with weighted average rates and the corresponding amount of interest income (expense) for the periods indicated. Investors should note that this average balance sheet data has been prepared for 2009 and 2008 by using the average of quarterly balances derived from the IFRS Financial Statements based on the period beginning and period ending balances for each quarter in such years and for 2007 by using only the period beginning and period ending balances for such year. This method of preparing the average balance sheet may not be representative of VEB's daily average balances (determined in accordance with IFRS) during the years indicated. In order to present what VEB believes is a more meaningful calculation of average balance and interest rate data, the balances of the subsidiaries acquired during 2009 were included into calculations as at 31 December 2008, so that the consolidated net interest income figure for 2009 corresponds to the period beginning balances.

	Year ended 31 December 2009			Year ended 31 December 2008			Year ended 31 December 2007 (restated)		
	Average balance	Average interest rate, % <sup>(1)</sup>	Interest Income/ Expense	Average balance	Average interest rate, % <sup>(1)</sup>	Interest Income/ Expense	Average balance	Average interest rate, % <sup>(1)</sup>	Interest Income/ Expense
<b>Interest-earning assets<sup>(2)</sup></b>	<i>(RUB millions, except for percentages)</i>								
Loans to customers .....	961,882	9.3	89,648	333,352	7.3	24,395	203,572	8.5	17,284
Due from credit institutions and cash equivalents.....	604,996	5.7	34,742	204,796	6.6	13,614	62,867	5.1	3,200
Securities <sup>(3)</sup> .....	145,468	9.9	14,404	67,667	8.0	5,399	50,526	6.0	3,038
<b>Total interest- earning assets .....</b>	<b>1,712,346</b>	<b>8.1</b>	<b>138,794</b>	<b>605,815</b>	<b>7.2</b>	<b>43,408</b>	<b>316,965</b>	<b>7.4</b>	<b>23,522</b>
<b>Interest-bearing liabilities</b>									
Amounts due to credit institutions and the Bank of Russia.....	815,636	4.9	(39,575)	302,180	4.3	(12,843)	209,889	6.6	(13,865)
Amounts due to customers and the Russian Government.....	187,227	7.5	(14,012)	68,203	5.0	(3,412)	32,875	5.0	(1,655)
Debt securities issued .....	26,626	5.1	(1,363)	7,121	8.7	(617)	7,477	9.0	(672)
NWF .....	451,363	7.1	(31,908)	50,523	8.3	(4,186)	—	—	—
<b>Total interest- bearing liabilities .....</b>	<b>1,480,852</b>	<b>5.9</b>	<b>(86,858)</b>	<b>428,028</b>	<b>4.9</b>	<b>(21,058)</b>	<b>250,240</b>	<b>6.5</b>	<b>(16,192)</b>
<b>Net interest income .....</b>			<b>51,936</b>			<b>22,350</b>			<b>7,330</b>

Notes:

- (1) Represents interest income or interest expense divided by the average balance of the respective item.
- (2) Prior to deducting allowance for impairment.
- (3) Excluding equity securities, as these securities are not interest earning.

The average interest rate on interest-earning assets increased to 8.1% in 2009 from 7.2% in 2008, after having decreased from 7.4% in 2007. The increase in the average interest rate on interest-earning assets in 2009, as compared to 2008, was mainly due to an increase in the average interest rate on loans to customers to 9.3% in 2009 from 7.3% in 2008 in line with the overall increase in interest rates in the market due to the global financial crisis and related illiquidity, as well as to the increase, as a percentage of total loans, in Rouble-denominated and Ukrainian Hryvnia-denominated loans, which bear interest at higher rates.

The average interest rate on interest-bearing liabilities increased to 5.9% in 2009 from 4.9% in 2008, after having decreased from 6.5% in 2007. The increase in the average interest rate on interest-bearing liabilities in 2009, as compared to 2008, was mainly due to the increase in interest rates on amounts due to credit institutions and the CBR to 4.9% in 2009 from 4.3% in 2008 in line with the overall increase in interest rates in the market due to the global financial crisis. This increase was, however, partially offset by a decrease in the average interest rate paid on debt securities issued to 5.1% in 2009 from 8.7% in 2008, primarily reflecting the placement of U.S. Dollar-denominated bonds bearing interest at a below-average rate.

## AMOUNTS DUE FROM CREDIT INSTITUTIONS

The following table sets forth a breakdown of amounts due from credit institutions as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2009</b>	<b>2008</b> <i>(RUB millions)</i>	<b>2007</b> <b>(restated)</b>
Obligatory reserve with the central banks .....	1,826	473	614
Non-interest-bearing deposits with other banks .....	37,020	22,329	26,757
Subordinated loans issued to Russian credit institutions.....	388,208	225,210	210
Term interest-bearing deposits with Russian credit institutions .....	36,295	56,538	16,606
Term interest-bearing deposits with OECD-based credit institutions.....	3,460	5,832	46
Term interest-bearing deposits with non-OECD credit institutions .....	2,032	1,261	774
	<b>468,841</b>	<b>311,643</b>	<b>45,007</b>
Less allowance for impairment.....	(1,533)	(133)	(128)
<b>Amounts due from credit institutions .....</b>	<b>467,308</b>	<b>311,510</b>	<b>44,879</b>

As at 31 December 2009 and 2008, amounts due from credit institutions comprised predominantly Rouble-denominated subordinated loans issued to Russian credit institutions by VEB as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system in accordance with the Financial System Support Law. As at 31 December 2009, VEB had subordinated loans outstanding to 16 Russian banks in an aggregate principal amount of RUB 387,998 million, which loans bear interest at annual rates ranging from 8.0% to 9.5% and mature between December 2014 and December 2020. Because VEB began to provide recovery finance only from the middle of 2008, as at 31 December 2008, VEB had granted only two such subordinated loans in an aggregate principal amount of RUB 225,000 million, which are due in December 2019. As at 31 December 2009, 2008 and 2007, subordinated loans also included a Rouble-denominated subordinated loan outstanding in the amount of RUB 210 million, which was provided by VEB to a Russian regional bank in 2007 in the ordinary course of its business before VEB commenced its recovery finance activities. This subordinated loan bears interest at an annual rate of 9.5% and matures in July 2012.

Obligatory reserve with the central banks includes non-interest-bearing cash deposits required to be maintained by VEB's subsidiary banks with the CBR, the National Bank of Belarus and the National Bank of Ukraine (as applicable). The amount of this reserve depends on the level of funds attracted by such credit institutions. The ability of the subsidiary banks to withdraw the reserve deposits is significantly restricted by statutory legislation. Pursuant to applicable legislation, VEB is not currently required to create any obligatory reserve with the CBR.

Non-interest-bearing deposits with other banks comprise mandatory placements in clearing currencies and are, accordingly, subject to certain restrictions as stipulated under agreements entered into between VEB and the governments of the respective countries issuing the relevant foreign currency. The funds are permitted to be used for the purchase of goods and services by Russian importers, which purchase clearing currencies for such purpose in tenders organised by VEB under the supervision of the Ministry of Finance.

As at 31 December 2009, interest-bearing deposits with Russian credit institutions comprised Rouble-denominated and U.S. Dollar-denominated placements bearing interest at annual rates ranging from 0.7% to 15.0% (as compared to rates ranging from 5.0% to 17.4% as at 31 December 2008 and 4.7% to 10.0% as at 31 December 2007) for Rouble-denominated deposits and of 4.0% (as compared to rates ranging from twelve-month LIBOR plus 5.0% to 9.0% as at 31 December 2008 and 5.6% to 10.0% as at 31 December 2007) for U.S. Dollar-denominated deposits.

As at 31 December 2009, interest-bearing deposits with OECD-based credit institutions comprised U.S. Dollar-denominated and Euro-denominated placements bearing interest at annual rates ranging from the overnight U.S. Federal Funds rate minus 0.3% to 6.0% (as compared to rates ranging from twelve-month LIBOR plus 5.0% to 9.0% as at 31 December 2008) for U.S. Dollar-denominated deposits and of 0.4% for Euro-denominated deposits. As at 31 December 2008, interest-bearing deposits with OECD-based credit institutions also comprised Rouble-denominated deposits bearing interest at annual rates ranging from 5.0% to 17.4%.

As at 31 December 2009, interest-bearing deposits with non-OECD credit institutions comprised deposits denominated in Roubles, U.S. Dollars, Euros and other currencies and bearing interest at annual rates of 9% (as compared to 11.5% to 11.8% as at 31 December 2008 and 8.8% to 9% as at 31 December 2007) for Rouble-denominated deposits; ranging from 5.5% to 17.0% (as compared to rates ranging from 5.5% to 10.0% as at 31 December 2008 and from 5.5% to one-year LIBOR+4.5% as at 31 December 2007) for U.S. Dollar-denominated deposits; ranging from 9.0% to 10.0% (as compared to rates ranging from 7.3% to 9.0% as at 31 December 2008 and 7.3% to 9% as at 31 December 2007) for Euro-denominated deposits; and ranging from 3.0% to 22.0% (as compared to rates ranging from 10.0% to the refinancing rate of the National Bank of Belarus plus 2.5% as at 31 December 2008 and of 10% as at 31 December 2007) for deposits denominated in other currencies.

## LOANS TO CUSTOMERS

VEB's loans to customers (before allowance for impairment) increased by 30.8% to RUB 964,699 million as at 31 December 2009 from RUB 737,486 million as at 31 December 2008, principally due to VEB's acquisitions and consolidation of Prominvestbank and GLOBEXBANK in 2009, as well as the increased activity of VEB as the principal development bank in the Russian Federation, which more than offset the reduction in the provision of recovery finance as the Russian economy began to emerge from the global financial crisis. VEB's loans to customers (before allowance for impairment) increased by 218.8% to RUB 737,486 million as at 31 December 2008 from RUB 231,345 million as at 31 December 2007, principally resulting from the expansion of VEB's activities in mid-2008 to include its role as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system and related increases in back-to-back recovery finance and commercial loans extended under the Financial System Support Law and other anti-crisis financing measures promoted by the Russian Government, as well as continued growth in the provision of project finance as part of VEB's development bank activities.

As at 31 December 2009, the annual contractual interest rates charged by VEB on commercial loans ranged from 6.3% to 30.0% (as compared to rates ranging from 1.5% to 25.9% as at 31 December 2008 and 7.0% to 23.0% as at 31 December 2007) for Rouble-denominated loans; ranging from six-month EURIBOR plus 3.2% to 25.0% (as compared to rates ranging from 4.3% to 16.0% as at 31 December 2008 and 7.8% to 15.0% as at 31 December 2007) for Euro-denominated loans; ranging from one-month LIBOR plus 0.7% to 26.0% (as compared to rates ranging from one-month LIBOR 0.7% to 23.0% as at 31 December 2008 and six-month LIBOR plus 0.5% to 27.5% as at 31 December 2007) for U.S. Dollar-denominated loans; ranging from 8.9% to 10.8% (as compared to rates ranging from 8.9% to 10.8% as at both 31 December 2008 and 31 December 2007) for Sterling-denominated loans; and ranging from 3.0% to 52.0% (as compared to rates ranging from 5.0% to 30.0% as at 31 December 2008 and 11.0% to 29.0% as at 31 December 2007) for loans denominated in other currencies.

## Loans by Type of Finance

The following table sets forth a breakdown of VEB's loans to customers (before allowance for impairment), by type of loan, as at the dates indicated:

	As at 31 December					
	2009		2008		2007 (restated)	
	<i>(RUB millions)</i>	<i>% of total</i>	<i>(RUB millions)</i>	<i>% of total</i>	<i>(RUB millions)</i>	<i>% of total</i>
Project finance.....	313,250	32.5	199,450	27.0	71,311	30.8
Commercial loans.....	307,082	31.8	138,894	18.8	33,041	14.3
Back-to-back (recovery) finance.....	237,497	24.6	269,668	36.6	—	—
Pre-export finance.....	80,712	8.4	110,520	15.0	107,588	46.5
Financing of operations with securities.....	8,286	0.9	1,668	0.2	6,170	2.7
Promissory notes.....	7,881	0.8	4,000	0.6	2,418	1.0
Reverse repurchase agreements.....	4,606	0.5	57	—	9,693	4.2
Other.....	5,385	0.5	13,229	1.8	1,124	0.5
<b>Total.....</b>	<b>964,699</b>	<b>100.0</b>	<b>737,486</b>	<b>100.0</b>	<b>231,345</b>	<b>100.0</b>

Project finance loans increased by 57.1% to RUB 313,250 million as at 31 December 2009, as compared to RUB 199,450 million as at 31 December 2008, after having increased by 179.7% in 2008 from RUB 71,311 million as at 31 December 2007. As a percentage of all loans to customers, project finance loans fluctuated,



representing 32.5%, 27.0% and 30.8% of total loans as at 31 December 2009, 2008 and 2007, respectively. The year-on-year increases in the volume of project finance loans, in each case, primarily resulted from the on-going growth in VEB's development bank activities and, in particular, its corresponding focus on providing financial support for infrastructure projects in key strategic sectors of the Russian economy. The lower percentage of project finance loans as at 31 December 2008, as compared to both 31 December 2009 and 31 December 2007, reflected VEB's primary focus during 2008 on recovery finance activities, rather than more fully on development bank activities.

Commercial loans increased year-on-year both in absolute terms and as a percentage of all loans to customers over the three-year period ended 31 December 2009. As at 31 December 2009, VEB had commercial loans of RUB 307,082 million, representing 31.8% of all loans to customers, as compared to RUB 138,894 million, representing 18.8% of all loans to customers, as at 31 December 2008 and RUB 33,041 million, representing 14.3% of all loans to customers, as at 31 December 2007. As a development bank, VEB does not itself engage in commercial lending and, accordingly, the year-on-year increases in commercial loans, both in absolute terms and as a percentage of total loans, primarily reflected, as at 31 December 2009, VEB's acquisitions and consolidation of Prominvestbank and GLOBEXBANK and, as at 31 December 2008, VEB's acquisition and consolidation of Sviaz-Bank and the increase in VEB's ownership interest in Belvnesheconombank, as well as the continued growth in the provision of this type of finance by these banking subsidiaries during the relevant periods. See "*Business Description of VEB—Principal Subsidiaries and Affiliates*".

Back-to-back (recovery) finance represents loans made to customers to repay and maintain loans from foreign entities collateralised by securities portfolios, using funds deposited by the CBR with VEB in accordance with the Financial System Support Law. Back-to-back (recovery) finance loans decreased by 11.9% to RUB 237,497 million as at 31 December 2009 from RUB 269,668 million as at 31 December 2008, principally due to the repayment of some recovery finance and the reduced requirement level of VEB's anti-crisis financing activities as the Russian economy began to recover. VEB had no back-to-back (recovery) finance as at 31 December 2007 as it did not then yet engage in recovery finance activities.

Pre-export finance decreased to RUB 80,712 million as at 31 December 2009, as compared to RUB 110,520 million as at 31 December 2008, after having increased in 2008 from RUB 107,588 million as at 31 December 2007. The decrease in pre-export finance loans as at 31 December 2009, as compared to 31 December 2008, and the continuous decrease in this type of finance as a percentage of all loans to customers, from 46.5% to 15.0% and further to 8.4% of total loans as at 31 December 2007, 2008 and 2009, respectively, primarily reflected the lower demand for this type of finance as the competitiveness of Russian industrial exporters has decreased in recent years. The increase in pre-export finance as at 31 December 2008, as compared to 31 December 2007, reflected the overall growth in VEB's business following its inception in 2007.

Reverse purchase agreements are used by VEB primarily for the purpose of placing temporarily available funds and, accordingly, the majority of reverse purchase agreements entered into by VEB are short-term contracts and the fluctuations between the reporting dates reflect the timing effect of particular transactions. Reverse repurchase agreements increased to RUB 4,606 million as at 31 December 2009 from RUB 57 million as at 31 December 2008, after having decreased from RUB 9,693 million as at 31 December 2007. The increase in reverse repurchase agreements in 2009 primarily reflected the renewed provision of this type of financing in 2009 after the high level of inter-bank lending rates imposed during the global finance crisis in 2008 simultaneously increased the cost of, and decreased the demand for, this type of finance, accordingly, effectively eliminating this activity in 2008.

## Loans by Type of Customer

The following table sets forth a breakdown of VEB's loans to customers (before allowance for impairment), by type of customer, as at the dates indicated:

	As at 31 December					
	2009		2008		2007 (restated)	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
Private companies.....	710,045	73.6	497,798	67.5	73,840	31.9
State-controlled companies.....	214,072	22.2	225,343	30.6	152,209	65.8
Companies under foreign state control .....	16,280	1.7	5,194	0.7	4,280	1.9
Individuals.....	13,835	1.4	4,129	0.5	870	0.4
Regional authorities.....	6,562	0.7	3,773	0.5	42	—
Foreign states.....	2,723	0.3	798	0.1	—	—
Individual entrepreneurs.....	1,182	0.1	451	0.1	104	—
<b>Total.....</b>	<b>964,699</b>	<b>100.0</b>	<b>737,486</b>	<b>100.0</b>	<b>231,345</b>	<b>100.0</b>

Loans to customers principally comprised loans to private companies and loans to State-controlled entities, both for development purposes and as a result of VEB's recovery finance activities in support of the Russian economy following the global financial crisis. Loans to private companies increased by 42.6% to RUB 710,045 million as at 31 December 2009 from RUB 497,798 million as at 31 December 2008, after having increased by 574.2% in 2008 from RUB 73,840 million as at 31 December 2007. The increase as at 31 December 2009, as compared to 31 December 2008, primarily reflected the consolidation of VEB's newly-acquired banking subsidiaries in 2009, whilst the growth in this type of finance as at 31 December 2008, as compared to 31 December 2007, primarily reflected VEB's recovery finance activities aimed at the private corporate sector, as well as the overall growth in VEB's business following its inception in mid-2007.

VEB's customer base includes many of Russia's largest banking institutions and corporations, some of which are owned and controlled by the Russian Government. See "*Transactions with Related Parties*". Loans to State-controlled companies decreased by 5.0% to RUB 214,072 million as at 31 December 2009 from RUB 225,343 million as at 31 December 2008, after having increased by 48.0% as at 31 December 2007. Fluctuations in the levels of loans provided to different types of customers occur in the ordinary course of VEB's business. The decrease in loans to State-controlled companies as at 31 December 2009, as compared to 31 December 2008, was primarily attributable to the repayment of a large loan by one State-controlled borrower in accordance with its terms. The increase in loans to State-controlled companies as at 31 December 2008, as compared to 31 December 2007, largely reflected the overall growth in VEB's business activities. As a percentage of total loans, however, this type of finance decreased to 22.2% of total loans as at 31 December 2009, from 30.6% as at 31 December 2008 and 65.8% as at 31 December 2007, primarily as a result of increased volumes of recovery finance provided by VEB under the Financial System Support Law principally to private companies during 2009 and 2008, as many of the State-controlled entities comprising VEB's customer base received financial support directly from the Russian Government, rather than from VEB.

Loans to individuals include loans extended by VEB's banking subsidiaries only as VEB itself does not engage in retail lending activities. Loans to individuals increased by 235.1% to RUB 13,835 million as at 31 December 2009 from RUB 4,129 million as at 31 December 2008, reflecting the consolidation of VEB's newly-acquired subsidiaries, which have wide retail customer bases.

## Loans by Economic Sector

The following table sets forth a breakdown of VEB's loans to customers (before allowance for impairment), by economic sector, as at the dates indicated:

	As at 31 December					
	2009		2008		2007 (restated)	
	<i>(RUB millions)</i>	<i>% of total</i>	<i>(RUB millions)</i>	<i>% of total</i>	<i>(RUB millions)</i>	<i>% of total</i>
Construction and reconstruction .....	196,561	20.4	140,606	19.1	12,782	5.5
Metallurgy .....	174,319	18.1	163,623	22.2	—	—
Manufacturing, heavy machinery and military .....	153,786	15.9	111,314	15.1	53,654	23.2
Oil and gas .....	89,129	9.2	129,257	17.5	109,156	47.2
Finance companies .....	77,047	8.0	37,535	5.1	31,857	13.8
Telecommunication .....	65,645	6.8	74,824	10.1	3,404	1.5
Trade .....	48,351	5.0	13,812	1.9	2,845	1.2
Agriculture .....	41,527	4.3	15,122	2.1	8,182	3.5
Energy .....	37,922	4.0	10,719	1.5	5,648	2.4
Transportation .....	23,978	2.5	15,477	2.1	1,269	0.5
Individuals .....	13,835	1.4	4,129	0.5	870	0.4
Regional authorities .....	6,562	0.7	3,773	0.5	42	—
Logistics .....	5,988	0.6	2,564	0.3	—	—
Foreign state .....	2,723	0.3	798	0.1	—	—
Mass media .....	105	0.0	2,295	0.3	717	0.3
Other .....	27,221	2.8	11,638	1.6	919	0.5
<b>Total loans</b> .....	<b>964,699</b>	<b>100.0</b>	<b>737,486</b>	<b>100.0</b>	<b>231,345</b>	<b>100.0</b>

Loans to customers show concentrations in the construction and reconstruction, metallurgy, manufacturing, heavy machinery and military, oil and gas, finance, telecommunication and trade sectors. As a percentage of all loans to customers, as at 31 December 2009, as compared to 31 December 2008, loans to customers in the construction and reconstruction, manufacturing, heavy machinery and military, finance and trade sectors have increased, whilst loans to customers in the metallurgy, oil and gas and telecommunication sectors have decreased, although loans to customers in the metallurgy sector grew in absolute terms between the two years. Such fluctuations in loans to customers by economic sector, for the most part, occur in the ordinary course of VEB's business.

Loans to the construction and reconstruction sector increased by 39.8% to RUB 196,561 million, representing 20.4% of all loans to customers, as at 31 December 2009 from RUB 140,606 million, representing 19.1% of all loans to customers, as at 31 December 2008, after having increased by 1,000.0% from RUB 12,782 million, representing 5.5% of all loans to customers, as at 31 December 2007. The increase in loans to the construction and reconstruction sector as at 31 December 2008, as compared to 31 December 2007, was primarily due to the expansion of VEB's activities in 2008 to include its role as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system in accordance with the Financial System Support Law.

VEB began making loans to the metallurgy sector in 2008 as part of its role as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system. Despite having increased in absolute terms by 6.5% to RUB 174,319 million as at 31 December 2009 from RUB 163,623 million as at 31 December 2008, loans to the metallurgy sector decreased, as a percentage of all loans to customers, to 18.1% as at 31 December 2009 from 22.2% as at 31 December 2008, principally due to the consolidation of VEB's newly-acquired banking subsidiaries, which are primarily engaged in commercial lending, rather than the provision of large loans to corporate borrowers of the type generally conducting business in the metallurgy sector.

Loans to the manufacturing, heavy machinery and military sector increased by 38.2% to RUB 153,786 million as at 31 December 2009 from RUB 111,314 million as at 31 December 2008, after having increased by 107.5% from RUB 53,654 million as at 31 December 2007. As a percentage of total loans, loans to this sector increased to 15.9% of all loans to customers as at 31 December 2009 from 15.1% as at 31 December 2008, after decreasing from 23.2% as at 31 December 2007. The continued year-on-year growth in loans to the manufacturing, heavy machinery and military sector in absolute terms was primarily due to the overall growth in VEB's business activities over the period.

Loans to the oil and gas sector decreased as a percentage of all loans to customers to 9.2% as at 31 December 2009 from 17.5% as at 31 December 2008 and 47.2% as at 31 December 2007. In absolute terms, these loans decreased to RUB 89,129 million as at 31 December 2009 from RUB 129,257 million as at 31 December 2008, after increasing in 2008 from RUB 109,156 million as at 31 December 2007. The decrease, both in absolute terms and as a percentage of all loans to customers, as at 31 December 2009, as compared to 31 December 2008, was principally due to the partial repayment, in the amount of RUB 51,846 million, of a group of related loans to an oil and gas borrower in accordance with their terms in 2009.

Loans to finance companies increased by 105.3% to RUB 77,047 million, representing 8.0% of all loans to customers, as at 31 December 2009 from RUB 37,535 million, representing 5.1% of all loans to customers, as at 31 December 2008. Loans to finance companies also increased by 17.8% as at 31 December 2008 from RUB 31,857 million as at 31 December 2007, although, as a percentage of all loans to customers, these loans decreased as at 31 December 2008 from 13.8% as at 31 December 2007, primarily because this type of borrower was not generally a recipient of the recovery finance activities comprising the focus of VEB's lending activities during 2008.

Loans to the telecommunications sector decreased by 12.3% to RUB 65,645 million, representing 6.8% of all loans to customers, as at 31 December 2009 from RUB 74,824 million, representing 10.1% of all loans to customers, as at 31 December 2008, after having increased from RUB 3,404 million, representing 1.5% of all loans to customers, as at 31 December 2007. The decrease in the loans to this sector, both in absolute terms and as a percentage of all loans to customers, as at 31 December 2009, as compared to 31 December 2008, resulted primarily from the repayment in the ordinary course of business in 2009 by a telecommunications company of a large loan, which had been provided by VEB in 2008, and from net repayments in the ordinary course of business by borrowers in the telecommunications sector of loans held by Sviaz-Bank. The initial growth in these loans as at 31 December 2008, as compared to 31 December 2007, reflected the onset of VEB's lending activities from mid-2007.

Loans to the trade sector increased by 250.1% to RUB 48,351 million, representing 5.0% of all loans to customers, as at 31 December 2009 from RUB 13,812 million, representing 1.9% of all loans to customers, as at 31 December 2008. This growth, both in absolute terms and as a percentage of all loans to customers, primarily reflected the consolidation of VEB's newly-acquired banking subsidiaries in 2009.

## Loans by Currency

The following table sets forth a breakdown of VEB's loans to customers (before allowance for impairment), by currency, as at the dates indicated:

	As at 31 December					
	2009		2008		2007 (restated)	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
Rouble .....	321,711	33.3	205,728	27.9	27,303	11.8
U.S. Dollar .....	516,558	53.5	482,663	65.4	186,404	80.6
Euro .....	61,147	6.3	42,766	5.8	15,032	6.5
Other currencies .....	65,283	6.9	6,329	0.9	2,606	1.1
<b>Total loans to customers .....</b>	<b>964,699</b>	<b>100.0</b>	<b>737,486</b>	<b>100.0</b>	<b>231,345</b>	<b>100.0</b>

As at 31 December 2009, 2008 and 2007, the majority of VEB's loan portfolio was denominated in U.S. Dollars, albeit with a growing percentage of Rouble-denominated loans. The absolute year-on-year growth in U.S. Dollar loans reflected VEB's provision of project finance loans to Russian corporate entities for the purchase of foreign equipment and loans to support export contracts, most of which are denominated in U.S. Dollars, whilst Rouble-denominated loans were higher as at 31 December 2009, as compared to 31 December 2008, primarily reflecting the growth in VEB's development bank lending activities in the Russian Federation, as well as the consolidation of VEB's Russian banking subsidiaries.

## Loans by Maturity

The following table sets forth a breakdown of VEB's loans to customers (net of allowance for impairment), by remaining maturity, as at the dates indicated:

	As at 31 December					
	2009		2008		2007 (restated)	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
Up to 1 month.....	24,368	2.9	9,692	1.3	15,698	6.9
1 to 6 months.....	88,636	10.5	89,836	12.4	32,031	14.1
6 to 12 months.....	285,608	33.9	303,689	41.9	39,527	17.3
Over 1 year.....	444,841	52.7	322,423	44.4	140,731	61.7
No stated maturity.....	85	0.0	—	—	31	0.0
<b>Total loans to customers.....</b>	<b>843,538</b>	<b>100.0</b>	<b>725,640</b>	<b>100.0</b>	<b>228,018</b>	<b>100.0</b>

Due to the nature of its activities both as a development bank and as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system, loans to customers are predominantly long-term, with loans with maturities of more than one year comprising 52.7%, 44.4% and 61.7% of all loans to customers as at 31 December 2009, 2008 and 2007, respectively.

## Borrower Concentration

Loans outstanding to VEB's three largest borrowers aggregated to RUB 311,696 million, RUB 314,772 million and RUB 110,038 million, and comprised 32.3%, 42.7% and 47.6% of all loans to customers, as at 31 December 2009, 2008 and 2007, respectively.

As at 31 December 2009, the loans to VEB's three largest borrowers included (i) a group of related loans to a leading group of Russian metallurgy companies in the aggregate amount of RUB 143,905 million and comprising 14.9% of all loans to customers; (ii) a group of loans to an associate of VEB, in the amount of RUB 121,760 million and comprising 12.6% of all loans to customers, a portion of the proceeds of which was applied to finance such associate's purchase of real estate and other assets from certain borrowers of GLOBEXBANK to permit such borrowers to repay obligations owed by them to GLOBEXBANK in connection with the rehabilitation of GLOBEXBANK to restore its financial viability following the global financial crisis; and (iii) a loan to a leading Russian telecommunications company in the amount of RUB 46,031 million and comprising 4.8% of VEB's loan portfolio. As at 31 December 2009, VEB recorded allowance for impairment of these loans to its three largest borrowers in an aggregate amount of RUB 37,583 million, of which RUB 37,370 million was recorded in respect of the loans to an associate to finance the purchase of real estate and other assets from certain borrowers of GLOBEXBANK. Notwithstanding this provision, VEB has significant further exposure associated with these loans since the current fair value of the purchased assets is less than the purchase price paid as a result of the continuing impact of the global financial crisis on real estate values.

As at 31 December 2008, the loans to VEB's three largest borrowers included (i) the same loans to the leading Russian metallurgy group in the aggregate amount of RUB 134,067 million and then comprising 18.2% of all loans to customers; (ii) the same group of loans to an associate of VEB in an initial amount of RUB 86,051 million and then comprising 11.7% of all loans to customers; and (iii) a group of related loans to an oil and gas company, which is a related party of VEB, in the amount of RUB 94,654 million and comprising 12.8% of all loans to customers, which were partially repaid in 2009 in accordance with their terms such that the borrower was no longer included in VEB's three largest borrowers as at 31 December 2009. As at 31 December 2008, VEB recorded allowance for impairment of these loans to its three largest borrowers in an aggregate amount of RUB 1,747 million, although no allowances were created for the loans to the related-party oil and gas company as at 31 December 2008.

As at 31 December 2007, the loans to VEB's three largest borrowers included (i) the group of related loans to an oil and gas company, which is a related party of VEB, in the amount of RUB 91,730 million and comprising 39.7% of all loans to customers; (ii) a loan to a gas company, which is one of the largest independent producers and traders of natural gas operating in the CIS and the Baltic states, in the amount of RUB 9,672 million and comprising 4.2% of all loans to customers; and (iii) a loan to a financial company, which is a division of one of the largest Russian military exporters, in the amount of RUB 8,636 million and comprising 3.7% of all loans to customers. As at 31 December 2007, VEB recorded allowance for impairment of loans to its three largest

borrowers in an aggregate amount of RUB 361 million, although no allowance was created in respect of the loan to the related-party oil and gas company.

In addition to the loans to VEB's three largest borrowers, VEB had outstanding loans to ten further major borrowers or groups of related borrowers in the aggregate amount of RUB 240,050 million, RUB 196,210 million and RUB 49,840 million, and comprising 24.9%, 26.6% and 21.5% of all loans to customers, as at 31 December 2009, 2008 and 2007, respectively. As at 31 December 2009, 2008 and 2007, VEB had recorded allowance for impairment of these loans to its ten next largest borrowers in a total amount of RUB 7,946 million, RUB 1,789 million and RUB 755 million, respectively.

### Loans by Geographic Location

As at 31 December 2009, 2008 and 2007, 88.5%, 97.0% and 93.2%, respectively, of loans to customers were comprised of loans to companies operating in the Russian Federation. This significant geographic concentration reflects VEB's roles as both the principal development bank in the Russian Federation and one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system in accordance with the Financial System Support Law. Most of VEB's loans to non-Russian borrowers are held by Prominvestbank and Belvnesheconombank, VEB's Ukrainian and Belarusian (respectively) banking subsidiaries.

### SECURITIES PORTFOLIO

#### Overview

VEB's securities portfolio comprised 21.7%, 18.0% and 19.5% of VEB's total assets as at 31 December 2009, 2008 and 2007, respectively. This portfolio is divided among financial assets at fair value through profit or loss (trading securities), securities available-for-sale and securities held-to-maturity. Financial assets at fair value through profit or loss principally include financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when VEB has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, financial assets measured at amortised cost. See Note 2 of the IFRS Financial Statements for the year ended 31 December 2009.

#### Financial Assets at Fair Value through Profit or Loss

The following table sets forth a breakdown of VEB's trading portfolio of financial assets at fair value through profit or loss as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
		<i>(RUB millions)</i>	<b>(restated)</b>
Trading securities .....	47,546	48,056	39,722
Trading securities pledged under repurchase agreements .....	—	3,444	—
Derivative financial assets .....	2,214	2,970	248
Financial assets designated as at fair value through profit or loss .....	1,747	1,063	753
<b>Financial assets at fair value through profit or loss .....</b>	<b>51,507</b>	<b>55,533</b>	<b>40,723</b>

Financial assets at fair value are predominantly comprised of trading securities. The following table sets forth a breakdown of VEB's trading portfolio of financial assets at fair value through profit or loss as at the dates indicated:

	As at 31 December		
	2009	2008 <i>(RUB millions)</i>	2007 <i>(restated)</i>
<b>Debt securities:</b>			
Russian corporate bonds and bonds of regional and municipal authorities .....	11,228	1,453	1,286
Russian Ministry of Finance bonds, Tranche V.....	—	—	3,512
Russian Ministry of Finance bonds, Tranche VII.....	—	—	76
Federal Loan Bonds (OFZ) .....	640	783	304
	<b>11,868</b>	<b>2,236</b>	<b>5,178</b>
Eurobonds issued by the Russian Federation .....	13,374	19,153	13,301
Eurobonds issued by Russian companies .....	2,960	2,679	3,376
Eurobonds and other debt obligations issued by OECD-based financial institutions .....	185	—	—
Eurobonds issued by governments of OECD countries.....	94	91	314
	<b>28,481</b>	<b>24,159</b>	<b>22,169</b>
Promissory notes .....	140	—	—
	<b>28,621</b>	<b>24,159</b>	<b>22,169</b>
<b>Equity securities:</b>			
Russian corporate shares .....	15,638	17,478	14,615
American and Global Depository Receipts.....	2,044	911	2,938
Shares of Russian credit institutions.....	1,243	5,508	—
<b>Trading securities</b> .....	<b>47,546</b>	<b>48,056</b>	<b>39,722</b>

As at 31 December 2009, trading securities comprised 60.2% (as compared to 50.3% and 55.8% as at 31 December 2008 and 2007, respectively) by debt securities and 39.8% (as compared to 49.7% and 44.2% as at 31 December 2008 and 2007, respectively) by equity securities. Historically, debt trading securities, in turn, have included principally Russian sovereign Eurobonds, which comprised 46.7% of total debt securities as at 31 December 2009 (as compared to 79.3% and 60.0% as at 31 December 2008 and 2007, respectively), as well as Russian corporate bonds and bonds of Russian regional and municipal authorities, which comprised 39.2% of total debt securities as at 31 December 2009 (as compared to 6.0% and 5.8% as at 31 December 2008 and 2007, respectively). As at 31 December 2009, equity trading securities comprised 82.6% (as compared to 73.1% and 83.3% as at 31 December 2008 and 2007, respectively) by Russian corporate shares.

The following table sets forth the nominal interest rates and maturities of VEB's trading debt securities as at the dates indicated:

	As at 31 December					
	2009		2008		2007	
	%	Maturity	%	Maturity	%	Maturity
Russian corporate bonds and bonds of regional and municipal authorities .....	7.4%–18%	March 2010 – November 2019	7.4%–22%	January 2009 – December 2013	5.9% – 11%	April 2008 – September 2017
OFZ .....	6.1%–8.5%	July 2013 – February 2036	6.9%–10%	July 2010 – September 2029	Up to 10%	September 2008 – September 2029
Eurobonds issued by the Russian Federation.....	7.5%–12%	June 2028 – March 2030	7.5%–12.8%	June 2028 – March 2030	7.5% – 12.8%	March 2010 – March 2030
Eurobonds issued by Russian companies.....	6.3%–9.3%	February 2010 – July 2035	6.3%–9.8%	September 2009 – July 2035	6.3% – 10.3%	January 2008 – July 2035
Eurobonds and other debt obligations issued by OECD-based financial institutions.....	6.7%–8.6%	May 2010 – June 2014	—	—	—	—
Eurobonds issued by governments of OECD countries.....	3.8%	January 2017	3.8%	January 2017	3.8% – 4.8%	January 2017 – February 2037
MinFin Bonds Tranche V.....	—	—	—	—	3%	May 2008
MinFin Bonds Tranche VII.....	—	—	—	—	3%	May 2011

## Investments Available-for-Sale

The following table sets forth VEB's available-for-sale securities as at the dates indicated:

	As at 31 December					
	2009		2008		2007 (restated)	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
<b>Debt Securities:</b>						
Federal Loan Bonds (OFZs) .....	200	0.1	229	0.3	3,219	9.4
Russian Eurobonds .....	1	0.0	1	0.0	—	—
Eurobonds issued by governments of OECD countries .....	1,273	0.7	919	1.2	1,321	3.9
Debt obligations issued by governments of non-OECD countries .....	—	—	1,810	2.4	1,879	5.5
Eurobonds and other debt obligations issued by OECD-based financial institutions .....	2,880	1.7	567	0.8	1,044	3.0
Bonds issued by companies of non-OECD countries .....	3,625	2.1	—	—	—	—
Eurobonds issued by Russian entities .....	13,993	8.1	8,714	11.5	4,905	14.3
Russian MinFin bonds (OVGVZ) .....	317	0.2	—	—	—	—
Russian corporate bonds and bonds of regional and municipal authorities .....	132,929	77.2	57,456	76.1	8,527	24.9
Credit linked notes .....	6,920	4.0	4,486	5.9	9,818	28.6
Promissory notes .....	10,154	5.9	1,322	1.8	3,410	9.9
State long-term bonds of the Republic of Belarus .....	—	—	—	—	177	0.5
	<b>172,292</b>	<b>100.0</b>	<b>75,504</b>	<b>100.0</b>	<b>34,300</b>	<b>100.0</b>
<b>Equity Securities:</b>						
Shares of Russian companies .....	125,742	78.3	110,967	72.5	965	2.9
Shares of Russian credit institutions .....	22,378	13.9	21,568	14.1	37	0.1
Shares of foreign companies .....	12,441	7.8	20,570	13.4	32,248	97.0
	<b>160,561</b>	<b>100.0</b>	<b>153,105</b>	<b>100.0</b>	<b>33,250</b>	<b>100.0</b>
Less: Allowance for impairment .....	(114)	—	(2)	—	(8)	—
	<b>160,447</b>		<b>153,103</b>		<b>33,242</b>	
<b>Securities pledged under repurchase agreements</b>						
Russian corporate bonds and bonds of regional and municipal authorities .....	951	7.1	—	—	—	—
Shares of foreign companies .....	12,377	92.9	—	—	—	—
	<b>13,328</b>	<b>100.0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Available-for-sale securities</b> .....	<b>346,067</b>		<b>228,607</b>		<b>67,542</b>	

VEB's portfolio of available-for-sale securities also includes both debt and equity securities. As at 31 December 2009, debt securities available-for-sale included predominantly Russian corporate bonds and bonds of Russian regional and municipal authorities, whilst equity securities were largely comprised of shares of leading Russian corporates and banks.

As at 31 December 2008, investment securities available-for-sale included securities with a fair value of RUB 159,741 million, comprising 69.9% of total available-for-sale securities, which were initially acquired with a deposit placed by the Russian Government (principally comprised of funds of the NWF) in the amount of RUB 175,000 million to implement measures aimed at stabilising the Russian stock market after the global financial crisis. In December 2009, VEB repaid the Russian Government's deposit.

As at 31 December 2009 and 2008, VEB recognised losses of RUB 13,778 million and RUB 20,655 million, respectively, from impairment of available-for-sale-securities by transferring the negative revaluation earlier recorded in comprehensive income.



The following table sets forth the nominal interest rates and maturities of VEB's available-for-sale debt securities as at the dates indicated:

	As at 31 December					
	2009		2008		2007	
	%	Maturity	%	Maturity	%	Maturity
Russian corporate bonds and bonds of regional and municipal authorities.....	7%–19%	February 2010 – September 2028	6.7%–21%	January 2009 – March 2040	5.9%–14.5%	June 2008 – September 2017
Eurobonds issued by Russian companies.....	2.6%–10.8%	January 2010 – August 2037	3.9%–10.9%	February 2009– August 2037	6.1%–10.9%	June 2008 – August 2037
Promissory notes .....	8.2%–18%	January 2010 – December 2010	8.9%–18.6%	February 2009 – August 2009	7.7%–19.4%	January 2008 – March 2009
Credit linked notes .....	2.3%–11.2%	June 2010 – April 2030	5.5%–11.7%	November 2009 – April 2030	6.5%–14%	October 2008 – April 2030
Bonds issued by companies of non-OECD countries.....	9%–25%	January 2010 – July 2015	–	–	–	–
Eurobonds and other debt obligations issued by OECD-based financial institutions.....	6.7%	June 2014	9.6%	October 2014	9.6%	October 2014
Eurobonds issued by governments of OECD countries.....	3.1%–4%	January 2015 – November 2018	3.8%–5%	January 2009 – January 2018	3.3%–5%	August 2008 – November 2017
Russian MinFin bonds (OVGVZ).....	3%	May 2011	–	–	–	–
Federal Loan Bonds (OFZs).....	5.8%–10.0%	January 2010 – August 2018	5.8%–10.0%	January 2010 – August 2018	6.3%–10.0%	March 2008 – August 2016
Eurobonds issued by the Russian Federation.....	7.5%–8.3%	March 2010 – March 2030	7.5%–8.3%	March 2010 – March 2030	–	–
Debt obligations issued by governments of non-OECD countries.....	–	–	–	January 2009	–	January 2008
State long-term bonds of the Republic of Belarus .....	–	–	–	–	10.1%–11%	October 2008 – March 2010

### Investment Securities Held-to-Maturity

The following table sets forth VEB's investment securities held-to-maturity as at the dates indicated:

	As at 31 December		
	2009	2008	2007 (restated)
	<i>Book Value</i>	<i>Book Value</i>	<i>Book Value</i>
		<i>(RUB millions)</i>	
Eurobonds and other debt obligations issued by OECD-based financial institutions.....	15,981	–	–
Credit linked notes.....	3,123	8,930	–
Debt obligations issued by governments of non-OECD countries.....	1,920	–	–
Russian corporate bonds and bonds of regional and municipal authorities.....	824	1,407	–
Eurobonds issued by Russian companies.....	402	1,156	–
Promissory notes .....	342	302	–
Federal Loan Bonds (OFZs) .....	51	52	–
<b>Total .....</b>	<b>22,643</b>	<b>11,847</b>	–
Less allowance for impairment .....	(277)	(95)	–
<b>Held-to-maturity securities.....</b>	<b>22,366</b>	<b>11,752</b>	–

In the second half of 2008, in accordance with certain changes to IFRS, VEB reclassified certain of its trading financial assets with a fair value of RUB 781 million and RUB 212 million, which were then held in VEB's trading portfolio, as available-for-sale and held-to-maturity (respectively) due to the extraordinary deterioration of market prices in the Russian and international securities, which significantly exceeded historical market fluctuations. In addition, in 2008, due to the significant deterioration of the stock market, VEB changed its plans with regard to certain debt securities available-for-sale and decided to hold them to maturity. Accordingly, VEB reclassified these securities in the amount of RUB 11,159 million as held-to-maturity rather than available-for-sale. In 2009, VEB further reclassified certain available-for-sale securities with a fair value of RUB 16,037 million as held-to-maturity securities based on a management decision not to sell these investments, which were continuing to trade at below their respective purchase prices.

As a result of these reclassifications, held-to-maturity securities increased to RUB 22,336 million as at 31 December 2009 from RUB 11,752 million as at 31 December 2008. VEB did not have any held-to-maturity securities as at 31 December 2007 due to its determinations to hold certain securities to maturity based on the deterioration in the Russian and international securities markets in 2008 and 2009 as a result of the global financial crisis.

As at 31 December 2009 and 2008, although issued by OECD-based credit institutions, credit-linked notes comprised marketable securities linked to debt obligations of Russian companies.

The following table sets forth the nominal interest rates and maturities of VEB's held-to-maturity debt securities as at the dates indicated:

	As at 31 December					
	2009		2008		2007	
	%	Maturity	%	Maturity	%	Maturity
Eurobonds and other debt obligations issued by OECD-based financial institutions.....	8%	May 2010 - January 2013	–	–	–	–
Credit linked notes.....	2.6%–9.5%	May 2010 - October 2011	5.3%-10.4%	March 2009 - October 2011	–	–
Debt obligations issued by governments of non-OECD countries.....	–	January 2010	–	–	–	–
Russian corporate bonds and bonds of regional and municipal authorities.....	7.4%–13%	February 2009 – June 2013	7.4%-12.3%	February 2009 – June 2013	–	–
Eurobonds issued by Russian companies.....	4.3%–9.6%	November 2010 – February 2016	4.6%-10.9%	May 2009 – May 2012	–	–
Promissory notes.....	0%–8.7%	January 2010 – December 2010	–	January 2010	–	–
Federal Loan Bonds (OFZs).....	8%	August 2012	9%	August 2012	–	–

## SOURCES OF FUNDING

### Overview

VEB's principal sources of funding include amounts due to credit institutions, amounts due to the Russian Government, amounts due to customers and amounts derived from the issuance of debt securities. VEB has been principally dependent upon capital and other contributions, loans and deposits from the Russian Government (principally comprising funds of the NWF) and the CBR for its funding. See "*Risk Factors—VEB could be adversely affected if it does not continue to receive funding from the Russian Government and the CBR*". Under the Development Bank Law, VEB is also entitled to funds through the issuance of bonds and other securities on domestic and foreign markets, as well as syndicated and bilateral loans denominated in both Roubles and foreign currencies.

### Amounts Due to Credit Institutions

The following table sets forth the breakdown of amounts due to credit institutions as at the dates indicated:

	As at 31 December		
	2009	2008	2007
		(RUB millions)	(restated)
Correspondent loro accounts from Russian credit institutions.....	6,856	141,887	5,016
Correspondent loro accounts from other credit institutions...	6,939	6,474	5,682
Loans and other placements from Russian credit institutions.....	42,391	27,523	1,326
Loans and other placements from OECD-based credit institutions.....	76,666	108,629	106,225
Loans and other placements from other credit institutions....	67,295	86,282	99,976
Deposits from Russian credit organisations – fiduciaries.....	30	304	–
Repurchase agreements.....	960	2,361	–
<b>Total due to credit institutions.....</b>	<b>201,137</b>	<b>373,460</b>	<b>218,225</b>

Amounts due to credit institutions represented 13.6%, 26.1% and 65.7% of VEB's total liabilities as at 31 December 2009, 2008, and 2007, respectively. In absolute terms, amounts due to credit institutions decreased by 46.1% to RUB 201,137 million as at 31 December 2009 from RUB 373,460 million as at 31 December 2008, after having increased by 71.1% as at 31 December 2008 from RUB 218,225 million as at 31 December 2007. The decrease in amounts due to credit institutions as at 31 December 2009, as compared to 31 December 2008, primarily reflected the decrease of 95.2% in correspondent loro accounts placed by Russian credit institutions, which were only partially offset by the 54.0% increase in loans and other placements from Russian credit

institutions, as well as decreases in loans and other placements from OECD based credit institutions by 29.4% and from other credit institutions by 22.0%. In contrast, the increase in amounts due to credit institutions as at 31 December 2008, as compared to 31 December 2007, primarily reflected the increase by 2,728.7% in correspondent loro accounts placed by Russian credit institutions, as well as a 1,975.6% increase in loans and other placements from Russian credit institutions. The fluctuation in the amount of correspondent loro accounts was largely due to the issuance by the CBR, in November 2008, of a recommendation issued to Russian banks to maintain their foreign assets at a time when these banks had no alternative but to deposit such assets with VEB. In June 2009, when the recommendation lapsed, these banks withdrew their deposits.

As at 31 December 2009, loans and other placements from Russian banks included loans denominated in Roubles, U.S. Dollars and Euros with interest rates ranging from 0.5% to 20.0% (as compared to rates ranging from 9.0% to 15.0% as at 31 December 2008 4% to and 9.8% as at 31 December 2007) for Rouble-denominated placements; ranging from 0.1% to 8.5% (as compared to rates ranging from 2.3% to 8.7% as at 31 December 2008 and 10.3% as at 31 December 2007) for U.S. Dollar-denominated placements; and ranging from 0.1% to 4.0% (as compared to rates ranging from 1.4% to 11.0% as at 31 December 2008 and of 4.3% as at 31 December 2007) for Euro-denominated placements, as well as collateral under letters of credit.

As at 31 December 2009, loans and other placements from OECD based credit institutions primarily included loans denominated in Roubles, U.S. Dollars, Euros and Sterling with interest rates ranging from 7.1% to 8.5% (as compared to rates ranging from 7.0% to 8.0% as at 31 December 2008 5.6% to 8.3% as at 31 December 2007), for Rouble-denominated placements; ranging from three-month LIBOR plus 0.2% to 7.6% (as compared to rates ranging from three-month LIBOR plus 0.2% to 6.4% as at 31 December 2008 and 5.3% to 6.9% as at 31 December 2007) for U.S. Dollar-denominated placements; ranging from 0.7% to 5.3% (as compared to rates ranging from 3.4% to six-month EURIBOR plus 1.3% as at 31 December 2008) for Euro-denominated placements; and ranging from 5.7% to 7.9% (as compared to rates ranging from 5.8% to 7.9% as at 31 December 2008 and 5.7% to 5.9% as at 31 December 2007) for Sterling-denominated placements.

As at 31 December 2009, loans and other placements from non-OECD based credit institutions included loans denominated in Roubles, U.S. Dollars, Euros, Belarusian Roubles and Ukrainian Hryvnia with interest rates ranging from 7.0% to 7.5% for Rouble-denominated placements; ranging from one-month LIBOR plus 0.7% to 17.0% (as compared to rates ranging from one-month LIBOR plus 0.7% to one-month LIBOR plus 2.1% as at 31 December 2008 and 4.7% to 12.0% as at 31 December 2007) for U.S. Dollar-denominated placements; ranging from 0.3% to 17.0% for Euro-denominated placements; ranging from 2.0% to 13.0% for Belarusian Rouble-denominated placements; and at 12.0% for Ukrainian Hryvnia-denominated placements, as well as minimum balances on correspondent loro accounts from non-OECD based credit institutions.

### **Bilateral and Syndicated Loans**

Bilateral and syndicated loans are a key source of funding for VEB, with amounts outstanding under such loans representing 12.6%, 15.6% and 62.5% of total liabilities as at 31 December 2009, 2008 and 2007, respectively.

As at the date of this Base Prospectus, VEB was the borrower under the following material bilateral and syndicated loan agreements:

- a syndicated loan facility dated 22 January 2010 with a number of leading international banks, including Calyon, Deutsche Bank AG, Frankfurt Branch, Intesa Sanpaolo Bank Ireland PLC, ING Bank N.V., Frankfurt Branch, Société Générale, KfW IPEX-Bank GmbH, Sumitomo Mitsui Corporation Europe Limited, to provide financing, in the aggregate principal amount of U.S.\$534 million, for the construction of facilities for the production of polypropylene in the city of Tobolsk in the Tyumen region; as at the date of this Base Prospectus, VEB has not drawn down any portion of this loan and the parties have agreed, under the facility agreement, the maturity of amounts drawn down will be agreed between the parties at the time of drawdown;
- a syndicated loan facility dated 14 January 2010 with a number of leading international banks, including The Bank of Tokyo-Mitsubishi UFJ Limited, Barclays Capital, BNP Paribas, Calyon, Citigroup, Deutsche Bank AG, HSBC Bank plc, Intesa Sanpaolo Bank Ireland PLC, Société Générale Corporate & Investment Banking, Sumitomo Mitsui Corporation Europe Limited, UBS AG, UniCredit Group and West LB AG, to provide financing, in the aggregate principal amount of U.S.\$700 million plus EUR 100 million and with a final maturity of

14 January 2013, for VEB's current investment activities;

- a bilateral loan agreement dated 14 June 2009 with China Development Banking Corporation (under a U.S.\$1 billion framework agreement) to provide financing, in the aggregate principal amount of U.S.\$310 million and with a final maturity of 22 June 2018, to finance the construction of a cement factory in the City of Slantsy in the Leningrad region (see “*Description of VEB’s Business—VEB as the Development Bank of the Russian Federation—Support of the Russian Export Sector and Foreign Trade Activities of Russian Companies Agreements with International Financial Institutions, Foreign States, Regional Governments of the Russian Federation and Foreign Commercial Entities*”);
- a bilateral loan agreement dated 19 March 2009 with Sumitomo Mitsui Banking Corporation to provide financing, in the aggregate principal amount of U.S.\$180 million and with a final maturity of 28 June 2019, for the construction of Terminal 3 at Sheremetievo International Airport in Moscow”;
- a syndicated loan facility dated 24 October 2008 with a number of leading international banks, including Barclays Capital, ING Wholesale Banking, Intesa Sanpaolo Bank Ireland plc., JP Morgan Chase Bank, Mizuho Corporate Bank Ltd, Société Générale Corporate & Investment Banking, Sumitomo Mitsui Banking Corporation Europe Ltd. and ZAO KB Citibank, to provide financing, in the aggregate principal amount of Euro 335 million and with a final maturity of 31 October 2011, for VEB’s current credit and investment activities;
- a bilateral loan agreement dated 8 July 2008 with WestLB AG to provide financing, in the aggregate principal amount of U.S.\$200 million and with a final maturity of 15 August 2010, to refinance a credit line in favour of OJSC Moscow Business Incubator for the Moscow City Technopark “Nagatino-ZIL” construction project;
- a bilateral loan agreement dated 7 June 2008 with Deutsche Bank AG to provide financing, in the aggregate principal amount of U.S.\$110 million and with a final maturity of 13 December 2013, for the implementation of construction projects, including the Project “Building a Complex to Manufacture Sandwich Panels, Metal Constructions and Galvanize Metal Products”; and
- a bilateral loan agreement dated 26 March 2008 with Sumitomo Mitsui Banking Corporation to provide financing, in the aggregate principal amount of EUR 198.4 million and with a final maturity of 31 October 2012, for projects of OJSC “NeftegazInKor.

Since 31 December 2009, various subsidiaries of VEB have also incurred long-term debt. See “*Capitalisation*”.

VEB is subject to a number of financial ratios and other restrictive covenants under certain of its bilateral and syndicated loan facilities. VEB’s management believes that VEB is in compliance with all such financial tests and covenants as at the date of this Base Prospectus.

#### **Amounts Due to the Russian Government and the CBR**

In addition to direct capital contributions (see “*Status as a State Corporation and Related Regulatory Environment—Relationship with the Russian Government—Charter Capital*”), the Russian Government also supports VEB by placing unsecured deposits (principally comprising funds of the NWF). The CBR also places funds on deposit with VEB. As at the date of this Base Prospectus, deposits from the Russian Government (principally comprising funds of the NWF) and from the CBR comprise VEB’s primary source of funding, together representing 66.5%, 63.9% and 18.0% of total liabilities as at 31 December 2009, 2008 and 2007, respectively.

The following table sets forth a breakdown of funds provided to VEB by the Russian Government and its authorised institutions as at the dates indicated:

	<b>As at 31 December</b>					
	<b>2009</b>		<b>2008</b>		<b>2007 (restated)</b>	
	<i>(RUB millions)</i>	<i>% of total</i>	<i>(RUB millions)</i>	<i>% of total</i>	<i>(RUB millions)</i>	<i>% of total</i>
Interest-bearing loans and deposits from the Ministry of Finance of the Russian Federation .....	501,455	50.8	404,187	44.2	—	—
Interest-bearing deposits from the Bank of Russia .....	446,151	45.2	482,140	52.8	443	0.7
Settlements related to redemption of Russian Government loans .....	38,005	3.8	25,245	2.8	28,356	47.5
Current accounts in precious metals .....	166	—	1,141	0.1	1,470	2.5
External debt payment funds .....	696	0.1	780	0.1	1,913	3.2
Special purpose funds .....	771	0.1	302	0.0	27,429	46.0
Current accounts of the Russian Government .....	319	—	94	—	71	0.1
<b>Total .....</b>	<b>987,563</b>	<b>100.0</b>	<b>913,889</b>	<b>100.0</b>	<b>59,682</b>	<b>100.0</b>

#### **Amounts Due to the Ministry of Finance and the Russian Government**

As at 31 December 2009 and 2008, interest-bearing loans and deposits from the Ministry of Finance of the Russian Federation included Rouble-denominated deposits (principally comprised of funds of the NWF) placed with VEB pursuant to the Financial System Support Law in the amount of RUB 501,455 million and RUB 404,187 million, respectively. Because VEB's business activities were expanded to include the provision of recovery finance funded by the NWF only upon the adoption of the Financial System Support Law in the third quarter of 2008, VEB did not receive funding from the Ministry of Finance in 2007.

As at 31 December 2009, the Rouble-denominated deposits (comprised of funds of the NWF) placed with VEB bore interest at annual rates ranging from 7% to 8.5% and had maturity dates ranging from December 2014 through December 2020. As at 31 December 2008, these Rouble-denominated deposits bore interest at an annual rate of 7% and had maturity dates in October 2013 and December 2019. In December 2009, VEB repaid a deposit of RUB 175,000 million to the Ministry of Finance, which had been provided to VEB between October and December 2008, to allow VEB to purchase Russian-listed securities to support the Russian stock market in light of the global financial crisis.

In 2009, the Ministry of Finance provided VEB with additional funding, including:

- a Rouble-denominated deposit in the amount of RUB 30,408 million, which bears interest at an annual rate of 8.5% and matures in December 2017 and is required to be applied by VEB to finance credit institutions and legal entities supporting SMEs; and
- a U.S. Dollar-denominated loan in the amount of RUB 60,493 million, which bears interest at an annual rate of six-month LIBOR plus 2.8% and matures in July 2011 and is required to be applied by VEB to finance investment projects.

#### **Amounts Due to the CBR**

Interest-bearing deposits due to the CBR decreased by 7.5% to RUB 446,151 million as at 31 December 2009 from RUB 482,140 million as at 31 December 2008, after having increased from RUB 443 million as at 31 December 2007. The major portion of these deposits, in the amounts of U.S.\$7,821 million (RUB 236,548 million) and U.S.\$9,839 million (RUB 289,069 million), as at 31 December 2009 and 2008, respectively, and bearing interest at the rate of LIBOR plus 1% per annum, were placed with VEB pursuant to the Financial System Support Law for a period of one year to provide funding for the short-term refinancing of foreign loans of Russian corporate borrowers against the same security as was used to secure the borrowers' obligations to the original foreign lenders. During 2009, some of the CBR deposits were repaid as the back-to-back loans to customers were repaid at their respective maturities, whilst the balance of these deposits in the amount of U.S.\$6,398 million (RUB 193,510 million) was rolled-over for another year as VEB extended the maturities of

the corresponding back-to-back financing. See “*Business Description of VEB—Support Key State-owned Vehicle for Stabilisation of the Russian Economy and Financial System—Recovery Finance*”. The decrease in interest-bearing deposits due to the CBR as at 31 December 2009, as compared to 31 December 2008, resulted from these repayments.

As at 31 December 2009, interest-bearing deposits from the CBR also included:

- special purpose Rouble-denominated deposits in the aggregate amount of RUB 87,835 million (as compared to RUB 87,358 million as at 31 December 2008), bearing interest at an annual rate of 5.0% (as compared to rates ranging from 5.5% to 6.5% as at 31 December 2008) and maturing in October 2010, which VEB has the right to utilise to provide financial support to GLOBEXBANK;
- special purpose Rouble-denominated deposits in the aggregate amount of RUB 121,383 million (as compared to zero as at 31 December 2008), bearing interest at annual rates ranging from 5.3% to 5.8% and maturing in September 2010, which VEB has the right to utilise to provide financial support to Sviaz-Bank; and
- additional Rouble-denominated loans in the aggregate amount of RUB 385 million (as compared to RUB 31,376 million as at 31 December 2008), bearing interest at an annual rate of 9.0% (as compared to rates ranging from 9.0% to 13.7% as at 31 December 2008) and maturing in May 2010, which VEB received for liquidity management purposes and which have been repaid when due.

As at 31 December 2008, the interest-bearing deposits from the CBR also included a special purpose U.S. Dollar-denominated deposit in the aggregate amount of U.S.\$2,530 million, which bore interest at an annual rate of one-year LIBOR plus 1.0% and which VEB applied to provide financial support to Sviaz-Bank. Although the deposit was made for a term of one-year, VEB prepaid the funds in the first quarter of 2009.

### Amounts Due to Customers

The following table sets forth a breakdown of amounts due to customers, by type of customer, as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
		<i>(RUB millions)</i>	<b>(restated)</b>
State and State-controlled companies.....	69,486	61,715	21,224
Private companies.....	64,315	36,157	11,400
Employees and other individuals.....	65,738	11,336	5,863
Companies under foreign State control .....	2,684	2,133	817
<b>Total.....</b>	<b>202,223</b>	<b>111,341</b>	<b>39,304</b>

Amounts due to customers increased by 81.6% to RUB 202,223 million as at 31 December 2009, as compared to RUB 111,341 million as at 31 December 2008, after having increased by 183.3% as at 31 December 2008 from RUB 39,304 million as at 31 December 2007. The increase in amounts due to customers as at 31 December 2009, as compared to 31 December 2008, largely reflected the consolidation of Prominvestbank and GLOBEXBANK for the first time in 2009. The increase in amounts due to customers as at 31 December 2008, as compared to 31 December 2007, largely reflected the overall growth in VEB’s business activities following its inception in mid-2007.

In particular, amounts due to State-controlled companies increased by 12.6% to RUB 69,486 million as at 31 December 2009, as compared to RUB 61,715 million as at 31 December 2008, after having increased by 190.8% as at 31 December 2008 from RUB 21,224 million as at 31 December 2007. Amounts due to private companies increased by 77.9% to RUB 64,315 million as at 31 December 2009, as compared to RUB 36,157 million as at 31 December 2008, after having increased by 217.2% as at 31 December 2008 from RUB 11,400 million as at 31 December 2007. These increases principally reflected the overall growth in VEB’s business and the related increase in the number of its customers due to its renewed focus on its core development banking activities, as well as the consolidation of deposits held by VEB’s newly-acquired banking subsidiaries as at 31

December 2009. Amounts due to employees and other individuals are largely amounts held through VEB's banking subsidiaries and, accordingly, the increase in such amounts as at 31 December 2009, as compared to 31 December 2008, principally reflected the consolidation of these subsidiaries in 2009.

The following table sets forth a breakdown of VEB's amounts due to customers, by type of account, as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
		<i>(RUB millions)</i>	<b>(restated)</b>
Customer current accounts .....	101,384	76,929	32,376
Term deposits .....	92,772	34,158	6,928
Repurchase agreements .....	8,067	254	—
<b>Total due to customers</b> .....	<b>202,223</b>	<b>111,341</b>	<b>39,304</b>

Customer current accounts increased by 31.8% to RUB 101,384 million as at 31 December 2009, as compared to RUB 76,929 million as at 31 December 2008, after having increased by 137.6% from RUB 32,376 million as at 31 December 2007. Similarly, term deposits increased by 171.6% to RUB 92,772 million as at 31 December 2009 from RUB 34,158 million as at 31 December 2008, after having increased by 393.0% from RUB 6,928 million as at 31 December 2007. These year-on-year increases in both current accounts and term deposits principally reflected the overall growth in VEB's business activities over these periods.

As at 31 December 2009, 2008 and 2007, term deposits included deposits of individuals in the aggregate amounts of RUB 55,632 million, RUB 10,003 million and RUB 4,578 million, respectively. In accordance with the Russian Civil Code, VEB and its Russian subsidiaries are obliged to repay term deposits of individuals upon demand, whilst, in accordance with applicable banking laws in Belarus and Ukraine, respectively, Belvnesheconombank, VEB's Belarusian banking subsidiary, and Prominvestbank, VEB's Ukrainian banking subsidiary, are obliged to repay term deposits of individuals within five days of demand.

As at 31 December 2009, term deposits bore interest at annual rates ranging from 0.5% to 19.0% (as compared to rates ranging from 1.0% to 12.3% as at 31 December 2008 and 1.0% to 10.0% as at 31 December 2007) for U.S. Dollar-denominated deposits; ranging from 1.0% to 20.0% (as compared to rates ranging from 1.0% to 10.3% as at 31 December 2008 and 3.0% to 10.0% as at 31 December 2007) for Euro-denominated deposits; ranging from 1.5% to 17.5% (as compared to rates ranging from 2.0% to 25.0% as at 31 December 2008 and 3.0% to 25.0% as at 31 December 2007) for Rouble-denominated deposits; ranging from 3.0% to 16.5% (as compared to rates ranging from 2.0% to 18.0% as at 31 December 2008, from 3.0% to 16.0% as at 31 December 2007) for Belarusian Rouble-denominated deposits; and ranging from 5.0% to 26.5% for Ukrainian Hryvnia-denominated deposits. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

The following table sets forth a breakdown of amounts due to VEB's ten largest customers, by type of customer, as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
		<i>(RUB millions)</i>	<b>(restated)</b>
Infrastructure development .....	17,495	17,115	11,907
Manufacturers of heavy machinery and military-related goods .....	3,773	7,305	5,667
Non-commercial organisations .....	2,716	4,407	4,759
Telecommunication .....	34,957	36,242	2,381
Financial organisations .....	8,067	6,019	1,210
Trade .....	4,685	3,767	—
Metallurgy .....	7,343	—	—
Construction .....	2,937	—	—
<b>Total due to customers</b> .....	<b>81,973</b>	<b>74,855</b>	<b>25,924</b>

As at 31 December 2009, 2008 and 2007, amounts due to VEB's four largest customers were RUB 62,070 million, RUB 55,446 million and RUB 20,508 million and comprised 30.7%, 49.8% and 52.2%, respectively, of the total amount due to customers.

Amounts due to infrastructure development increased by 2.2% to RUB 17,495 million as at 31 December 2009 from RUB 17,115 million as at 31 December 2008, after having increased by 43.7% from RUB 11,907 million as at 31 December 2007. These year-on-year increases in amounts due to infrastructure development were primarily due to VEB's renewed focus on development banking activities.

Amounts due to telecommunications organisations decreased by 3.5% to RUB 34,957 million as at 31 December 2009 from RUB 36,242 million as at 31 December 2008, after having increased from RUB 2,381 million as at 31 December 2007. The higher amounts due to telecommunications companies as at 31 December 2009 and 31 December 2008, as compared to 31 December 2007, primarily reflected the consolidation of Sviaz-Bank, which has a high number of customers involved in the telecommunications sector.

### Debt Securities Issued

The Russian domestic capital markets are a growing source of funding for VEB, representing 5.3%, 0.6% and 2.9% of total liabilities as at 31 December 2009, 2008 and 2007, respectively. The following table sets forth a breakdown of the principal components of VEB's debt securities issued for the years indicated:

	As at 31 December		
	2009	2008 <i>(RUB millions)</i>	2007 <i>(restated)</i>
Bonds .....	60,425	2,023	4,270
Promissory notes .....	18,429	6,185	5,254
Certificates of deposit and saving certificates .....	42	17	14
<b>Total debt securities issued .....</b>	<b>78,897</b>	<b>8,225</b>	<b>9,538</b>

Debt securities issued increased by 859.2% to RUB 78,897 million as at 31 December 2009 from RUB 8,225 million as at 31 December 2008, after having decreased by 13.8% as at 31 December from RUB 9,538 million as at 31 December 2007. The increase in debt securities issued as at 31 December 2009, as compared to 31 December 2008, was mainly due to VEB's issuance of domestic U.S. Dollar-denominated interest-bearing, non-convertible bearer bonds (series 1) in the aggregate principal amount of U.S.\$2,000 million, which were placed on the Moscow Inter-bank Currency Exchange in June 2009 for one year. These bonds, which bore interest at an annual rate of six-month LIBOR plus 1%, were repaid on 3 June 2010. As at 31 December 2009 and 2008, bonds also included bonds issued by VEB's banking subsidiaries.

Debt securities issued as at 31 December 2009 also included interest-bearing promissory notes denominated in Roubles, U.S. Dollars and Euros bearing interest at annual rates of 9.5% for Rouble-denominated promissory notes; ranging from 0.2% to 7.0% for U.S. Dollar-denominated promissory notes; and ranging from 1.0% to 7.0% for Euro-denominated promissory notes. Interest-bearing promissory notes outstanding as at 31 December 2009 mature in 2049. As at 31 December 2008, debt securities issued included interest-bearing promissory notes denominated in Roubles, U.S. Dollars, Euros and Sterling, bearing interest at annual rates ranging from 5.0% to 10.0% for Rouble-denominated promissory notes; ranging from 2.3% to 5.7% for U.S. Dollar-denominated promissory notes; ranging from 1.5% to 3.5% for Euro-denominated promissory notes; and ranging from 2.7% to 3.5% for Sterling-denominated promissory notes. Interest-bearing promissory notes outstanding as at 31 December 2008 mature in 2032.



## DESCRIPTION OF VEB'S BUSINESS

### OVERVIEW

VEB is a state corporation established pursuant to the laws of the Russian Federation. Its status, business purposes, functions and powers are governed by the Development Bank Law, the Financial System Support Law, the 2007 Memorandum and other Russian Federal laws and regulations. VEB operates principally in four capacities: (i) as a development bank; (ii) as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system; (iii) as an agent of the Russian Government, including, in particular, in respect of the management of the debt obligations of the Russian Government and the former Soviet Union, as well as obligations owed to the Russian Federation by debtor countries and other borrowers, and the management of certain pension funds through STMC, a separate division of VEB, which is segregated from VEB's banking and other operations; and (iv) as a universal depositary in the Russian Federation. Under the Development Bank Law, VEB is authorised to conduct banking operations without a licence from the CBR and VEB is generally not required to comply with regulatory requirements of the CBR applicable to commercial banks. See "*Status as a State Corporation and Related Regulatory Environment—Legal and Regulatory Framework*".

VEB has four banking subsidiaries in the Russian Federation (RBD, ROSEXIMBANK, Sviaz-Bank and GLOBEXBANK), one in Belarus (Belvnesheconombank) and one in Ukraine (Prominvestbank). Other significant subsidiaries include: (i) VEB Capital, the principal activities of which include holding and managing certain of VEB's investment assets, conducting operations on the Russian financial markets and providing financial advisory services, including, in particular, arranging and placing mortgage-backed bonds; (ii) VEB-Leasing, the principal activities of which include finance leasing of high-technology equipment, helicopters and related equipment, produced by leading manufacturers, to lessees in the Russian Federation; and (iii) VEB Engineering, which is primarily engaged in the provision of engineering support for investment projects currently being implemented or financed by VEB, which include, in particular, those relating to the 2014 Winter Olympics. See "*—Principal Subsidiaries and Associates*".

As the principal development bank of the Russian Federation, one of VEB's principal functions is to increase the competitiveness and diversification of the Russian economy, in particular, by promoting investment activity in sectors that are of strategic importance to the Russian Government. VEB acts as a lender, investor, guarantor, manager, arranger and consultant in connection with its development bank activities. VEB's core operations, investment and financial priorities, borrower limits and underlying principles for financing activities as a development bank are principally set forth in the Development Bank Law and the 2007 Memorandum. As a development bank, VEB does not compete with commercial lending and financial institutions in providing finance to customers; rather, pursuant to the 2007 Memorandum, VEB gives preference to investment projects, such as infrastructure projects, which are not typically eligible for financing on terms acceptable to commercial banks and other non-specialist market investors. As part of its recovery finance activities in support of the financial sector, VEB acquired certain distressed commercial banks, including a 89.9% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009; and a 98.9% interest in GLOBEXBANK in 2009. See "*—VEB as the Development Bank of the Russian Federation*".

Since October 2008, VEB has also become actively involved, pursuant to the Financial System Support Law and related decisions of the Russian Government, in addressing the effects of the global financial crisis on the Russian economy. As one of the key players in maintaining the stability of the Russian banking sector and financial system during the global financial crisis, VEB provides recovery finance to Russian banks and corporate entities suffering from the effects of the economic turmoil. See "*—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System*".

As an agent of the Russian Government, VEB manages debt obligations of the Russian Federation and the former Soviet Union, as well as debt obligations owed to the Russian Federation by sovereign states, financial institutions and commercial entities. In this capacity, its responsibilities include record-keeping, reconciliation and settlement activities. See "*—VEB as Agent for the Russian Government*". In addition, STMC is responsible for managing the pension savings of insured Russian citizens, who have not transferred their savings to private pension funds or private asset management companies. See "*—VEB as Agent for the Russian Government—Pension Funds Management (STMC)*".

VEB acts as a universal depository for a broad range of Russian and foreign securities. In this capacity, VEB delivers a range of depository, settlement, information and custody services for investors and professional participants in the Russian securities and foreign exchange markets. See “—*Depository Operations*”.

VEB operates out of its principal office in Moscow, three representative offices within the Russian Federation and eight representative offices outside the Russian Federation (in the United States of America, India, Italy, China, the Republic of South Africa, Germany, France and the United Kingdom).

In its capacity as a state corporation, VEB has prepared its consolidated financial statements in accordance with IFRS since 2007. As at 31 December 2009, VEB had total assets of RUB 1,939,214 million and total loans of RUB 1,310,846 million, whilst VEB had net interest income of RUB 51,936 million and net income of RUB 38,315 million for the year ended 31 December 2009.

VEB receives the majority of its funding: (i) from the Russian Government in the form of capital contributions, which may be utilised for all general corporate purposes; and (ii) from the CBR and the Russian Government (principally comprised of funds of the NWF) in the form of term deposits, which may be applied only in specific financing programmes. As at 31 December 2009, VEB had charter capital of RUB 382,489 million, which comprised contributions of cash and assets from the Russian Government and VEB held deposits from the CBR and the NWF totalling RUB 446,151 million and RUB 501,455 million, respectively. For the year ended 31 December 2009, total funding from the Russian Government and the CBR as a percentage of VEB’s total equity and liabilities was 50.9%. VEB also raises funds through the issuance of bonds and other securities in the domestic and international capital markets, as well as pursuant to bilateral loans, in each case, in Roubles and foreign currencies, principally U.S. Dollars. Although VEB is not permitted to accept deposits from individual investors, VEB holds some retail deposits inherited as successor to Vnesheconombank of the USSR and some retail deposits through its recently acquired banking subsidiaries. See “*Status as a State Corporation and Related Regulatory Environment*”.

VEB is registered by the Moscow City Federal Tax Service Department in the Unified State Registry of Legal Entities under the principal State registration number 1077711000102, assigned to VEB on 8 June 2007 under the State Registration Certificate Series 77 № 008760662. VEB’s legal address is, and its principal office is located at, 9 Akademika Sakharova Prospekt, Moscow, 107996, the Russian Federation. As at 31 December 2009, the VEB Group had 1,680 employees excluding its subsidiaries and 19,189 employees including its subsidiaries.

## HISTORY

VEB is the successor to Vnesheconombank of the USSR. VEB’s charter capital was formed by pooling assets of Vnesheconombank of the USSR with State-owned shares of OJSC “Russian Bank for Development” (“**RBD**”) and State-owned shares of the “State-Specialised Russian Export-Import Bank” (CJSC), as well as other assets transferred by order of the Russian Government.

VEB can trace its roots back to the establishment of the Russian Commercial Bank (“**Roskombank**”), which was founded on 18 August 1922 as a joint stock company providing short-term financing. Roskombank became the Joint Stock Bank for Foreign Trade of the USSR (“**Vneshtorgbank**”) on 7 April 1924, when it began to provide financial services in relation to export and import transactions.

In November 1960, Vneshtorgbank became responsible for all payment and credit transactions with foreign banks exporting and importing from and into the Soviet Union, processing non-commercial payments in the Soviet Union and extending credit to Soviet foreign trade institutions. In January 1961, Vneshtorgbank became the only bank authorised to conduct monetary and currency transactions with foreign counterparties in the Soviet Union.

In 1988, Vneshtorgbank was renamed Vnesheconombank of the USSR. In addition to the functions historically carried out by Vneshtorgbank, Vnesheconombank of the USSR also acted as agent for the Soviet government in obtaining export credit for new Soviet joint stock ventures. Vnesheconombank of the USSR was authorised to extend foreign currency credit directly to companies and institutions in the amount of up to RUB 5 million per loan and was also entitled to raise foreign currency funds to on-lend to Russian companies to support the Russian export sector.

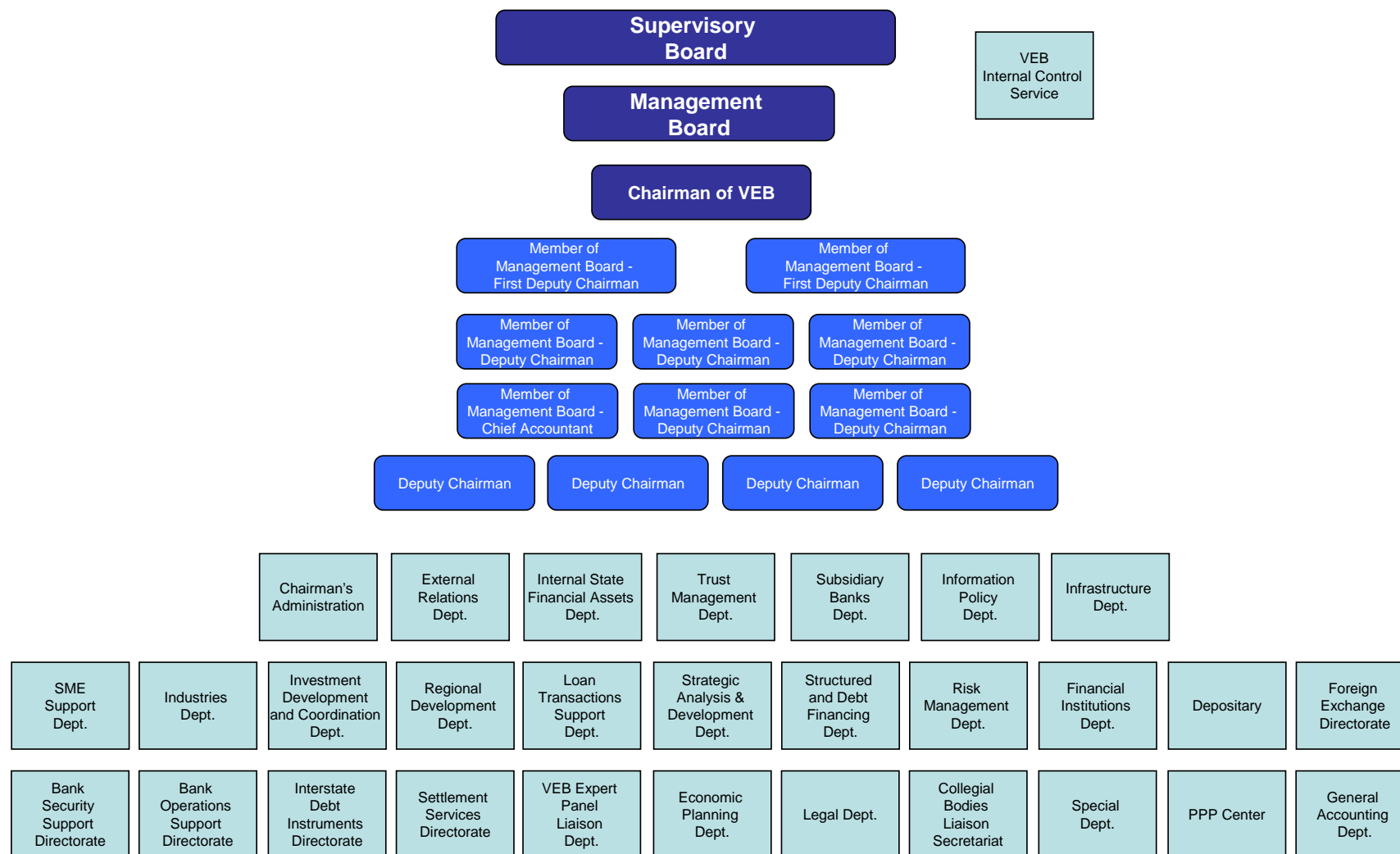
In 1992, Vnesheconombank of the USSR was authorised to service debt obligations of the USSR incurred prior to 1992. In 2002, Vnesheconombank of the USSR was appointed as a sub-agent for the exchange of Soviet-era foreign trade organisation debt instruments for Russian Eurobonds. See “—*VEB as Agent for the Russian Government*”.

In 2002, Vnesheconombank of the USSR completed an internal restructuring to reduce its commercial lending activities, whilst increasing its involvement in State-run programmes prioritising support for the structural reforms being implemented by the Russian Government, including the provision of development finance. Vnesheconombank of the USSR was also appointed as agent for the Russian Government to manage certain pension funds.

On 17 May 2007, the State Corporation Bank for Development and Foreign Economic Affairs (“**Vnesheconombank**”) was established pursuant to the Development Bank Law. See “*Status as a State Corporation and Regulatory Environment*”. VEB was registered with the Unified State Register of Legal Entities on 8 June 2007, following which all rights and duties of Vnesheconombank of the USSR, including all contractual rights and duties, were assigned to VEB.

VEB acquired a 53.6% interest in Belvnesheconombank in 2007, which was subsequently increased to 97.2% in 2008 and further to 97.4% in 2009; a 50.0% interest plus one share in VEB-Leasing in 2008, which was subsequently increased to 78.1% in 2009 and further to 98.1% in March 2010; an 89.0% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009; a 75.0% interest plus three shares in Prominvestbank in 2009; and a 98.9% interest in GLOBEXBANK in 2009. VEB’s interests in Sviaz-Bank and GLOBEXBANK were acquired in connection with VEB’s role as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system.

The following chart outlines the corporate organisational and management structure of VEB as at 16 June 2010:



## STRATEGY

As more fully discussed below, VEB has four principal strategic objectives: (i) to act as the principal development bank of the Russian Federation; (ii) to act as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system through the provision of recovery finance to Russian banks, financial institutions and corporates; (iii) to act as an agent of the Russian Government, including, in particular, in respect of the management of debt obligations of the Russian Federation and the former Soviet Union as well as debt obligations owed to the Russian Federation by sovereign states, financial institutions and commercial entities and the management of certain pension funds through STMC; and (iv) to act as a universal depositary in the Russian Federation. In addition, to facilitate the achievement of these key strategic objectives, VEB intends to focus on improving its institutional structures, risk management systems and organisational efficiencies.

### Strategic Objectives as a Development Bank

VEB's role as the principal development bank of the Russian Federation is specified in the Development Bank Law, whilst, as at the date of this Base Prospectus, its lending and investment business priorities as a development bank for the period are defined in the 2007 Memorandum. VEB is one of the key institutions for the implementation of the Russian Government's investment and development policy and, accordingly, VEB's principal mission, as a development bank, is to increase the competitiveness and diversification of Russia's economy and to promote investment activity in sectors that are of strategic importance to the Russian Government.

In particular, VEB intends to focus its development bank activities principally on the following:

- providing lending and project finance to develop new infrastructure and modernise and reconstruct existing infrastructure, focusing on technological and industrial innovation, particularly in sectors of key strategic importance to the Russian economy, developing special economic zones and infrastructure projects aimed at the protection of the environment and supporting the Russian export market; in particular, to achieve these goals, VEB intends to:
  - develop and increase utilisation of public-private partnerships (“PPPs”) to support the development of Federal, regional and municipal infrastructure projects in the Russian Federation;
  - establish and fund direct infrastructure investment funds to encourage foreign direct investment in the Russian Federation; and
  - generally encourage investment activity in support of the implementation of infrastructure projects in the Russian Federation and abroad, including projects involving foreign capital, and provide finance, insurance, consultancy and other services related to such projects;
- developing the Russian SME sector (primarily through the activities of its subsidiary bank, RBD), including by:
  - extending loans to banks and other financial institutions for on-lending to SMEs;
  - providing other types of financing in support of SMEs, such as guarantees to credit institutions and legal entities providing support to SMEs;
  - continuing to enhance the scope and scale of VEB's SME lending and development activities; and
  - encouraging a more systematic development of the SME sector across the regions of the Russian Federation, including through the education of and financial support to SMEs in co-operation with the Finance Academy of the Russian Federation, as well as assisting SMEs in soliciting finance from third parties;

- co-operating with international financial organisations, foreign states and commercial entities with the aim of providing investment finance for strategically important economic sectors, developing the Russian SME sector and promoting long-term Russian foreign trade activities; and
- supporting the Russian export sector through the provision of export credit finance, insurance and guarantees aimed at diversifying and strengthening export activities by Russian companies, particularly those engaged in the production and export of high-technology industrial goods, pharmaceuticals and agricultural products; to further this goal, and in order to impose mechanisms for insuring export credits and streamlining the existing state financial guarantee support for Russian exports, VEB has been actively involved in the development of Federal laws providing for the establishment of a specialised export credit and investment insurance agency in the second half of 2010, in accordance with the Foreign Economic Strategy of the Russian Federation to the year 2020; the agency is expected to issue export credit insurance against commercial and political risks in order to support the export of Russian industrial products.

### **Strategic Objectives as a Provider of Recovery Finance**

In its capacity as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system, pursuant to the Financial System Support Law, VEB's mission is to provide recovery finance and other financial support, through the provision of both debt and equity finance to strategically important Russian banks and other financial institutions, as well as to Russian corporates. In particular, VEB aims to continue to support distressed Russian banks, financial institutions and Russian corporates through the provision of recovery finance in the form of subordinated loans (in the case of banks), as well as through the acquisition of claims of foreign creditors under loans extended to Russian corporates. Using funding provided by the Russian Government (principally comprised of funds of the NWF) and the CBR, VEB also acquired controlling interests in the share capital of Sviaz-Bank and GLOBEXBANK. VEB intends to restore the financial viability of these banks over the medium term and, thereafter, sell its ownership interests in these banks when market conditions are considered to be favourable. In addition, VEB's Supervisory Board has approved an investment programme to finance the construction of affordable housing and help lower the average mortgage rates offered in the Russian mortgage market. In particular under this investment programme, from 2010 to 2012, VEB intends to apply up to RUB 210,000 million to acquire mortgage-backed bonds issued primarily by the AHML. See "*—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System—Recovery Finance—Support for Mortgage Lending Market*".

### **Strategic Objectives as an Agent of the Russian Government**

VEB intends to maintain its status as the primary agent of the Russian Government with respect to record-keeping, settlement and redemption of sovereign external debt obligations of the Russian Federation and internal domestic-currency debt obligations of the former Soviet Union, as well as with respect to record-keeping and management services with respect to foreign financial assets owned by the Russian Federation. VEB intends to continue to perform the range of services currently provided by it in its agency capacity at least in the medium term.

VEB also intends to continue to act as the manager of certain pension funds through STMC, a separate division of VEB.

### **Strategic Objectives as a Depositary**

VEB intends to grow its depositary business in line with VEB's own needs and the needs of its clients and to continue to provide universal depositary services across the Russian securities market.

### **Strategic Objectives to Support Growth**

VEB plans to support the growth of its business and to facilitate the implementation of its principal business activities by:

- improving its institutional structure and corporate organisation and continuing to develop its internal decision-making policies and procedures;

- building more efficient internal models for the selection, appraisal, financing and monitoring of investments in its core business;
- developing a consistent and comprehensive risk management system across all of VEB's operations and business lines, in particular, to increase the diversification of risks; and
- expanding VEB's network of regional offices, subsidiaries and finance vehicles, such as PPPs, infrastructure projects and infrastructure funds.

## **VEB AS THE DEVELOPMENT BANK OF THE RUSSIAN FEDERATION**

VEB's role as the principal development bank of the Russian Federation is specified in the Development Bank Law, whilst, as at the date of this Base Prospectus, its lending and investment business priorities are defined in the 2007 Memorandum. VEB is one of the key institutions for the implementation of Russia's investment and development policy. VEB uses a variety of financial and guarantee instruments to: (i) provide investment lending and project finance to strategically significant sectors of the Russian economy; (ii) promote the development of the Russian SME sector (principally through its subsidiary, RBD); and (iii) support foreign trade activities and the Russian export sector. VEB carries out its development activities in co-operation with international financial and development institutions, including the International Finance Corporation ("IFC"), the European Bank for Reconstruction and Development (the "EBRD"); the World Bank and foreign states and commercial entities.

Pursuant to the 2007 Memorandum, VEB is only permitted to participate in projects that are commercially viable. As a development bank, however, VEB does not compete with commercial lending and financial institutions in providing finance to customers; rather, pursuant to the 2007 Memorandum, VEB gives preference to investment projects, such as infrastructure projects, which are not typically eligible for financing on terms acceptable to commercial banks and other non-specialist market investors. Loans and investments made by VEB often involve relatively large principal amounts, have longer-term maturities, are not secured by liquid collateral and are extended at preferential rates, all of which make these activities of relatively high risk and low return. VEB has developed specific procedures to assess risks associated with each project's design and implementation strategy, as well as each project operator, before approving any credit decisions. See "*Lending Policies and Procedures—Credit Approval Procedures*".

### **Investment Lending and Project Finance**

VEB is responsible for providing financial support to investment projects, which are considered to be strategically important to the development of the Russian economy, but which do not attract sufficient financial resources from the private sector or other non-specialist market investors. VEB provides this financial support principally by: (i) extending financing directly to projects or project sponsors, through both the provision of debt finance and the purchase of equity; and (ii) developing and providing financing for PPPs. In addition, VEB has provided seed capital for the MRIF, which is a direct infrastructure investment fund that specialises in equity investments and infrastructure assets located in the Russian Federation and CIS countries. VEB also supports investment development by arranging co-financing and fostering other co-operation with international financial institutions, foreign states and commercial entities. See "*—Agreements with International Financial Institutions, Foreign States and Commercial Entities*".

As provided in the 2007 Memorandum, sectors of strategic importance to the Russian economy in respect of VEB's investment activities include: aircraft and spacecraft; shipbuilding; electronics; civil nuclear; transportation; special-purpose and power engineering; metallurgy; timber processing; military and commercial equipment manufacturing; scientific research; agro-industry; computer technologies and software; information communication systems; and medical equipment and pharmaceuticals.

### ***Acting as Lender or Equity Investor in Investment Projects***

Whilst the majority of investment financing by VEB is provided in the form of debt, VEB determines the structure of its participation in a project on a case-by-case basis following its analysis of the project structure, terms and other participants. In 2008 and 2009, VEB's project finance activities increased in line with its roles as the principal development bank in the Russian Federation and as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system. The number of investment projects approved by VEB increased from 46 as at 31 December 2008 to 81 with a total value of RUB 1,244,324 million, as at 31

December 2009 of which VEB had committed to fund RUB 715,524 million in loans with terms of up to five years. As at the same date, VEB had committed to fund 24 (out of the 81 approved) infrastructure projects in an aggregate total amount of RUB 173,560 million (out of its commitment of RUB 715,524 million).

VEB's infrastructure investment activities can be divided into two principal categories: (i) the financing of infrastructure projects related to the 2014 Winter Olympics; and (ii) the financing of other strategically important projects, including the construction of power plants, roads, shipyards and oil refineries.

#### *Certain Significant Investment Projects*

VEB finances strategically important, large-scale projects, such as the construction of civil nuclear, coal and hydroelectric power plants, major roads and steel and cement plants.

The most significant projects currently being financed by VEB through debt include:

- the extraction and dressing of manganese ore and special steel production in the Kemerovo district of the Siberian Federal region, at a total anticipated cost of RUB 21,900 million, of which VEB has committed to lend RUB 16,600 million over a period of 13 years beginning 20 July 2009;
- the construction of Terminal 3 at Sheremetievo International Airport in Moscow at a total anticipated cost of U.S.\$1,091 million of which VEB committed to fund U.S.\$951.6 million over a period of up to 15 years beginning 22 June 2006;
- the construction of facilities for the production of polypropylene in the city of Tobolsk in the Tyumen region, at a total anticipated cost of U.S.\$2,430 million, of which VEB has committed to lend U.S.\$1,441 million over a period of three years beginning 18 September 2009;

VEB also supports the development of infrastructure projects through holding equity in infrastructure project participants and sponsors. Some projects in which VEB participates on an equity basis include:

- the construction of a pulp and paper mill in the Boguchan region of the Krasnoyarsk territory as part of a wider programme to develop the Nizhneye Priangariye area, at a total anticipated cost of RUB 87,000 million, which is being developed by Kraslesinvest, a wholly owned subsidiary of VEB; and
- the construction of a water supply and drainage facility and construction comprehensive program of Rostov on Don and the southwest of the Rostov region, at a total anticipated project cost of RUB 33,471 million, which is being co-developed by OJSC "Eurasian", a Russian construction management company in which VEB owns a 19.9% stake.

#### *Financing the 2014 Winter Olympics*

In 2009, VEB's Supervisory Board approved the provision of financing for the construction of infrastructure facilities to support Russia's hosting of the 2014 Winter Olympics, including transport and energy infrastructure. VEB's commitments with respect to eight infrastructure projects related to the 2014 Winter Olympics for the period 2010 through 2014 totals RUB 52,500 million. The maturities of financing for the 2014 Winter Olympics projects range from five to fifteen years, with loan amounts generally subject to draw down over the life of the project as stages of the project are completed.

The most significant 2014 Winter Olympic projects being financed or co-financed by VEB include:

- the construction of a cargo terminal at Sochi Port (at the mouth of the Mzymta River), and subsequent refurbishment of a marina, at a total anticipated cost of RUB 7,050 million, of which VEB has committed to lend RUB 4,050 million and, as at the date of this Base Prospectus, has funded RUB 2,169 million;
- the construction of a new terminal at Sochi International Airport, at a total anticipated cost of



RUB 6,285 million, of which VEB has committed to lend RUB 5,700 million and, as at the date of this Base Prospectus, has funded RUB 4,682 million;

- the construction of the second phase of the Sochi Thermal Power Plant, at a total anticipated cost of RUB 5,510 million, of which VEB has committed to lend RUB 3,700 million and, as at the date of this Base Prospectus, has funded RUB 1,562 million;
- the construction of the “Mountain Carousel” sports and tourism complex, at a total anticipated cost of RUB 9,956 million, of which VEB has committed to lend RUB 9,200 million and, as at the date of this Base Prospectus, has funded RUB 487 million; and
- the construction of a ski resort at Rosa Khutor, which shall become the site for the alpine skiing events at the 2014 Winter Olympics, at a total anticipated cost of RUB 50,509 million, of which VEB has committed to lend RUB 21,000 million and, as at the date of this Base Prospectus, has funded RUB 5,288 million.

### *Development of PPPs*

Public-private partnerships (“**PPPs**”) are contractual arrangements between a state or state agency (the “public” component) and a private sector entity entered into in order to promote a more efficient and effective delivery of public sector-related services. VEB promotes the development of PPP projects in sectors of the Russian economy traditionally falling within the remit of the Russian Government, such as transportation, energy, and space communications, public utilities (including water, district heating, waste management and environmental protection) and the social infrastructure of municipalities (predominantly healthcare and education).

Using the PPP model, VEB has launched pilot projects for the greenfield development and modernisation of Russian public infrastructure facilities, including, among others, the establishment of an energy saving programme and a programme to assist city development. These pilot projects draw on best practices from across the world in the implementation of PPP projects in the area of, among others, water supply, sewage management, industrial waste management and the development of transport infrastructure. VEB intends to participate in the financing of PPP projects through the provision of (i) debt finance, including loans, guarantees and the purchase of government and municipal bonds; (ii) equity capital; and (iii) know-how and technical support in the raising of funding from third parties, primarily using the resources of the PPP Centre.

VEB determines the structure of its participation in each PPP project on a case-by-case basis following its analysis of the project structure, terms and other participants. VEB intends to provide financial support to PPPs principally by extending financing directly to PPP projects or PPP project sponsors, through both the provision of debt finance (direct lending and issuing guarantees) and as a purchaser of equity. As at the date of this Base Prospectus VEB has not extended any loans specifically in connection with its PPP development activities, however, it is currently reviewing PPP projects to determine eligibility to receive finance from VEB.

### *The PPP Centre*

In June 2008, VEB established its PPP Centre, which is an independent department within VEB primarily focusing on the development of techniques and instruments for use in connection with the financing of PPP projects. The PPP Centre performs a key advisory role in promoting the development of PPPs across the Russian Federation. The PPP Centre’s principal activities include:

- preparing and managing competitive bid solicitations, reviewing proposals, negotiating PPP contracts and encouraging qualified companies to participate in a competitive procurement process;
- evaluating project proposals, reviewing project structures and assessing project feasibility and, on this basis, providing recommendations as to optimal instruments and structures for the financing of PPP projects;
- arranging presentations to potential project investors and facilities and conducting commercial negotiations in connection with the procurement of PPP projects and financing activities; and

- assisting with the public administration and implementation of projects to completion, including revisions and amendments to contract terms, financing terms and project regulations.

In addition, the PPP Centre hosts PPP workshops and seminars and has developed a set of guidelines on PPPs, which VEB provides free of charge to regional and municipal authorities interested in developing PPP structures. The PPP Centre has appointed third-party consultants in order to assist its development of precedent PPP documents to be used by the State and regional and municipal authorities in PPP infrastructure-related tenders.

To further its development activities in the PPP sector, as at the date of this Base Prospectus, VEB, through the PPP Centre, has been involved in the establishment of 13 regional PPP centres within the Russian Federation and developed relationships with national, regional, international and non-governmental organisations in other countries. On 30 December 2009, VEB and the United Nations Development Programme signed the Project Document “Development of PPPs in Russia”, which provides for the implementation of pilot projects to promote and support the long-term development of PPP know-how in the Russian Federation, the use of PPP structures for infrastructure projects and attract investors in PPP projects in the Russian Federation and to assist regional PPP centres in the Russian Federation; and the application of modern management and financial techniques to PPP projects. VEB has also signed co-operation or similar agreements with JSC PPP Centre of Kazakhstan, with Partnerships UK, respectively, in order to promote the sharing of their respective know-how and PPP expertise. Further, in 2009, VEB signed an agreement to co-operate with the United Nations Economic Commission for Europe (“UNECE”) for UNECE to provide personnel training and otherwise assist with the development of the PPP sector in the Russian Federation. Pursuant to these co-operation or similar agreements, VEB provides assistance in the development of PPPs, including methodological and advisory services, through the PPP Centre.

The PPP Centre is also responsible for co-ordinating with various committees of the Russian Federation State Duma to prepare changes and additions to the legislative framework regulating the activities of PPPs in the Russian Federation and enabling implementation of PPP financings on the Federal, regional and local levels. The PPP Centre provides procedural knowledge, consulting and other support services to Federal, regional and local public authorities, as well as to private PPP project participants, on establishing PPP programmes with the aim of facilitating the increased use of the PPP model for Russian infrastructure projects.

#### *Assessment of PPP Project Feasibility and Advice to the Ministry for Regional Development*

In December 2008, pursuant to a Decree of the Russian Government, VEB was appointed financial adviser to the Russian Government to provide advice on PPP projects seeking co-financing from the Russian Investment Fund, which is funded out of the Russian Federal budget and administered by the Ministry for Regional Development. In August 2009, VEB signed an agreement with the Ministry for Regional Development of the Russian Federation formalising this advisory role, pursuant to which VEB is responsible for assessing the financial viability, budgetary feasibility and cost-effectiveness of projects and, to the extent financing is provided through the Russian Investment Fund, monitoring the on-going performance of obligations by the private PPP participants.

During 2009, the Ministry for Regional Development of Russia requested that VEB assess 12 regional investment PPP projects. Eight out of these 12 projects were approved by VEB, of which seven projects were subsequently approved by the Governmental Commission tasked with determining whether particular PPP projects are of national significance.

VEB acts only in an advisory capacity with respect to this function and does not provide related financing. VEB intends to charge fees in respect of this advice, however, as at the date of this Base Prospectus, has not done so.

#### ***Direct Infrastructure Investment Funds***

VEB cooperates in the establishment of, and provides capital to, direct infrastructure investment funds.

#### *Macquarie Renaissance Infrastructure Fund*

In August 2009, VEB made a capital commitment to MRIF, a private equity investment fund, formed by Macquarie Capital Funds (Europe) Limited, Renaissance Investment Management (UK) Limited and certain

other partners. The investment objective of MRIF is to make equity and equity-related investments in a diversified portfolio of infrastructure assets located in the Russian Federation and CIS countries. VEB had invested RUB 50 million with MRIF as at 31 December 2009.

The MRIF is subject to certain investment restrictions, including the following: (i) investments in the Russian Federation shall constitute a minimum of 50% of total investments; (ii) investments in Kazakhstan shall constitute a minimum of 20% of total investments; (iii) investments in any single country other than the Russian Federation shall not exceed 25% of total investments; (iv) investments in any single company shall not exceed 25% of MRIF's total investments; and (v) investments in any one of airports, roads, rail, ports, electricity, water or gas industries shall not exceed 50% of total investments.

The term of MRIF is 10 years, subject to extension for four years with certain investor consents. Investment decisions are made by the managers of MRIF. As at the date of this Base Prospectus MRIF has not commenced its investing activities.

### **SME Lending and Development**

One of VEB's core business objectives is to develop the Russian SME sector. VEB's main SME financing activities include the provision of loans and guarantees to Russian banks and other financial institutions to support these institutions' own SME lending and guarantee activities. In accordance with the 2007 Memorandum, VEB is authorised to extend loans to banks and financial institutions for on-lending to SMEs for periods of no less than two years and in amounts not exceeding RUB 150 million. VEB's Supervisory Board reviews the levels of support provided by VEB to SMEs on an annual basis. VEB also signs agreements and memoranda of understanding with banks and other financial institutions to encourage the support and financing of SMEs. For example, VEB signed a memorandum of understanding with the EBRD in 2009, pursuant to which VEB intends to provide guarantees to the EBRD to secure payment obligations of Russian financial institutions' export finance facilities with the EBRD.

As at 31 December 2009, VEB had extended loans to 117 Russian banks and 46 other financial institutions, such as leasing companies, micro-finance companies and other specialist SME lending institutions, in 78 regions of the Russian Federation for on-lending to SMEs and companies providing infrastructure support to SMEs in an aggregate amount of RUB 27.5 billion.

Although there is no requirement that an SME be engaged in activities in any particular industry or economic sector to be eligible to receive financing from or through VEB, as at 31 December 2009, 26.5% of VEB's SME lending comprised loans to, or for on-lending to, SMEs engaged in economic sectors specified in the Development Bank Law and the 2007 Memorandum, including the following:

- the production of high-technology industrial goods for export;
- the manufacturing of industrial products which are in high demand in the domestic market; and
- the manufacturing of goods through the use of imported raw materials and components, which are not available in the Russian Federation or for which no substitutes are available or for which demand cannot be met by the domestic market.

As at 31 December 2009, VEB's SME loans by sector comprised 31.4% trading, 26.5% manufacturing, 11.4% construction, 4.9% agriculture and 25.8% services.

To further the development of the Russian SME sector, VEB has a programme for the development of SMEs in accordance with Supervisory Board decision dated 5 February 2009 entitled "The Procedure for Providing Financial Support for Small and Medium-Sized Businesses" by State Corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank)" designed to facilitate the development of SME support structures and networks with a focus on the development of microfinance, leasing and factoring companies. In addition, as part of the SME Development Programme, in 2008, VEB created an information internet portal ([www.rosbr.ru](http://www.rosbr.ru)), pursuant to a joint initiative with the IFC, to provide support for SMEs, including information on sources of funding and practical advice for the development of an SME's business.

## **Support of the Russian Export Sector and Foreign Trade Activities of Russian Companies**

VEB provides financial support to Russian entities involved in foreign trade through a variety of financial and guarantee support instruments, including loans, letters of credit and various types of guarantees including counter-guarantees. VEB also provides trade finance loans to foreign-based finance and trade export companies in order to expand the volume of exports to Russia's main trading partners. To this end, VEB has entered into a number of agreements with foreign states and commercial entities, as well as regional Russian authorities, promoting foreign trade of the Russian Federation. VEB provides guarantee support for Russian industrial exports on a commercial basis to countries including Lebanon, Syria, Algeria, Mexico, Venezuela and Uzbekistan.

### ***Pre-export Financing***

VEB engages in pre-export financing primarily to improve the competitiveness of and otherwise support exports by industrial companies engaged in the manufacture of aircraft and spacecraft, electronics and other special purpose machinery, as well as shipping, oil and gas exploration, production and distribution, the civil nuclear sector, power generation and the transportation sector. VEB also provides guarantees to Russian and non-Russian banks and financial institutions engaged in the financing of Russian exports. As at 31 December 2009, the main beneficiaries of pre-export financing provided by VEB were companies in the technology and manufacturing sectors.

For the year ended 31 December 2009, VEB had extended loans to support Russian foreign trade activities and Russian exports in an aggregate amount of RUB 80,712 million and provided 115 guarantees (which are accounted for off-balance sheet) for an additional aggregate amount of RUB 31.9 billion.

### ***Agreements with International Financial Institutions, Foreign States, Regional Governments of the Russian Federation and Commercial Entities***

VEB has signed agreements with international financial institutions, two of Russia's major trading partners, Russian regional authorities and commercial entities.

#### ***Agreements with International Financial Institutions***

In order to support and develop infrastructure financing, including for strategically important export sectors of the Russian economy, as well as the Russian SME sector, VEB regularly enters into memoranda of understanding, framework agreements, co-operation agreements and facility agreements with international financial institutions and foreign-based export-import banks. These agreements provide for the basic terms and framework for the future provision of credit facilities and loans for VEB to on-lend to strategically important export sectors of the Russian Federation. As at the date of this Base Prospectus, VEB had entered into several such agreements with strategically important partners, including:

- a framework credit line agreement with the Development Bank of Kazakhstan (a wholly owned subsidiary of JSC "Samruk-Kazyna" National Welfare Fund, the national wealth fund of the Republic of Kazakhstan ("Samruk-Kazyna")) in December 2008, pursuant to which VEB agreed to provide credit in the aggregate of U.S.\$300 million for a period of 15 years to support the purchase of Russian exports by Kazakhstan companies;
- a non-binding memorandum of understanding entered into with the EBRD in 2009 providing for the co-financing of SME projects, pursuant to which VEB may provide guarantees to the EBRD to secure payment obligations of Russian financial institution borrowers under facility agreements concluded with the EBRD;
- a non-binding memorandum of understanding entered into with the World Bank (acting through the IBRD and the IFC) in 2008, providing for the co-financing of infrastructure projects in the Russian Federation;
- a U.S.\$1 billion framework agreement entered into with the China Development Bank Corporation in 2009, aimed at financing investment projects and activities by Chinese companies conducting business in the Russian Federation, including those related to timber

processing, energy and construction;

- a U.S.\$700 million framework credit agreement entered into with the Export-Import Bank of China in 2009, aimed at developing long-term co-operation to import equipment and services provided by Chinese companies in the construction and energy sectors to the Russian Federation; and
- a U.S.\$100 million framework credit agreement with Export-Import Bank of India in 2009, aimed at supporting the export of equipment and services by Indian companies to the Russian Federation.

#### *Agreements with Foreign States*

In order to promote the import and export of goods between the Russian Federation and its neighbouring trading partners, VEB has signed agreements with Belarus and Kazakhstan.

#### Belarus Memorandum of Co-operation

In December 2008, VEB signed a Memorandum of Co-operation (the “**Belarus Memorandum of Co-Operation**”) with the Government of Belarus, pursuant to which VEB agreed to assist the Government of Belarus in delivering projects that provide for, among other things, exports of Russian industrial equipment and other goods and services to Belarus, and to act as financial consultant to the National Bank of Belarus in attracting middle- and long-term financing from international capital markets to finance investment projects in Belarus and the Russian Federation. In 2009, VEB introduced a set of measures designed to implement the provisions of the Belarus Memorandum of Co-Operation. In December 2009, VEB entered into a RUB 6,000 million syndicated loan agreement with the Belarus Ministry of Finance, Gazprombank, Sberbank Russia OJSC (“**Sberbank**”) and Alfa Bank, pursuant to which VEB provided RUB 2,000 million to Belarus in December 2009 for a term of one year. In addition, in December 2009, VEB, Sberbank and Gazprombank have agreed to act as co-arrangers for the issuance by Belarus of Rouble-denominated government bonds. VEB has also agreed to review applications for financing in connection with a number of projects to support the export of Russian industrial goods to Belarus.

#### Kazakhstan Memorandum of Understanding

In 2009, VEB signed a memorandum of understanding with Samruk-Kazyna (the “**Kazakhstan Memorandum of Understanding**”). The Kazakhstan Memorandum of Understanding expresses the intention of the parties to participate in the financing of foreign trade between the Russian Federation and Kazakhstan.

#### *Agreements with Regional Governments of the Russian Federation*

In 2008 and 2009, VEB has signed several co-operation agreements with governmental authorities and administrations in the Russian Federation’s constituent regions, including the Komi Republic, the Altay, the Krasnoyarsk and Khabarovsk territories, the Volgograd, Lipetsk, Novgorod, Rostov, Omsk and Tambov regions and the City of St. Petersburg. These co-operation agreements generally provide for the co-operation between the Russian Federation through VEB and its constituent regions to support the growth of trade in Russian goods and services and the implementation of investment projects to support the development of regional industrial infrastructure in sectors of strategic importance to the Russian Federation, which include the medical and pharmaceuticals sector, educational sector, agro-industrial sector and the construction industry. For example, VEB has co-financed the development and production of Russian-made aircraft being built in the Tashkent region. VEB provides assistance to regional governments by: (i) reviewing the terms of proposals by international financial institutions to provide finance to the Russian regions; and (ii) co-financing certain projects in the Russian regions.

#### *Agreements in favour of Commercial Entities*

In accordance with the 2007 Memorandum and the Development Bank Law, VEB also enters into memoranda of understanding and co-operation agreements with commercial entities to provide financing for the construction of new manufacturing facilities or the reconstruction and modernisation of existing operating facilities, as well as for the promotion of technological and industrial innovation in strategically important sectors of the Russian economy. As at the date of this Base Prospectus, the most significant of these projects was a co-operation

agreement signed with OJSC Russian Railways in May 2009 for a period of 10 years, to co-finance projects designed to develop the infrastructure, including railways and roads, along the major transportation routes in the Russian Federation at a total anticipated cost of RUB 27,050 million, of which VEB has committed to provide and has funded RUB 6,300 million.

VEB has also entered into credit facilities to support foreign trade, including the following:

- in 2008, VEB signed a memorandum of agreement to establish credit lines to finance the purchase by a Cuban company of Russian made aircraft, pursuant to which, in January 2009, VEB signed two credit facility agreements for an aggregate amount of U.S.\$44.5 million to finance the purchase of Russian aircraft and related equipment supply contracts, and as at the date of this Base Prospectus has funded U.S.\$39.18 million; and
- in 2008, VEB signed a memorandum of understanding which, among other things, provides for VEB to provide a long-term framework credit facility for up to U.S.\$500 million to finance the construction of hydro-electric power stations in the Republic of Angola, in which a number of Russian project management and construction companies are to be involved.

## **KEY STATE-OWNED VEHICLE FOR THE STABILISATION OF THE RUSSIAN ECONOMY AND FINANCIAL SYSTEM**

### **Recovery Finance**

VEB has played a key role in assisting in the recovery of certain Russian banks and financial institutions and corporate entities, whose financial sustainability were affected in the global financial crisis, including in particular banks and financial institutions and companies deemed by the Russian Government to be strategically important to the Russian banking system and economy. Under the Financial System Support Law, as part of the Russian Government's financial recovery plan, VEB has, to date, extended and continues to hold unsecured subordinated loans to banks requiring capital adequacy support, provides refinancing in respect of foreign loans extended to Russian banks, financial institutions and corporate entities prior to 25 September 2008 and provides support for the Russian mortgage lending market. VEB has also acquired controlling interests in the share capital of Sviaz-Bank and GLOBEXBANK. VEB intends to restore the financial viability of these banks over the medium term and, thereafter, sell its ownership interests of these banks when market conditions are considered to be favourable. These activities are fully funded by deposits received from the Russian Government (principally comprised of funds of the NWF) and from the CBR. In February 2010, VEB determined to increase its share ownership in GLOBEXBANK pursuant to a capital increase using its own funds. See "*Principal Subsidiaries and Associates—CJSC GLOBEXBANK*".

### **Subordinated Loans**

Under the Financial System Support Law, VEB received deposits from the Ministry of Finance of the Russian Government (comprised of funds of the NWF) in the aggregate amount of RUB 404,022 million at interest rates from 7.0% to 8.5% per annum. VEB was required to utilise these deposits to extend subordinated loans: (i) to VTB; (ii) to Russian Agricultural Bank; and (iii) to other Russian banks, subject to certain financial and rating criteria established in accordance with the Financial System Support Law. VEB provided subordinated loans to 17 banks in accordance with the Financial System Support Law outstanding in an aggregate principal amount of RUB 404,022 million, including the loan to VTB Bank (in the amount of RUB 200,000 million at an interest rate of 8.0% per annum and maturing on 23 December 2019), the loan to Russian Agricultural Bank (in the amount of RUB 25,000 million at an interest rate of 8.0% per annum maturing on 23 December 2019) and loans to 15 additional qualifying banks in an aggregate outstanding amount of RUB 179,022 million (at interest rates of 8.0% and 9.5% per annum with maturities for up to 31 December 2019 and December 2020). See "*Lending Policy and Procedures—Credit Approval and Monitoring*".

### **Refinancing of Foreign Loans**

Pursuant to the Financial System Support Law, VEB is also authorised to provide refinancing for Russian entities to enable them to perform their obligations under loans from foreign creditors or to acquire claims of foreign creditors under loans extended by them to Russian entities prior to 25 September 2008. For this purpose, the CBR committed to provide funds to VEB, by way of deposits, in an aggregate amount up to U.S.\$50,000 million, which VEB had the right to utilise, until 31 December 2009, solely to refinance foreign loans of Russian corporate borrowers against the same security as was used to secure the borrowers' obligations to the

original foreign lenders. Pursuant to this commitment, in 2008 and 2009, VEB received deposits from the CBR of U.S.\$9,781 million and U.S.\$1,855 million, respectively for an aggregate amount of U.S.\$11,636 million. Each of these deposits was provided for an initial one-year term at an interest rate of LIBOR plus 1% per annum. At the end of 2009, U.S.\$6,351 million of deposits received by VEB were rolled over by the CBR for an additional one-year term.

VEB's Supervisory Board has unrestricted authority to set the terms upon which VEB provides recovery finance refinancing of foreign loans to banks and commercial entities or the acquisition of such loans from foreign creditors, subject only to a minimum interest rate established by the Financial System Support Law.

As at the date of this Base Prospectus, VEB has considered 74 applications for recovery finance in an aggregate amount of U.S.\$44,986 million, of which VEB has approved 15 requests and committed to provide financing in an aggregate amount of U.S.\$14.3 billion to ten different borrowers deemed to be strategically-important to the Russian economic recovery. Of that amount, VEB has funded loans to all of these borrowers in an aggregate amount of U.S.\$11,636 million, using the deposits placed with VEB by the CBR as described above. See "*Risk Factors—VEB's principal function is to promote the stability and development of the Russian economy. Although VEB has received funding from the Russian Government (principally comprised of funds of the NWF) and the CBR to support these activities, VEB is ultimately at risk for the repayment of the recovery finance it has provided to Russian borrowers*".

### ***Equity Investments***

In addition, as part of its recovery finance activities in support of the financial sector, VEB has acquired an 89.9% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009 and a 98.9% interest in GLOBEXBANK in 2009. These new banking subsidiaries held predominantly distressed assets when acquired, requiring significant provisions and liquidity. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—For the Years Ended 2009, 2008 and 2007—Provision for Impairment*". In connection with its acquisition of GLOBEXBANK, VEB also provided a group of loans to one of its associates, a portion of which was applied to finance such associate's purchase of real estate and other assets from certain borrowers of GLOBEXBANK to permit such borrowers to repay obligations owed by them to GLOBEXBANK in connection with the rehabilitation of GLOBEXBANK to restore its financial viability following the global financial crisis. VEB intends to restore the financial viability of these banks over the medium term and, thereafter, sell its ownership interests in these banks when market conditions are considered to be favourable. See "*—Principal Subsidiaries and Associates—Interregional Bank for Settlements of the Telecommunications and Postal Services (Sviaz-Bank)*", "*—Principal Subsidiaries and Associates—PSC Prominvestbank (Ukraine)*" and "*—Principal Subsidiaries and Associates—CJSC GLOBEXBANK*".

### ***Support for the Mortgage Lending Market***

In July 2009 and May 2010, the Financial System Support Law was amended to make support for the Russian mortgage financing market an additional strategic priority for VEB and, accordingly, VEB has the right to receive from the NWF an additional deposit of RUB 40,000 million at a rate of 6.25% per annum, which VEB is authorised to utilise to make loans to the AHML until 1 December 2011 at an interest rate of 6.5% per annum with a maturity date of up to 1 June 2020. As at the date of this Base Prospectus, the AHML has not requested funding and so VEB has not drawn-down any funds.

In addition, VEB's Supervisory Board has approved an investment programme to finance the construction of affordable housing and help lower the average mortgage rates offered in the Russian mortgage market (the "**Mortgage Investment Programme**"). Under the Mortgage Investment Programme, from 2010 through 2012, VEB intends to purchase or arrange for the purchase of up to RUB 210,000 million of mortgage bonds to support the mortgage lending market. In particular, VEB intends to use its own capital to purchase up to RUB 50,000 million of mortgage bonds issued by the AHML and other financial institutions bearing interest at a rate of 3% per annum. STMC also intends to invest pension funds under its management to purchase up to RUB 100,000 million of similar mortgage bonds bearing interest at a rate of no more than 9% per annum and up to a further RUB 60,000 million of mortgage bonds issued by AHML and guaranteed by the Russian Federation, bearing interest at prevailing market conditions. As at the date of this Base Prospectus neither VEB nor STMC have purchased any mortgage bonds under the Mortgage Investment Programme.

### ***Support for the Russian Stock Market and Securities Market Operations***

In October 2008, pursuant to an agreement with the Russian Federal Treasury, the NWF placed deposits of RUB 175,000 million with VEB, at an interest rate of 7.0% per annum for a term of four years ending in October 2013 to finance VEB's purchase of equity and debt securities of listed Russian companies to support the Russian securities markets in the wake of the global financial crisis. VEB utilised 100% or RUB 175,000 million of this deposit to acquire corporate shares and bonds of Russian blue-chip issuers on the Russian securities market, in accordance with principles established by the Supervisory Board of VEB. In December 2009, VEB repaid the entire principal amount of the NWF deposit, together with accrued interest in the amount of RUB 13,274.6 million. The securities acquired, to the extent not sold for VEB's own account, are now held in VEB's investment securities portfolio. Subject to market conditions and its responsibility not to disrupt the normal operations of the securities market, VEB intends to sell down certain of its securities positions over a period of time to focus on its banking activities rather than securities trading and investment operations. In any event, however, VEB is likely to continue to experience fluctuations in the value of its securities portfolio in the future. As in the past, such fluctuations may have a direct impact on VEB's assets and liabilities and its results of operations. See "*—Securities Markets and Treasury Operations*" and "*Certain Statistical Data and Other Information—Investment Securities Portfolio*".

### **VEB AS AGENT FOR THE RUSSIAN GOVERNMENT**

Since 1992, VEB acts as agent for the Russian Government with respect to the record-keeping, settlement and redemption of sovereign external debt obligations of the Russian Federation and internal domestic-currency debt obligations of the former Soviet Union. In addition, as agent, VEB provides record-keeping and management services with respect to foreign financial assets owned by the Russian Federation and VEB manages the settlement of amounts owed to the Russian Government by regional and local Russian authorities and commercial entities.

VEB's authority to act as agent for the Russian Government for such purposes is based in various laws and normative acts of the Russian Government and certain implementing agreements concluded between VEB and Russian Government. Pursuant to these laws and agreements, VEB conducts its agency operations strictly in accordance with the instructions of, and at the expense of, the Russian Government. Except in respect of London Club debt obligations, which, as at the date of the Base Prospectus, have been fully repaid, VEB does not use any of its own funds for such purposes and does not bear any direct legal or financial obligations or risks in connection with these activities. Accordingly, none of the sovereign external debt obligations of the Russian Federation or foreign financial assets owned by the Russian Federation serviced by VEB are reflected in VEB's consolidated statement of financial position.

In 2009, VEB received fees from the Ministry of Finance as compensation for its agency services in respect of sovereign external debt, internal domestic-currency debt and foreign financial assets in the aggregate amount of RUB 630 million. In addition, in 2009, VEB received fees of RUB 535 million from the Ministry of Finance as compensation for its agency services in respect of debt obligations of Russian authorities and commercial entities to the Russian Federation.

### ***Settlement of Sovereign External Debt Obligations***

VEB is responsible for record-keeping, reconciliation, service and settlement with respect to virtually all (U.S.\$32,660 million, or 90% of the total amount of all such obligations, as at 31 December 2009) of sovereign external debt obligations of the Russian Federation, including sovereign bonds, intergovernmental debt obligations, export credits and foreign banks loans of the Russian Federation. In addition, VEB has historically acted as agent with respect to record-keeping, reconciliation, service and settlement of commercial indebtedness of the former Soviet Union, although, as at 31 December 2009, nearly all commercial indebtedness of the former Soviet Union had been settled on behalf of the Russian Government.

VEB also provides settlement support to the Russian Government for the redemption of debt obligations owed by the Russian Federation to 19 creditor countries, the largest of which (by volume of claims) are South Korea, Kuwait and China. Pursuant to the relevant intergovernmental agreements, repayment of these debt obligations is made in cash or by delivery of goods and services from the Russian Federation to foreign creditor countries at the expense of the Federal budget of the Russian Federation.



Although VEB is itself a party to financial agreements under the framework of London Club restructuring conducted in 2000 in respect of the balance of principal restructured loans (“PRINs”) and interest arrears notes (“IANs”), which were not exchanged for Eurobonds of the Russian Federation, these obligations were fully settled as at 31 December 2009.

### ***Internal Currency Debt of the Former Soviet Union***

VEB also provides record-keeping and settlement services with respect to internal domestic-currency debt obligations of the former Soviet Union, which have been assumed by the Russian Government. Such debt comprises obligations to repay foreign-currency funds, which had been credited to accounts of Soviet natural persons and legal entities with VEB before 1 January 1992 and which were used in 1991, without the consent of the owners of such accounts, by the Government of the former Soviet Union to purchase imported goods, including food, medicines and other basic necessities. To facilitate settlement of these obligations, the Russian Federation has concluded agreements with several former Soviet republics, including Armenia, Belarus, Georgia, Kyrgyzstan, Moldova and Tajikistan, providing for the independent settlement by the respective governments of these countries of related claims of their residents. Other former Soviet republics, including principally certain CIS and Baltic countries, have not agreed on the extent of their obligations, if any, with respect to these obligations of the former Soviet Union and instead continue to insist that all related claims should be settled at the expense of the Russian Federation. Whilst certain claimants have brought suits against the Russian Government and VEB seeking settlement of their claims, no court decisions have been taken against the Russian Government or VEB in these matters.

### ***Foreign Financial Assets***

VEB maintains records with respect to foreign financial assets owned by the Russian Government representing obligations owed by foreign borrowers, including foreign states, banks and commercial companies, in respect of amounts. Most of these obligations comprise export credits granted by the Russian Federation or the former Soviet Union in connection with deliveries of Russian or Soviet (as the case may be) industrial goods and services to various countries within Asia, Africa and Latin America, including indebtedness of 53 of Russia’s debtor-countries under the state loans extended in accordance with intergovernmental agreements.

In this capacity, VEB effects settlement of payments and carries out record-keeping functions, including maintaining a registry of the financial assets of the Russian Federation, reconciling payments of foreign debtors and undertaking a regular inventory of financial obligations owed to the Russian Federation by foreign states, banks and commercial entities.

VEB assists the Ministry of Finance in the drafting of intergovernmental credit and rescheduling agreements, which are concluded on a bilateral basis, as well as through the framework of the Paris Club, with debtor countries and reports to the Ministry of Finance on the status and movement of the foreign financial assets owned by the Russian Government. In order to implement these intergovernmental agreements, VEB enters into inter-bank arrangements with authorised banks and financial institutions of debtor countries defining the technical procedures for the accounting of and settlements under the loans. In particular, VEB collects amounts due from debtor countries to the Russian Federation, organising regular auctions for trading of the amounts received in clearing and soft currencies on terms approved by the Ministry of Finance of Russian Federation.

### ***Settlement of Debt Obligations of Russian Authorities and Commercial Entities***

In its capacity as agent for the Russian Government, VEB effects the settlement of amounts owed to the Russian Government by constituent regions and municipalities of the Russian Federation under Russian Federal budget loans, as well as under financings provided to Russian legal entities, including through the pursuit of court rulings and other legal action in the case of overdue amounts. Over the five years ended 31 December 2009, VEB effected settlements in respect of such debt obligations of more than U.S.\$4 billion.

### ***Pension Funds Management (STMC)***

Since 2003, STMC has managed the pension savings funds of insured Russian citizens who have not transferred their savings to private pension funds or private asset management companies, as well as those who selected VEB as their pension fund manager. As at 31 December 2009 and 2008, VEB had pension funds under management of RUB 480,840 million and RUB 343,106 million, respectively. STMC is a separate division of VEB, the activities of which are segregated from VEB’s banking and other operations, and STMC is legally

obligated to segregate its pension funds investments and assets from VEB's other investments and assets. The assets of STMC are not included in VEB's consolidated statement of financial position.

Since November 2009, STMC is permitted to invest pension fund assets in a broad range of investments, including securities of the Russian Federation that are traded on a regulated securities market; securities issued by the governments of the regions of the Russian Federation that are traded on a regulated securities market; securities issued by the domestic corporations that are traded on a regulated securities market; Rouble-denominated securities issued by certain international financial organisations, including the Asian Development Bank, the EBRD and the IFC; and cash funds, (such as bank deposits and money market funds in Roubles or foreign currencies (U.S. Dollars, Euros, sterling and Japanese Yen) held in accounts of Russian financial institutions. STMC is not allowed to purchase any bonds or other securities issued by VEB. During 2004-2008, STMC was allowed to invest only in Federal Government bonds denominated in Roubles and foreign currencies, although since 2006, STMC has also invested a portion of its funds in State savings bonds denominated in Roubles. Since November 2009, in accordance with a change in Russian law, STMC is also authorised to invest pension fund assets in Russian mortgage bonds. See "*Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System—Support for the Mortgage Lending Market*". STMC seeks to achieve yields on invested funds of not less than the current level of the Russian inflation rate (CPI). STMC is only entitled to charge management fees in respect of the portfolio it manages if it returns a positive performance in the period to which the fees relate.

STMC's trust management activities in respect of pension funds generated commission income of RUB 211.0 million and RUB 198.0 million for the years ended 31 December 2009 and 2007, respectively. STMC did not earn any commission income from its pension fund trust management services for the year ended 31 December 2008, due to the decline in the value of the securities managed by STMC in this period.

#### **DEPOSITARY OPERATIONS**

Since 1999, VEB has acted as a universal depository for Russian and foreign securities eligible for depository servicing in the Russian Federation, delivering a full range of custody services for investors and professional participants in the domestic and international securities markets. In addition, VEB, acts as the agent of the Ministry of Finance of the Russian Federation in servicing bonds issued by the Ministry of Finance of the Russian Federation. As at 31 December 2009, VEB held securities in custody with an aggregate face amount of U.S.\$28.9 billion in 1,236 depository accounts.

VEB offers a broad range of custody services and is authorised to carry out transactions in the securities markets, including safe keeping and accounting operations in respect of securities traded on domestic and international markets, as well as securities pledged to VEB as collateral, share registration services and custody activities under the Development Bank Law and pursuant to a special licence of the Federal Financial Markets Service of the Russian Federation. VEB also acts as an arranger in connection with issuances of securities by VEB itself and other issuers.

Finally, VEB provides custody-related information and custody-related consulting services, including legal advice and tax advice to clients with respect to income earned on foreign securities.

VEB's depository operations had revenue of U.S.\$2.6 million, U.S.\$2.2 million and U.S.\$2.3 million for the years ended 31 December 2009, 2008, 2007, respectively.

#### **PRINCIPAL SUBSIDIARIES AND ASSOCIATES**

VEB's principal subsidiaries and associates include: RBD, ROSEXIMBANK, Sviaz-Bank, GLOBEXBANK, Belynesheconombank (Belarus), Prominvestbank (Ukraine), VEB Capital, VEB-Leasing and VEB Engineering LLC.

#### **Domestic Banking Subsidiaries**

##### ***OJSC "Russian Bank for Development" (RBD)***

VEB owns 100.0% of the share capital of RBD. In August 2008, the Russian Government transferred 100% of the shares held by it in RBD to VEB as a contribution to VEB's charter capital. RBD was incorporated as an open joint-stock company in the Russian Federation on 22 February 1999 to provide SMEs and other

commercial entities with financing in respect of securities transactions, loans (in both Roubles and foreign currencies), guarantees and other financial support and derivative financial instruments. As at the date of this Base Prospectus, RBD holds licences to carry out banking activities issued by the CBR, as well as a professional participant licence entitling it to carry out dealer operations on the securities market. RBD is the principal subsidiary through which VEB carries out its SME development finance activities.

RBD had total assets of RUB 62,549 million as at 31 December 2009 and net interest income of RUB 1,847 million and net profit of RUB 460 million for the year then ended. As at 31 December 2009, RBD had 267 employees.

RBD's registered office is at 3, Build. 1, 1st Zachatievsky pereulok, Moscow, 119034, Russian Federation.

#### ***CJSC ROSEXIMBANK***

VEB owns 100.0% of the share capital of ROSEXIMBANK. ROSEXIMBANK was incorporated as a closed joint-stock company in the Russian Federation in 1994 to support and promote Russian machinery exports and import-substituting production and to attract foreign direct investment into the Russian economy. As at the date of this Base Prospectus, ROSEXIMBANK holds a licence for banking operations issued by the CBR and licences enabling it to participate in the Russian securities market.

ROSEXIMBANK had total assets of RUB 6,626 million as at 31 December 2009 and net interest income of RUB 420 million and net profit of RUB 124 million for the year then ended. As at 31 December 2009, ROSEXIMBANK had 142 employees.

ROSEXIMBANK's registered office is at 13/1, 3rd Neopalimovskii pereulok, Moscow, 119121, Russian Federation.

#### ***Interregional Bank for Settlements of the Telecommunications and Postal Services (Sviaz-Bank)***

VEB owns 99.5% of the share capital of Sviaz-Bank (which was increased from 89.9% in October 2008). Sviaz-Bank was incorporated as a limited liability company and registered with the State Bank of the Soviet Union on 20 May 1991, with a view to the effective use of financial resources for accelerated and balanced development of communication and information systems and to accept deposits, extend credit, transfer payments domestically and abroad, effect currency exchange operations and provide other banking services to its commercial and retail customers. As at the date of this Base Prospectus, Sviaz-Bank holds licences to carry out a broad range of retail and commercial banking activities, including a professional participant licence entitling it to participate in the Russian securities market.

VEB acquired Sviaz-Bank to provide support for the Russian economy and financial system, after Sviaz-Bank failed to meet certain of its obligations to make payments under bonds and repurchase agreements. VEB intends to restore the financial viability of Sviaz-Bank over the medium term and, thereafter, sell its ownership interest when market conditions are considered to be favourable.

At the time of its acquisition by VEB, Sviaz-Bank was the 18<sup>th</sup> largest bank in the Russian Federation by net assets. Sviaz-Bank had total assets of RUB 115,557 million as at 31 December 2009 and net interest income of RUB 3,780 million and net loss of RUB 71,302 million for the year then ended. As at 31 December 2009, Sviaz-Bank had 3,390 employees.

Sviaz-Bank's principal office is at 7 Tverskaya Street, Moscow, 125375, Russian Federation.

#### ***CJSC "GLOBEXBANK"***

VEB owns 98.9% of the share capital of GLOBEXBANK. GLOBEXBANK was incorporated as a closed joint-stock company in the Russian Federation in 1992. GLOBEXBANK holds licences to carry out a broad range of banking activities, including precious metals operations, as well as a professional participant licence to participate in the Russian securities market.

VEB acquired its stake in GLOBEXBANK in a series of transactions in April and May 2009 to provide support for the Russian economy and financial system. As a medium-sized Russian bank with significant exposure to the Russian real estate sector, GLOBEXBANK experienced financial difficulties as a result of the global financial

crisis and the related downturn in the Russian real estate market. VEB intends to restore the financial viability of GLOBEXBANK over the medium term and, thereafter, sell its ownership interest when market conditions are considered to be favourable. On 3 February 2010, the Management Board approved the acquisition of additional common shares of GLOBEXBANK in the aggregate amount up to RUB 50,000 million by way of an increase in the share capital of GLOBEXBANK and, on 22 April 2010, the additional issuance of common shares and related capital increase were registered with the CBR. On 15 June 2010, an extraordinary general meeting of shareholders of GLOBEXBANK approved the issuance and sale of 49,999.405 additional common shares to VEB at a price of RUB 100 per share. VEB intends to acquire the new shares in the beginning of July and will use its own funds for payment of the purchase price. As a result of this capital increase, the charter capital of GLOBEXBANK will increase by 24.79% up to RUB 12,584,431.

GLOBEXBANK had total assets of RUB 70,398 million as at 31 December 2009 and net interest income of RUB 1,981 million and net profit of RUB 427 million for the year then ended. As at 31 December 2009, GLOBEXBANK had 1,224 employees.

GLOBEXBANK's principal office is at 60, Build. 1, Bolshaya Nikitskaya street, Moscow, 121069, Russian Federation.

### **Other Domestic Subsidiaries**

#### ***LLC VEB Capital***

VEB owns 100.0% of the share capital of VEB Capital. VEB Capital was incorporated as a limited liability company in the Russian Federation in December 2009, among other things, to hold and manage certain of VEB's investment assets, conduct operations on the Russian financial markets and provide financial advisory services, including, in particular, arranging and placing mortgage-backed bonds.

VEB Capital had total assets of RUB 400 million as at 31 December 2009. VEB Capital was established at the end of 2009 and accordingly had no business activity in 2009.

VEB Capital's principal office is at 9, Akademika Sakharova Prospekt, Moscow, 107996, Russian Federation.

#### ***OJSC "VEB-Leasing"***

VEB owns 98.1% (including 20% through a subsidiary bank) of the share capital of VEB-Leasing. VEB-Leasing was incorporated as an open joint-stock company in the Russian Federation in 2003. VEB-Leasing is primarily engaged in finance leasing of high-technology equipment, helicopters and related equipment, produced by leading manufacturers, to lessees in the Russian Federation. Its principal customers include Russian commercial manufacturing companies and military enterprises.

VEB-Leasing had total assets of RUB 19,394 million as at 31 December 2009 and net profit of RUB 967 million for the year then ended. As at 31 December 2009, VEB-Leasing had 89 employees.

VEB-Leasing's registered office is at 29/141 Vereiskaya Street, Moscow, 121357, Russian Federation.

#### ***LLC "VEB Engineering"***

VEB owns 51.0% of the share capital of VEB Engineering, the balance of which is owned by SNC-Lavalin International Inc. (Canada), a leading Canadian engineering and construction group. VEB Engineering was incorporated as a limited liability company in the Russian Federation in January 2010. VEB Engineering is primarily engaged in the provision of engineering support for investment projects currently being implemented or financed by VEB. It is intended that VEB Engineering will also provide expert evaluation and advisory services in respect of infrastructure project documentation, in addition to providing technological and financial audits of infrastructure projects. VEB Engineering aims to ensure the efficient use of VEB's funds provided to finance the construction of a number of high-value infrastructure projects including those of the 2014 Winter Olympics.

VEB Engineering had unaudited total assets of RUB 196.0 million as at 31 March 2010. As at the date of this Base Prospectus, VEB Engineering had eight employees.

## **Foreign Subsidiaries**

### ***OJSC “Belvnesheconombank”***

VEB owns 97.4% of the share capital of Belvnesheconombank. Belvnesheconombank was incorporated as an open joint-stock company in Belarus in 1991 as a result of the separation of the Belarus branch of the Vnesheconombank of the USSR. Its primary functions include the granting of loans to support industries engaged in trade between Belarus and the Russian Federation, issuing and processing export and import letters of credit, transferring payments, exchanging currencies, attracting deposits and dealing in debt securities. As at the date of this Base Prospectus, Belvnesheconombank holds a licence to carry out banking activities issued by the National Bank of Belarus, a licence to carry out operations with precious metals and stones and a licence to perform professional and stock-exchange operations with securities issued by the Ministry of Finance of Belarus.

VEB acquired a 53.56% interest in Belvnesheconombank in 2007, which was subsequently increased to 97.4% in 2008 and 2009. VEB acquired its stake in Belvnesheconombank in 2007 due to its strategic importance in the provision of finance to Belarusian businesses exporting goods to the Russian Federation. Belvnesheconombank had total assets of RUB 21,646 million as at 31 December 2009 and net interest income of RUB 1,210 million and net profit of RUB 434 million for the year then ended. As at 31 December 2009, Belvnesheconombank had 2,311 employees. VEB intends to hold as long-term strategic investment.

Belvnesheconombank’s principal office is at 32, Myasnikova street, Minsk, 220050, Belarus.

### ***PSC Prominvestbank (Ukraine)***

VEB owns a 75.0% interest plus three shares in Prominvestbank. Prominvestbank was incorporated as a public joint stock company and commercial industrial and investment bank in Ukraine in 1992 to provide a broad range of banking services, including in particular trade and export finance activities for State-owned or controlled enterprises and customers engaged in metallurgy and machine-building development, ship-building, aircraft manufacturing, transportation, construction and agriculture.

VEB acquired its interest in the share capital of Prominvestbank in January 2009. In addition to purchasing its stake in the share capital, in 2009 VEB has extended a U.S.\$1,000 million loan to Prominvestbank, which matures in February 2012, and as at the date of this Base Prospectus U.S.\$650 million remains outstanding. VEB intends to hold its stake in Prominvestbank as a long term strategic investment. At the time of its acquisition, Prominvestbank was the sixth largest Ukrainian bank by assets.

Prominvestbank had total assets of RUB 106,404 million as at 31 December 2009 and net interest income of RUB 4,295 million and a net loss of RUB 12,633 million for the year then ended. As at 31 December 2009, Prominvestbank had 10,058 employees.

Prominvestbank’s principal office is at 12, Shevchenko Pereulok, Kiev-1, 01001 Ukraine, 1.

The following table lists VEB's principal subsidiaries and associates as at the date of this Base Prospectus:

<u>Full Legal Name</u>	<u>VEB's Ownership</u>	<u>Industry</u>	<u>Location</u>	<u>Date of Acquisition</u>
CJSC State Specialised Russian Export-Import Bank (Eximbank of Russia) .....	100.0%	Banking Activity	Russia	2003
OJSC Russian Bank for Development (RBD) .....	100.0%	Banking Activity	Russia	2008
CJSC Kraslesinvest .....	100.0%	Procurement and Processing of Fresh Raw Materials	Russia	2007
LLC Investment Company of VEB (VEB-Capital) .....	100.0%	Other Financial Intermediation	Russia	2009
Assistenza Finanziaria e Commerciale (S.r.l.) (A.F.C. S.r.l.) ...	100.0%	Consultancy Services	Italy	1993
Amurmetal Holding Limited .....	100.0%	Metallurgy	Cyprus	2010
OJSC Interregional Bank for Settlements of the Telecommunications and Postal Services (Sviaz-Bank) .....	99.5%	Banking Activity	Russia	2008
GLOBEX Commercial Bank .....	98.9%	Banking Services	Russia	2009
Belvnesheconombank .....	97.4%	Banking Activity	Belarus	2007-2009
Public Stock Company Joint - Stock Commercial Industrial & Investment Bank .....	75.0% interest plus three shares	Banking Activity	Ukraine	2009
Open Joint Stock Company VEB-LEASING .....	98.1%	Leasing	Russia	2008-2010
VEB Engineering LLC .....	51.0%	Implementation of investment projects	Russia	2010
LLC Inter-bank Trade House .....	50.0%	Trading and investment	Russia	2006
LLC Interfax-Center for Economic Analysis (Interfax-CEA) .....	49.0%	Information Services	Russia	2005
CJSC Konsaltbankir .....	34.0%	Publishing Activities	Russia	1996
LLC Bioprocess Capital Partners .....	25.1%	Finance intermediary	Russia	2008
CJSC CentreEnergostroyMontazh .....	25.0%	Building Construction	Russia	2007
Joint Stock Company Krasnoyarsk Region Development Corporation .....	25.0%	Financial Intermediation	Russia	2006
LLC PROMINVEST .....	25.0%	Foreign trade	Russia	2001
Open Joint-Stock Company Ilyushin Finance Co. (Ilyushin Finance Co.) .....	21.4%	Leasing	Russia	2006

## SECURITIES MARKETS AND TREASURY OPERATIONS

VEB's securities markets and treasury operations are regulated by the Development Bank Law, the 2007 Memorandum and VEB's internal regulations.

VEB's securities markets and treasury operations have been developed in connection with VEB's role as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system through the provision of support to the Russian stock market in accordance with rules and regulations established by the Supervisory Board using funds placed with VEB pursuant to a decree of the Russian Government. See "*Support for the Russian Stock Market and Securities Market Operations*". The securities markets and treasury operations also effect a number of transactions on behalf of VEB, including: (i) borrowing and placing loans in the financial market; (ii) buying and selling foreign currency; (iii) implementing derivative transactions; and (iv) conducting securities operations. See "*Certain Statistical Data and Other Information*". Subject to market conditions and its responsibility not to disrupt the normal operations of the securities market, VEB intends to sell down certain of its securities positions over a period of time to focus on its banking activities rather than securities trading and investment operations. In any event, however, VEB is likely to continue to experience fluctuations in the value of its securities portfolio in the future. As in the past, such fluctuations may have a direct impact on VEB's assets and liabilities and its results of operations.

VEB's securities markets and treasury operations also include the management of VEB's liquidity position and risks. For this purpose, VEB engages in dealer and depository operations, securities portfolio management, asset management and cash management. The principal treasury operations employed by VEB for liquidity management include providing and attracting inter-bank loans, entering in to repurchase and reverse repurchase transactions and undertaking conversion operations in the inter-bank lending and stock markets.

## REAL PROPERTY

VEB owns its head office and three representative office buildings within the Russian Federation. VEB's head office building is located at 9 Akademika Sakharova Prospekt, Moscow, 107996, Russian Federation, with floor space of approximately 33,411 square metres. VEB has been at these premises since 1994.

## INFORMATION TECHNOLOGY

VEB currently operates a core information technology (“IT”) system, which was developed in-house to support settlement and treasury functions and financial reporting and accounting functions. VEB has no material third party software licences or IT-related consultancy agreements. VEB has operated its IT systems since 1993 with no major disruptions.

VEB uses a variety of IT security protocols, including data encryption software, to protect the sensitivity of data relating to its operations. VEB has developed detailed internal guidelines dealing with data security and protection of information. The Information Security Division within VEB is responsible for amending and implementing VEB’s internal regulations concerning information security, investigating events related to the infringement of information security and developing, implementing and improving information protection facilities and measures. VEB’s automated banking system IT networks are segregated and physically separated from external data transmission networks.

VEB intends to increase its IT systems capacity and functionality in line with the growth in its business activities, including through the establishment of modern banking data centre infrastructure. VEB has also established back-up IT systems in relation to its corporate intra-net.

VEB maintains a system of internal controls designed to protect its computer network and IT infrastructure and to identify and manage operational and technological risk as well as to minimise processing delays, disruptions in service and security breaches. VEB has 126 servers and 19 back-up servers (excluding servers used for testing firewalls). All of VEB’s IT systems are backed up on a regular basis. VEB has a number of business continuity plans in place, including those to mitigate the effects on VEB’s business of man-made disasters, natural disasters and terrorist attacks. In addition, VEB continues to implement IT upgrades and measures in accordance with applicable Russian legislation aimed at the prevention of money laundering and terrorist financing.

VEB’s capital expenditure in respect of IT for 2009, 2008 and 2007 was RUB 96,624 million, RUB 4,654 million and RUB 4,551 million, respectively. In 2010, VEB has budgeted IT capital expenditure of RUB 110,375 million. In 2010 and beyond, VEB intends to continue to develop IT systems to support a number of VEB’s core internal functions including (i) its risk management systems, (ii) the planning, analysis and the monitoring of investment projects and (iii) a new SWIFT money transfer system.

## INSURANCE

Liability insurance for banking and financial institutions is generally not available in the Russian Federation, Belarus and Ukraine and, accordingly, VEB does not currently hold insurance covering financial losses arising from errors or omissions.

The Group’s premises are insured for RUB 12,034 million.

## LITIGATION

VEB is, from time to time, the subject of legal proceedings in the ordinary course of its business.

Other than as set out below, VEB has not been involved in any governmental, legal or arbitration proceedings during the 12 months preceding the date of this Base Prospectus, which may have or have had a significant effect on the financial position or profitability of VEB nor, so far as VEB is aware, are any such proceedings pending or threatened.

In September 2009, VEB acquired additional newly-issued shares in Prominvestbank for an aggregate purchase price of U.S.\$500 million in connection with a capital increase. As a result of this acquisition, VEB increased its ownership interest in Prominvestbank from 75% of the total share capital plus three shares up to 93.8% of the total share capital. As required by applicable Ukrainian law, the capital increase and the related issuance of the new shares purchased by VEB were approved by General Meetings of the Shareholders of Prominvestbank held in September and October 2009 and registered with the relevant Ukrainian regulatory authorities.

In October 2009, an individual minority shareholder of Prominvestbank challenged the decisions of the General Meetings of Shareholders in the Commercial Court of Kiev (the “**Commercial Court**”); VEB was not a party to

this litigation. In November 2009, the Commercial Court declared the decisions of the General Meetings of Shareholders to be invalid. This declaration was confirmed at all levels of appeal and is now final, subject only to a pending supervisory appeal filed by Prominvestbank with the Supreme Court of Ukraine (the “**Supreme Court**”). There is no indication as to when the Supreme Court may render a decision on this appeal.

Based on the above declaration by the Commercial Court, in April 2010, the State Commission on Securities and Stock Market (the “**Commission**”) canceled the Prominvestbank issuance of new shares to VEB, which resulted in VEB’s shareholding in Prominvestbank reverting to 75% of the total share capital plus three shares. Prominvestbank has applied to the National Bank of Ukraine seeking to suspend the enforcement of the decision of the Commission until Prominvestbank’s supervisory appeal against the Commercial Court decision is considered. If the appeal is not granted by the Supreme Court, Prominvestbank would be legally obliged to repay the U.S.\$500 million in capital contributed by VEB for the forfeited shares; there can be no assurance that Prominvestbank will be financially able to make such repayment if requested to do so.

In May 2010, another individual minority shareholder made a separate claim against Prominvestbank in the Commercial Court seeking to invalidate certain aspects of Prominvestbank’s previous issuance of shares to VEB, including the actions resulting in VEB’s acquisition of shares representing 68% of the total share capital of Prominvestbank for U.S.\$124.6 million in the beginning of 2009. As at the date of this Base Prospectus, as far as VEB is aware, this claim has not been yet registered by the Commercial Court. Whilst a court of first instance is generally obliged to issue its decision on a case within two months from the presentation of the claim, as a matter of practice, such proceedings in Ukrainian courts often take longer and there can be no assurance when VEB will receive the Commercial Court’s decision.

If the Commercial Court issues an unfavourable decision in respect of the May 2010 claim, VEB would be required to forfeit the shares, which are the subject of this claim and, thus, VEB would lose control of Prominvestbank. In addition, Prominvestbank would be legally obliged to repay the U.S.\$124.6 million in capital contributed by VEB for the forfeited shares; there can be no assurance that Prominvestbank will be financially able to make such repayment if requested to do so.



## LENDING POLICIES AND PROCEDURES

### CREDIT APPROVAL AND MONITORING

#### Credit Policies

VEB has established clear policies and procedures for approving credit applications, setting credit limits and sub-limits, accepting and valuing collateral and monitoring borrowers' financial positions and compliance with loan documentation. These credit policies and procedures have been derived from the Development Bank Law, the 2007 Memorandum and other applicable legislative and regulatory acts of the Russian Federation.

The Supervisory Board is responsible for establishing VEB's overall credit policies in line with the Development Bank Law and the 2007 Memorandum, including procedures for providing loans, guarantees and other credits both directly to customers and indirectly to other banks and other financial institutions for on-lending to customers in accordance with VEB's strategic objectives and core business activities. The Supervisory Board has also adopted, and regularly reviews and amends, the various methodologies and procedures used by VEB for determining compliance with the credit policies.

The Management Board is responsible for ensuring that day-to-day lending decisions comply with the credit policies established by the Supervisory Board. The Credit Committee assists the Management Board in performing this function by supervising the various departments and divisions within VEB in making credit decisions, monitoring compliance with internal regulations and approving write-offs of bad debts.

The Internal Control Service performs an internal audit function to verify overall compliance with VEB's credit policies and procedures. The Internal Control Service reports directly to the Supervisory Board in accordance with the 2007 Memorandum and VEB's internal regulations and credit policies. See "*Risk Management—Risk Management Structure*".

#### Credit Approval Procedures

VEB employs multi-tier, top-down credit approval procedures. Loan requests are initially submitted to a Credit Inspector within the Infrastructure Department, the Industry Department or the Regional Development Department, in the case of applications by non-financial organisations, or the Financial Institutions Department, in the case of applications by banks or other financial organisations. In all cases, applications must be made using VEB's standard form of credit application, which must be accompanied by certain supporting documents depending on the type of credit to be extended. The potential borrower is required to provide information with respect to its credit history and financial position, business reputation, overall leverage position and other key metrics, as well as its relationships with other lending institutions. The relevant Credit Inspector also tests applicable credit limits (if established) and analyses the structure of the transaction and terms negotiated with the prospective borrower, as well as relevant market trends. An independent analysis of the applicant's reputation is also made by the Banking Security Directorate.

If the results of the comprehensive analysis of a credit application are favourable, the relevant Credit Inspector and the Banking Security Directorate make a joint recommendation to the Credit Committee. On an as needed basis, the related credit documentation is submitted to the Legal Department for further review, negotiation and approval before onward submission to the Credit Committee. The Credit Committee then undertakes its own independent review of the loan request.

Depending on the amount involved, credit applications must finally be approved by the Chairman of VEB, the Management Board or the Supervisory Board, as follows:

<b>Required Level of Approval</b>	<b>Amount Involved (as a percentage of VEB's Equity (sobstvennie sredstva))</b>
Chairman of VEB .....	Less than 2%
Management Board .....	2% to 10%
Supervisory Board.....	More than 10%

Requests to extend credit for use in investment projects are also subject to an extensive expert assessment by the Infrastructure Department, the Industry Department or the Regional Development Department, as the case may

be, depending on the type of credit being extended. The expert assessment is intended to determine whether the proposed project falls within one of VEB's priority investment sectors as defined in the Development Bank Law and the 2007 Memorandum. Although VEB is not restricted to investing only in priority sectors, VEB does give preference to such sectors in its investment activities. The expert also examines whether VEB's participation in the implementation of the project is likely to yield positive effects for the Russian economy or other public benefits and whether the project is commercially viable.

The Chairman of VEB (or another authorised officer of VEB, as may be appointed in accordance with VEB's internal regulations) is responsible for determining which department within VEB should conduct the expert assessment with respect to certain proposed projects. Expert assessments are generally carried out in two stages. A preliminary assessment is undertaken by the relevant department to assess whether the project conforms to the principles used by VEB in selecting projects. The results of this initial assessment are reported to the Committee on the Development of Investment Operations, which undertakes an independent review to determine whether the project should be pursued. If the project is approved by the Committee on the Development of Investment Operations, a more comprehensive expert assessment is then undertaken by the department that conducted the relevant preliminary expert assessment. This more detailed assessment is intended to focus on the commercial viability and associated risk levels of the project. In particular, the further review examines the financial condition of the borrower, various risks related to the borrower and any of its guarantors, the structure of the project and the acceptability of the security being provided. In addition, this more detailed assessment is meant to ascertain whether the financial support being provided by VEB will be used for the designated purposes. In addition, external experts may be appointed by VEB to carry out environmental, tax or other discreet analyses, as required. The expert assessments form a part of the loan application as it is approved at each successive required level.

### **Credit Limits**

VEB has established limits on the amount of risk it is willing to accept in relation to particular counterparties, groups of counterparties, industry sectors and geographic regions. In particular, in order to mitigate concentrations of risk, VEB's policies and procedures include guidelines and restrictions designed to maintain a diversified portfolio. Risk concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features, or when their ability to meet contractual obligations will be similarly affected by possible changes in economic, political or other conditions.

Limits are imposed at two levels; on an overall basis and on a customer basis. The 2007 Memorandum establishes the following limits applicable to VEB's overall lending and credit operations:

- VEB's exposure, at any one time, to a single borrower, or a group of related borrowers, may not exceed 25% of VEB's total equity; and
- VEB's exposure to large credit risks (loan or loans to a borrower exceeding 5% of VEB's equity) at any one time, may not exceed 800% of VEB's total equity.

In addition, in conjunction with its approval of the first credit application by a particular borrower, the Risk Management Department, in co-operation with the relevant business division (i.e., the Infrastructure Department, the Industry Department or the Regional Development Department, in the case of applications by non-financial organisations, or the Financial Institutions Department, in the case of applications by banks or other financial organisations), recommends an overall credit limit, as well as sub-limits, for the relevant borrower. A single overall credit limit is set in order to cap VEB's maximum permitted risk exposure to the particular borrower in respect of all transactions involving such borrower, whilst sub-limits are defined for various types of finance, as follows:

- loans secured by pledge of VEB's debt obligations (e.g., promissory notes issued by VEB) or by a pledge of highly-liquid or otherwise low-risk securities;
- inter-bank loans, including inter-day and overnight loans, currency conversion operations and term deposits;
- loans to counterparties in connection with securities trading operations, such as repurchase and reverse repurchase transactions;

- loans to finance investments in debt securities, including foreign currency-denominated Eurobonds and Rouble-denominated debt securities;
- short-term derivative transactions, including currency and interest rate swaps and other hedging instruments; and
- financings under documentary credit operations, including guarantees and letters of credit.

Limits are initially proposed by the relevant business division and the Risk Management Department by reference to the information provided by the relevant borrower in its loan application, with input (as needed) from the Banking Security Directorate and the Legal Department. The credit limit and sub-limits applicable to a particular borrower are, in turn, independently assessed and approved at each level at which the initial loan application by such borrower is required to be approved. The final limits are set by the body, which ultimately approves the loan application. Certain “no risk” financial operations, including receiving deposits, conducting operations with paying agents, selling options, undertaking cash transactions for customers on a pre-funded basis and other similar operations, and operations whereby the risk is completely covered by the value of collateral provided are not subject to any limits. In addition, depending on the credit being extended, some operations may be permitted to exceed established credit sub-limits with the approval of the Supervisory Board, the Management Board or the Chairman of VEB, within each of their respective stated levels of authority to approve the underlying transaction.

Exposures in relation to existing limits are monitored regularly and all credit limits and sub-limits are reviewed on a periodic basis to assess their continued applicability to the relevant borrower in the context of such borrower’s exposures and VEB’s then-current operations and the overall market environment. In the first instance, the relevant business division involved in the initial establishment of the subject credit limit and sub-limits is responsible for monitoring their continued validity and recommending to the Risk Management Department any proposals for modification. The Risk Management Department independently tests credit limits and sub-limits and, in the event of a perceived need to amend any limit or sub-limit, either on its own or upon the recommendation of the relevant business division, prepares a report for consideration by the Banking Security Support Directorate and the Legal Department (if needed) and, in turn, by the Credit Committee, which bears responsibility for monitoring adherence to credit limits and sub-limits and recommending any modifications to them for approval by the relevant governing body.

### **Monitoring Compliance**

Over the term of a particular financing transaction, the Credit Inspector responsible for initially approving the credit is also charged with monitoring whether the borrower is fulfilling the terms and conditions of the agreement pursuant to which financing has been provided, the borrower’s financial position, the quality and liquidity of any collateral pledged to support the loan, the borrower’s punctual submission of accounting and financial statements to VEB and other indicators of the borrower’s ability to repay the loan. VEB may also employ third-party consultants to monitor compliance with the loan, including visiting the site of the project and valuing collateral (i.e. real property).

The Risk Management Department also monitors the financial position of each borrower, as well as whether a particular credit is in compliance with the credit risk limit and sub-limits applicable to such borrower.

Where problems of compliance in respect of a particular loan are detected, the business division responsible for approving the loan, in co-operation with the Risk Management Department, prepares a report for submission to the Credit Committee containing information changes in market condition, the financial status and standing of the borrower or other events that may have an extraordinary negative impact on the borrower’s ability to fulfil its obligations. The Credit Committee may recommend to the relevant management body to amend an established limit or sub-limit and to apply appropriate actions in respect of a loan or counterparty, including requesting additional collateral.

### **COLLATERALISATION POLICIES**

VEB requires collateral in respect of most of its loans in accordance with established guidelines. The amount and type of collateral required is decided on a case-by-case basis and depends on a number of factors, including the size of the loan and an assessment of the credit risk of the borrower.

The main types of collateral accepted, by type of finance, are as follows:

- a pledge of securities in respect of back-to-back finance;
- a pledge of claims for revenues to be received under export contracts in respect of pre-export finance;
- a pledge of a cash or securities account in respect of financing operations involving securities, such as repurchase and reverse repurchase transactions;
- guarantees from the Russian Government, from parent companies in respect of loans to their subsidiaries and from credit-worthy third parties;
- a charge over real estate property, inventory, trade receivables, securities or other claims against third parties in respect of project finance and commercial loans; and
- a mortgage over residential property in respect of loans to finance the purchase of such property.

The market value of collateral is measured in accordance with an established set of internal rules. Collateral valuations are monitored on a continuous basis (where practicable in respect of liquid assets, including cash and marketable securities), on a semi-annual basis or on an annual basis (in the case of real property or other hard assets provided by a Russian resident) or on an *ad hoc* basis in the event that VEB obtains negative advice regarding the subject collateral or the relevant borrower or in the event of adverse developments in the market. In the event that a sufficient decline in value is measured, additional collateral may be requested in accordance with the relevant underlying finance agreement. See “—*Impairment and Loan Loss Allowance and Write-Off Policies*”.

As at 31 December 2009, VEB held collateral with an aggregate fair value of RUB 119,063 million in respect of total impaired loans of RUB 234,062 million.

#### **IMPAIRMENT AND LOSS ALLOWANCE AND WRITE-OFF POLICIES**

VEB has developed a set of internal regulations establishing credit classification schemes, related loan loss reserve requirements and policies for the write-off of bad debts. As at 31 December 2009, VEB recorded allowance for impairment of total loans in the aggregate amount of RUB 122,694 million, which represented 49.2% of VEB’s individually impaired and past due loans and 8.6% of VEB’s total loans.

#### **Loan Classification Categories**

VEB classifies its loans on a group-wide basis of two credit rating systems. VEB applies a five-tiered classification scheme based on IFRS and second, VEB applies CBR regulations, which requires VEB to classify its credits into one of five categories, including: (i) high-grade (fully performing) loans; (ii) standard loans; (iii) sub-standard loans; (iv) impaired loans but not past-due; and (v) past due.

VEB has also developed its own more detailed credit risk classification system, which assigns each borrower to one of ten risk classes corresponding to the ratings definitions published by leading international rating agencies.

#### ***Credit Quality Per Class of Financial Assets***

Ratings are assigned to individual credits by reference to a variety of financial analytical tools, depending on the type of counterparty, as well as market information. In assigning a loan classification, parameters to be tested may include balance sheet structure, current and absolute liquidity, capitalisation levels, return on equity, ratio of own capital to liabilities, the quality of loan and investment portfolios, risk concentrations and long-term stability. Credit ratings are subject to regular review in order to allow VEB to identify potential losses early and to take responsive corrective actions.

The tables below set forth a breakdown of VEB's assets, by credit rating, in accordance with the classification scheme based on IFRS and CBR regulations, as at the dates indicated:

As at 31 December 2009 (in millions of RUB, except percentages)											
Not past due											
Not impaired											
	High grade	% of total	Standard grade	% of total	Sub-standard grade	% of total	Individually impaired	% of total	Past due	% of total	Total
Amounts due from credit institutions:											
Back-to-back finance.....	383,039	37.2	4,959	1.8	—	—	—	—	—	—	387,998
Subordinated loans.....	210	0.0	—	—	—	—	—	—	—	—	210
Inter-bank loans under small and medium-sized business support program.....	22,589	2.2	3,091	1.1	84	0.1	24	0.0	24	0.0	25,812
Other amounts due from credit institutions.....	48,642	4.7	4,128	1.5	58	0.1	1,993	1.2	—	—	54,821
	454,480	44.1	12,178	4.4	142	0.2	2,017	1.2	24	0.0	468,841
Loans to customers											
Back-to-back finance.....	191,466	18.6	46,031	16.8	—	—	—	—	—	—	237,497
Commercial Loans.....	88,991	8.6	101,780	37.1	27,735	38.2	22,102	13.3	66,474	78.2	307,082
Project finance.....	63,864	6.2	84,656	30.8	19,473	26.8	139,148	83.6	6,109	7.2	313,250
Pre-export finance.....	47,844	4.5	3,798	1.4	19,456	26.8	3,135	1.9	6,479	7.6	80,712
Financing of operations											
with securities.....	3,855	0.4	1,590	0.6	824	1.1	—	—	2,017	2.4	8,286
Promissory notes.....	3,884	—	565	0.2	3,383	4.7	—	—	49	0.1	7,881
Reverse repurchase agreements.....	1,565	0.2	2,065	0.7	—	—	—	—	976	1.1	4,606
Other.....	599	0.1	561	0.2	1,531	2.1	—	—	2,694	3.2	5,385
	402,068	39.0	241,046	87.8	72,402	99.7	164,385	98.8	84,798	99.8	964,699
Debt investment securities:											
- available-for-sale.....	153,052	14.8	20,185	7.4	—	—	—	—	6	0.0	173,243
- held-to-maturity.....	21,223	2.1	1,143	0.4	82	0.1	—	—	195	0.2	22,643
	174,275	16.9	21,328	7.8	82	0.1	—	—	201	0.2	195,886
<b>Total.....</b>	<b>1,030,823</b>	<b>100.0</b>	<b>274,552</b>	<b>100.0</b>	<b>72,626</b>	<b>100.0</b>	<b>166,402</b>	<b>100.0</b>	<b>85,023</b>	<b>100.0</b>	<b>1,629,426</b>

As at 31 December 2008 (in millions of RUB, except percentages)											
Not past due											
Not impaired											
	High grade	% of total	Standard grade	% of total	Sub-standard grade	% of total	Individually impaired	% of total	Past due	% of total	Total
Due from other banks:											
Back-to-back finance.....	246,002	32.7	—	—	—	—	—	—	—	—	246,002
Subordinated loans.....	420	0.1	—	—	—	—	—	—	—	—	420
Inter-bank loans under small and medium-sized business support program....	21,498	2.9	370	0.1	45	0.2	—	—	48	1.3	21,961
Reverse repurchase agreements.....	705	0.1	102	0.0	—	—	—	—	—	—	807
Other.....	40,648	5.4	1,750	0.5	55	0.2	—	—	—	—	42,453
	309,273	41.2	2,222	0.6	100	0.4	—	—	48	1.3	311,643
Loans to customers											
Back-to-back finance.....	232,333	30.9	37,335	11.0	—	—	—	—	—	—	269,668
Pre-export finance.....	80,798	10.7	17,749	5.2	10,508	39.2	1,465	10.9	—	—	110,520
Project finance											
Commercial loans.....	11,554	1.5	179,196	52.6	94	0.4	6,279	46.8	2,327	62.4	199,450
	38,919	5.2	81,151	23.8	11,831	44.2	5,681	42.3	1,312	35.2	138,894
Reverse repurchase agreements.....	—	—	—	—	57	0.2	—	—	—	—	57
Financing of operations											
with securities.....	—	—	1,668	0.5	—	—	—	—	—	—	1,668
Promissory notes.....	153	0.0	510	0.1	3,297	12.3	—	—	40	1.1	4,000
Other.....	10,166	1.4	2,372	0.7	691	2.6	—	—	—	—	13,229
	373,923	49.7	319,981	93.9	26,478	98.9	13,425	100.0	3,679	98.7	737,486
Investment securities:											
- available-for-sale.....	58,322	7.8	17,182	5.1	—	—	—	—	—	—	75,504
- held-to-maturity.....	10,171	1.3	1,486	0.4	190	0.7	—	—	—	—	11,847
	68,493	9.1	18,668	5.5	190	0.7	—	—	—	—	87,351
<b>Total.....</b>	<b>751,689</b>	<b>100.0</b>	<b>340,871</b>	<b>100.0</b>	<b>26,768</b>	<b>100</b>	<b>13,425</b>	<b>100.0</b>	<b>3,727</b>	<b>100.0</b>	<b>1,136,480</b>

As at 31 December 2007 (restated)  
(in millions of RUB, except percentages)

	Neither past due nor impaired								Total
	High grade	% of total	Standard grade	% of total	Sub-standard grade	% of total	Past due	% of total	
Due from credit institutions:									
Subordinated loans .....	—	—	949	0.7	—	—	—	—	949
Inter-bank loans under small and medium-sized business support program .....	6,334	4.3	—	—	—	—	1	0.0	6,335
Other .....	329	0.2	36,638	26.1	740	6.8	16	0.1	37,723
	<u>6,663</u>	<u>4.5</u>	<u>37,587</u>	<u>26.8</u>	<u>740</u>	<u>6.8</u>	<u>17</u>	<u>0.1</u>	<u>45,007</u>
Loans to customers									
Pre-export finance .....	96,392	65.3	10,382	7.4	814	7.5	—	—	107,588
Project finance .....	15,993	10.8	53,905	38.4	1,413	13.0	—	—	71,311
Commercial loans .....	4,565	3.1	10,159	7.2	6,373	58.8	11,944	99.1	33,041
Reverse repurchase agreements .....	9,692	6.6	—	—	1	0.0	—	—	9,693
Financing of operations with securities .....	6,170	4.2	—	—	—	—	—	—	6,170
Promissory notes .....	96	0.1	780	0.6	1,502	13.9	40	0.3	23,418
Other .....	106	0.1	971	0.7	—	—	47	0.4	1,124
	<u>133,014</u>	<u>90.2</u>	<u>76,197</u>	<u>54.3</u>	<u>10,103</u>	<u>93.2</u>	<u>12,031</u>	<u>99.9</u>	<u>231,345</u>
Investment securities:									
available-for-sale .....	7,852	5.3	26,448	18.9	—	—	—	—	34,300
<b>Total .....</b>	<b><u>147,529</u></b>	<b><u>100.0</u></b>	<b><u>140,232</u></b>	<b><u>100.0</u></b>	<b><u>10,843</u></b>	<b><u>100.0</u></b>	<b><u>12,048</u></b>	<b><u>100.0</u></b>	<b><u>310,652</u></b>

### Loan Loss History; Allowance for Impairment of Loans to Customers

VEB records allowance for impairment where it is deemed necessary to cover possible losses. VEB defines “potential losses” as possible financial losses that VEB may incur due to the occurrence of the following events:

- a failure by a counterparty to fulfil obligations owed to VEB or a failure by a person whose obligations are guaranteed or otherwise secured by VEB to meet such obligations; or
- a depreciation in the value of assets involved in projects being financed by VEB or otherwise pledged as collateral.

The principal criteria considered for the assessment of loan impairment include whether any payments of principal or interest are overdue by more than 30 days, whether there are any known difficulties in the cash flows of the counterparty or counterparties, whether the counterparty or counterparties have been the subject of any credit rating downgrades and whether there have been any breaches or violations of the original terms of the related contract.

Impairment assessment is performed on both an individual and collective basis.

#### *Individually assessed allowances*

The allowances appropriate for each significant loan are determined separately on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realisable value of collateral and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more frequent review.

#### *Collectively assessed allowances*

Allowances are also assessed collectively for impairment of loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are assessed on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet any objective evidence of issues requiring individually assessed impairment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time

it will be identified as requiring an individually assessed impairment allowance and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are also assessed in a similar manner as to loans.

The following tables set forth a reconciliation of the allowance for impairment of loans to customers, by type of credit, for each of the two years indicated:

	Project finance 2009	Commercial loans 2009	Pre- export finance 2009	Financing of operations with securities 2009	Promissory notes 2009	Reverse repurchase agreements 2009	Other 2009	Total 2009
31 December 2008.....	7,705	3,397	620	—	118	—	6	11,846
Charge.....	57,537	51,821	1,289	669	66	501	1,554	113,437
Write-offs.....	—	(652)	—	—	(1)	—	—	(653)
Interest accrued on impaired loans.....	(3,188)	(219)	(62)	—	—	—	—	(3,469)
<b>31 December 2009.....</b>	<b>62,054</b>	<b>54,347</b>	<b>1,847</b>	<b>669</b>	<b>183</b>	<b>501</b>	<b>1,560</b>	<b>121,161</b>
Individual impairment.....	56,111	39,339	786	540	23	478	1,414	98,691
Collective impairment.....	5,943	15,008	1,061	129	160	23	146	22,470
	<b>62,054</b>	<b>54,347</b>	<b>1,847</b>	<b>669</b>	<b>183</b>	<b>501</b>	<b>1,560</b>	<b>121,161</b>
<b>Individually impaired loans before impairment allowance.....</b>	<b>145,257</b>	<b>80,809</b>	<b>3,135</b>	<b>1,150</b>	<b>48</b>	<b>976</b>	<b>2,687</b>	<b>234,062</b>

At 31 December 2009, no allowance was made for back-to-back finance.

	Pre-export finance 2008	Project finance 2008	Commercial loans 2008	Promissory notes 2008	Other 2008	Total 2008
31 December 2007 (restated).....	235	1,357	1,645	85	5	3,327
Charge.....	385	6,348	1,818	33	1	8,585
Write-offs.....	—	—	(66)	—	—	(66)
<b>31 December 2008.....</b>	<b>620</b>	<b>7,705</b>	<b>3,397</b>	<b>118</b>	<b>6</b>	<b>11,846</b>
Individual impairment.....	66	3,861	2,420	40	—	6,387
Collective impairment.....	554	3,844	977	78	6	5,459
	<b>620</b>	<b>7,705</b>	<b>3,397</b>	<b>118</b>	<b>6</b>	<b>11,846</b>
<b>Individually impaired loans before impairment allowance.....</b>	<b>1,465</b>	<b>8,606</b>	<b>6,978</b>	<b>40</b>	<b>—</b>	<b>17,089</b>

At 31 December 2008, no allowance was made for back-to-back finance, reverse repurchase agreements and financing of operations with securities.

At 31 December 2007, no allowance was made for reverse repurchase agreements and financing of operations with securities.

### Write-offs

A loan is regarded as a bad debt if VEB has taken all available legal and other reasonable steps to recover such debt and to exercise its rights in respect of the security provided for such debt. Pursuant to VEB's internal regulations, loans may only be written off with the approval of the Chairman of VEB upon the recommendation of the Credit Committee (which may be subject to certain required levels of approval by the Management Board and/or Supervisory Board, if applicable). The decision to write-off a bad debt may be based on an order from a court or another authorised state body or other documentary evidence of the insolvency or liquidation of the debtor or on VEB's own estimation that the costs of recovering the debt, including by way of exercising its rights in respect of any collateral provided to secure such debt, will be greater than the amount of the debt to be recovered.

## RISK MANAGEMENT

### RISK MANAGEMENT POLICIES

VEB believes that the process of risk management is critical to mitigating any impact of VEB's risk exposure on its financial stability. The Risk Management Department has adopted internal regulations on risk management based on international standards and each of VEB's business divisions is responsible for controlling the level of risk inherent in its activities in accordance with these regulations. The Risk Management Department has a number of responsibilities, which include identifying and monitoring risks, on an on-going basis.

VEB is exposed to the following principal types of risk as a result of its day-to-day operations:

- **Financial Risk:** Financial risk is the risk of loss caused by an adverse change in the value of VEB's assets or an adverse change in its financial metrics. Financial risk includes credit risk and liquidity risk, as well as market risk, which, in turn, is comprised of interest rate risk, currency risk and equity risk.
- **Operational Risk:** Operational risk is the risk of loss resulting from inadequate or failed processes, personnel errors, systems deficiencies or shortcomings or from certain external events. Internal risks include personnel risk, technology risk and internal legal risk (such as risks relating to regulatory violations). External risks include risk of harm caused by third parties, external legal risk (such as the risk of non-compliance with obligations and legal risks in relation to VEB's business activities), social and political risk, emergency risk and loss of business reputation.
- **Strategic Risk:** Strategic risk is the risk of loss resulting from failures relating to the initial determination of strategic objectives or the execution or modification of such objectives in response to changes in the business environment.

### Financial Risk

VEB manages and seeks to control financial risk by utilising a number of tools and strategies, including, among others, financial hedging, asset diversification and the creation of reserves; requiring collateral; and maintaining access to the financial resources of international financial institutions.

As part of its overall risk management strategy, VEB may use derivatives or other financial instruments to manage exposures arising from actual or predicted changes in interest rates, currency rates, equity prices or credit risk factors. VEB also actively uses collateral to hedge its credit risk. See "*Lending Policies and Procedures—Collateralisation Policies*".

### Credit Risk

Credit risk is the risk that a counterparty will not be able to meet its obligations in full when due. VEB is exposed to credit risk in its lending activities and in its documentary credit operations requiring VEB to make payments on behalf of its customers in certain circumstances, including the issuance of guarantees and letters of credit.

VEB has established a credit quality review process to facilitate the early identification of changes in the creditworthiness of counterparties. Credit risk is managed at all stages of the lending process, including the review of the loan application and the loan approval process through to the on-going administration of the credit file and the monitoring of compliance with the terms of the loan, the borrower's financial position, the status of the investment project, repayment performance and the value of any collateral provided to secure the loan. Since transactions bearing credit risk may also give rise to other risks, such as market risk, project risk and collateral risk, VEB performs a comprehensive assessment of the risks attributable to each transaction.

VEB intends to require each of its subsidiaries to adopt the same credit risk assessment methodologies and standards as are applied by VEB, subject to adjustments in credit risk assessment methodologies and standards depending on specific business activities of the relevant subsidiary.



## ***Liquidity Risk***

VEB is exposed principally to two types of liquidity risk: funding liquidity risk and asset liquidity risk. Funding liquidity risk is the risk that VEB will be unable to meet its financial obligations as and when they fall due. Asset liquidity risk is the risk of financial loss as a result of an inability to liquidate a large position at market price due to insufficient liquidity in the market to unwind the position.

VEB manages its liquidity risk at the following levels:

- each banking subsidiary of VEB manages its liquidity on a standalone basis so that it is able to meet its obligations in full as they become due, as well as to comply with regulatory requirements applicable to it; and
- VEB manages the Group's liquidity by re-allocating, where necessary, funds across the Group through intercompany loans and by the issue and sale of securities by a subsidiary in the market which are then purchased by VEB and other similar transactions.

VEB's banking subsidiaries assess liquidity risk by analysing the maturity structure of their assets and liabilities and stress-testing asset liquidity cushions under various scenarios. As part of the liquidity risk management process, VEB:

- monitors its liquidity position, on both a scheduled and unscheduled basis;
- maintains a balanced asset and liability structure, by maturity and currency;
- maintains an optimal asset liquidity cushion;
- defines and regularly monitors limits on certain types of operations and instruments;
- uses stress-testing to measure VEB's exposure to liquidity risk and assess financial market conditions on a regular basis and as and when significant changes in external and internal factors arise or are expected to arise; and
- regularly performs cash flow modelling to test measures of liquidity risk (including liquidity gaps) under various scenarios taking into account changes in macroeconomic and market conditions.

Operational control over measures of liquidity risk is performed by the Directorate for Currency and Financial Transactions (Treasury Department) and by the Risk Management Department. Results are reported to VEB's management (the Chairman of VEB, members of the Management Board responsible for managing liquidity risk and the heads of relevant business departments).

In addition, for the purposes of identifying available resources to cover an unexpected deficiency in liquid assets, VEB monitors and forecasts its liquidity reserve on a daily basis. The liquidity reserve consists of:

- cash held in VEB's correspondent accounts or with stock exchanges and clearing houses, the net balance of VEB's overnight placements and other cash-on-hand;
- short-term deposits placed in banks considered by VEB as highly reliable (in accordance with VEB's internal rating system; see "*Lending Policies and Procedures*"); and
- highly-liquid securities (defined as securities that can be promptly converted into cash or used as collateralised funding), which are measured at fair value less any discount for unexpected losses due to market risk realisation.

VEB regularly measures both (i) its base case current liquidity by reference to its balance sheet and (ii) the impact of a forecast stress scenario, to calculate risks and the impact on VEB in the event of a crisis. One of the purposes of the stress-testing is to perform a worst-case evaluation of current liquid assets and their predicted

values in the event of a crisis situation. Stress-testing procedures of liquidity risk take into account both internal factors specific to VEB and external factors, such as:

- the non-fulfilment by VEB's counterparties of transaction, loan and debt obligations (credit risk realisation);
- the decrease in the market value of the securities portfolio (market risk realisation);
- the reduction of access or total lack of access to financial market resources (liquidity risk realisation);
- the lowering of VEB's credit rating; and
- any requirement to prepay inter-bank loans due to breaches of financial covenants.

### ***Market Risk***

Market risk is the risk of adverse changes in the fair value of financial instruments or future cash flows generated by them due to changes in market variables, such as interest rates, foreign exchange rates or prices for equities and commodities. VEB is exposed to market risks, which arise primarily from its securities portfolio and open currency positions as these are affected by market fluctuations. The Directorate for Currency and Financial Transactions (Treasury Department) and the Risk Management Department monitor compliance with VEB's market risk limits on a daily basis. The purpose of VEB's market risk management activities is to balance the profitability of VEB's operations against the associated level of risk. To manage the market risk to which VEB is exposed and to set relevant limits, VEB uses sensitivity analysis, as well as the value-at-risk ("VaR") methodology and stress-testing.

VEB's interest rate, currency and equity price risks are primarily assessed using the VaR methodology, which allows for the assessment, within a specified confidence level, of the maximum potential losses that may be incurred from a portfolio of financial instruments during a given holding period. The VaR methodology is a statistical approach, which takes into account risk diversification and probable market fluctuations under normal market conditions.

To assess the accuracy of measuring market risks using the VaR methodology, VEB regularly uses back-testing procedures, which enable the assessment of differences between estimated and actual losses. The results of back-testing procedures for 2009 show a significant increase at the beginning of the year in the number of cases when hypothetical losses calculated subject to the actual dynamics of financial instrument prices exceeded estimated VaR measures, which was mostly due to dramatic changes in financial instrument prices during that period of the global financial crisis.

Although VEB's management believes that the current VaR model provides adequate estimates under normal market conditions, in order to obtain more precise estimates, VEB continues to try to improve its market risk assessment approach to better take into account extraordinary changes in market behaviour. In particular, VEB applies statistical data collected during financial crises and economic downturns (including the recent global financial crisis) to refine parameters in its current VaR model, as well as the inputs for stress-testing procedures.

### ***Interest Rate Risk***

Interest rate risk is the risk that interest income could decrease or interest expense could increase based on changes in market interest rates, which could adversely affect the fair value of financial instruments or future cash flows generated by them. To mitigate interest rate risk, VEB maintains a portfolio of assets and liabilities, which is balanced in terms of its sensitivity to changes in interest rates. VEB's procedures for identifying, assessing and controlling levels of interest rate risk are formalised through internal rules and regulations, as well as CBR requirements established for calculating capital adequacy ratio. The Risk Management Department performs monthly sensitivity analyses in respect of its net interest income using different scenarios of market interest rate changes for the purpose of controlling financial losses arising from unfavourable changes in interest rates. See Note 30 of the IFRS Financial Statements for the year ended 31 December 2009. Results of this analysis are reported to the Chairman of VEB, Management Board members responsible for asset and liability management and the heads of relevant business departments.

VEB's banking subsidiaries take into account interest rate risk when forecasting and monitoring compliance with prescribed capital adequacy ratios. In addition, the interest rate gap method is used to assess changes in the amount of net interest income and equity by using data on mismatches of assets and liabilities sensitive to interest rate changes aggregated at given maturity intervals.

#### *Currency Risk*

Currency risk is the risk that the fair value of a financial instrument or future cash flows generated by it will change due to changes in foreign exchange rates or prices for precious metals. VEB calculates, on a daily basis, open currency positions in respect of balance sheet assets and liabilities and off-balance sheet claims and obligations that are subject to fluctuations in currency and precious metal rates. VEB's banking subsidiaries set limits on their cumulative open positions, as well as limits on open positions in each currency and for precious metals, based on national regulatory requirements. See Note 30 of the IFRS Financial Statements for the year ended 31 December 2009.

#### *Equity Price Risk*

Equity price risk is the risk of adverse changes in the fair value of financial instruments or the future cash flows generated by them as a result of changes in the levels of equity indices and the value of individual equities.

VEB uses the VaR methodology and sensitivity analysis to assess equity price risk. VEB sets aggregate exposure limits for each portfolio by class of securities in order to limit equity price risk. Within a portfolio, "risk borrowing" (i.e., changing the volume of open positions under individual financial instruments subject to compliance with the established limit of the aggregate market risk for the portfolio and within applicable credit risk limits) is permitted. Limits are approved by the Management Board at the recommendation of the Risk Management Department as agreed in consultation with relevant business departments. Once established, limits are reviewed on a regular basis.

#### **Operational Risk**

Operational risk is defined as the risk of losses arising from inadequate internal banking operation procedures, including failure of equipment and information systems, people and systems or from external factors.

VEB's operational risk is comprised of both internal risks (such as risks due to poor management decisions caused by the use of inadequate risk assessment models, other personnel risk, organisational structure risk, technology risk and internal legal risks) and external risks (such as risk of harm caused by third parties, external legal risk, social and political risk and emergency risk (catastrophic risk due to natural disasters, war, terrorism and similar events)).

Business division managers are responsible for operational risk management in their respective divisions and for keeping the Risk Management Department informed of material developments. The Risk Management Department monitors areas of potential conflicts of interests, performance reviews of personnel and the standardisation and unification of VEB's transactions and operations.

The Banking Security Department is responsible for providing information and technical support to all business divisions in implementing action plans designed to ensure business continuity in the event of IT failures. VEB has a number of business continuity plans in place, including those to mitigate the effects VEB's business due to man-made disasters, natural disasters and terrorist attacks.

The Legal Department is responsible for establishing policies to ensure VEB's compliance with laws and regulations applicable to it and managing the legal risks to which VEB is exposed by doing business with its customers and other third parties. VEB relies on templates drafted by the Legal Department when preparing documents for transactions executed with counterparties. Any non-standard agreements are required to be approved by the Legal Department. The Legal Department is also responsible for the review of documents supplied by counterparties. VEB instructs appropriate international and domestic law firms to assist in executing transactions with third parties.

VEB's information technology systems remain less sophisticated and less integrated in certain respects than those of banks in more developed countries. The lack of well-integrated IT systems increases VEB's operational risks, including the risk of fraud by employees or outsiders, unauthorised transactions by employees and

operational errors, such as clerical or record-keeping errors, settlement errors, model errors, errors resulting from faulty computer or telecommunications systems and natural disasters.

The risk of loss of business reputation is the risk of losing clients and customers due to a negative public perception of VEB's financial stability, of the quality of the services offered by VEB or of VEB's business generally. VEB manages this risk by: (i) monitoring compliance with applicable Russian laws and regulations governing its operations; (ii) monitoring the goodwill of VEB's counterparties; (iii) monitoring the quality of documentation filed with state authorities and third parties; and (iv) managing VEB's interaction with the media. In particular, the Banking Security Directorate also provides analyses of the goodwill and reputation of VEB's counterparties before a transaction is approved and may undertake follow-up analyses at the request of the business department responsible for the transaction in light of changes in market conditions or changes in the financial status and standing of the counterparty.

### **Strategic Risk**

Strategic risk is the risk of losses due to inadequate or inappropriate strategic decisions or improper implementation of strategic decisions. Such potential strategic errors or inadequate decisions include the failure to identify or properly assess potential risks involved in the conduct of VEB's business or the approval and implementation of particular transactions and the unavailability of necessary resources to achieve strategic goals. This risk is managed by VEB in the course of its strategic planning process.

### **RISK MANAGEMENT PROCEDURES**

VEB's risk management procedures generally include the following:

- identification of risks, which could have a material effect on VEB's business;
- assessment of identified risks;
- mitigation and management of risks on both a continuing basis and before entering into significant transactions; and
- compliance with and continued assessment of risk management decisions.

### ***Anti-Money Laundering Policies and Procedures***

VEB has developed internal know-your-customer and anti-money laundering policies, in accordance with guidance provided by the CBR and the Federal Services on Financial Monitoring. The policy includes VEB's procedures in relation to: (i) verifying information provided by customers in order to permit identification of customers, including ultimate owners and beneficiaries; (ii) evaluating a client's business to determine whether a customer may be involved in money-laundering or terrorism financing; (iii) identifying any suspicious transactions and further assessing these against anti-money laundering safeguards; (iv) notifying authorised bodies in regard to any suspicious transactions; and (v) refusing to proceed with transactions or suspending transactions in the event that a customer fails to provide supporting documentation or provides false or inaccurate documentation or VEB otherwise believes the transaction is suspicious. In order to implement these policies to their fullest benefit, VEB provides on-going anti-money laundering training to all relevant employees.

### ***Capital Adequacy***

To assess and monitor the aggregate credit and market risk exposure, VEB computes capital adequacy ratios in accordance with the methodology approved by the Supervisory Board, which is based on approaches set out in regulations issued by the CBR and the Basel Accord. As required by the 2007 Memorandum, the Supervisory Board has fixed a minimum capital adequacy ratio of 10% (as compared to the minimum ratio of 8% imposed under the Basel Accord).

## **RISK MANAGEMENT STRUCTURE**

VEB's risk management structure includes the Supervisory Board, the Management Board, the Chairman of VEB, the Internal Control Service, the Credit Committee, the Risk Management Department, the Department for Subsidiary Banks, the Directorate for Currency and Financial Transactions (Treasury Department) and the Economic Planning Department.

The Credit Committee, the Chairman of VEB and the Management Board are responsible within their established authorities for implementing the overall risk management policies established by the Supervisory Board. The Risk Management Department compiles and examines information submitted by all business divisions in order to identify both internal and external risks at an early stage and implement appropriate controls. Findings are reported regularly to the relevant management bodies, including the Credit Committee, the Internal Control Service, the Management Board and the Supervisory Board, depending on the nature and size of the risk.

VEB has determined to establish more centralised risk management systems across VEB's subsidiaries and associates with the goal of strengthening oversight of the risk management systems employed by its business divisions and subsidiaries. To this end, in 2008, VEB established a working group to develop a centralised risk management system that will consolidate risk management functions, including information gathering, across all core business divisions and all subsidiaries and associated banks required for consolidated risk reporting.

### **Supervisory Board**

The Supervisory Board has the ultimate strategic decision-making authority with respect to VEB's overall risk management policies and procedures. In particular, pursuant to the 2007 Memorandum, the Supervisory Board takes strategic decisions aimed at organising and supporting the operation of VEB's risk management structure. In order to mitigate large risks, all transactions involving amounts of 10% or more of VEB's equity must be approved by the Supervisory Board. See "*Management and Employees—Management—The Supervisory Board*".

### **Management Board**

The Management Board's risk management duties include making decisions to approve transactions or related transactions involving amounts from 2% up to, but not including, 10% of VEB's equity. See "*Management and Employees—Management—The Management Board*".

The Management Board drafts proposals regarding VEB's major lines of business and parameters of its investing and financing activities (including those related to risk management) and submits such proposals for approval by the Supervisory Board.

### **Chairman of VEB**

The Chairman of VEB is responsible for issuing orders and approving regulations, policies and technical procedures governing banking transactions. The Chairman of VEB has the authority to approve transactions or related transactions involving amounts of up to but not including 2% of VEB's equity. The Chairman of VEB is also permitted to decide on other matters related to risk management, except for those matters falling within the exclusive competence of the Supervisory Board or the Management Board. See "*Management and Employees—Management—The Chairman*".

### **Credit Committee**

The Credit Committee's primary objectives are to consider applications for VEB's extension of loans, guarantees and other types of financing on a repayable basis (including through the purchase of bonds) and proposals for VEB's participation in the share capital of other entities, to set counterparty limits and to assess debt recovery scenarios and propose related write-offs. The Credit Committee is subject to the supervision of the Management Board. See "*Management and Employees—Board Committees*".

## **Internal Control Service**

The Internal Control Service is an independent division of VEB, which was created to monitor internal control functions and provide assistance to VEB's management bodies in identifying, assessing and controlling risks. The Internal Control Service is responsible for ensuring that all business divisions and management bodies comply with the risk management policies and procedures applicable to them and for evaluating the effectiveness of VEB's risk management systems on an on-going basis.

In particular, the scope of activities conducted by the Internal Control Service include:

- monitoring VEB's compliance with the 2007 Memorandum;
- assessing banking risks and exercising controls over risk management systems;
- controlling the division of responsibilities across VEB's management bodies and business divisions;
- controlling timely and reasonable recognition of operations in the accounts;
- assisting the management of information flows and information security required for the preparation of VEB's financial statements and accounts and related reports and controlling the authenticity, completeness and timeliness of the filing of such statements, accounts and reports;
- coordinating with all external audit institutions, including the external auditing firms appointed by VEB or any of its subsidiaries and the Accounts Chamber of the Russian Federation, as well as any rating agencies that have issued or intend to issue a rating of VEB or any of its debt securities; and
- continuous monitoring and streamlining of the overall internal control system.

## **Risk Management Department**

The Risk Management Department is an independent division within VEB designed to maintain the efficient functioning of VEB's risk management systems in compliance with the requirements defined by the Supervisory Board and other management bodies of VEB, as well as international standards and best practices. The Risk Management Department is responsible for implementing VEB's risk management policies and procedures across all activities carried out by VEB's business divisions and coordinating the implementation of such policies with its subsidiaries.

The Risk Management Department monitors compliance with established risk policies and limits, analyses risks associated with financial and non-financial counterparties, countries and market instruments, reviews VEB's position in a given market sector to determine changes in risk levels and assesses risks relating to new products and structured transactions. For this purpose, the Risk Management Department receives regular reports from each business division setting forth its own initial risk assessments and documenting its compliance with applicable established limits. The Risk Management Department prepares reporting documents for each type of risk and each line of VEB's business.

In 2009, VEB established the Department for Subsidiary Banks to enhance the strategic oversight and risk management of VEB's banking subsidiaries. The Department for Subsidiary Banks is also responsible for ensuring the implementation of risk management policies and procedures in line with those adopted by VEB. VEB also established a separate division within the Risk Management Department to assist the Department for Subsidiary Banks in the development of recommendations for each banking subsidiary's risk management policies and in further co-operation with such subsidiaries to implement these recommendations.

## **Directorate for Currency and Financial Transactions (Treasury Department)**

To manage VEB's day-to-day liquidity, the Directorate for Currency and Financial Transactions (Treasury Department) monitors compliance with the required minimum levels of liquidity and identifies maturity

mismatches between VEB's assets and liabilities. The Directorate for Currency and Financial Transactions (Treasury Department) prepares regular forecasts of VEB's estimated leverage by source of funding and performs daily monitoring of open position limits by class of asset, as well as counterparty limits. The Directorate for Currency and Financial Transactions (Treasury Department) also monitors the market value and liquidity of collateral provided by VEB's counterparties.

The Analytical Unit within the Directorate for Currency and Financial Transactions (Treasury Department) analysis, on a daily basis, the current conditions in the money, equity and currency markets in which VEB operates.

### **Economic Planning Department**

The Economic Planning Department is involved in the development of the methodology for managing VEB's financial risks and monitors VEB's financial stability parameters, including VEB's capital adequacy. The Economic Planning Department also coordinates the activities across VEB relating to the establishment of allowance for impairment.

## STATUS AS A STATE CORPORATION AND RELATED REGULATORY ENVIRONMENT

### VEB AS A STATE CORPORATION

VEB is a state corporation, which is a specific form of legal entity under Russian law. As a state corporation, VEB is a non-commercial organisation with no shareholders. VEB was founded by the Russian Federation with its initial capital comprising of contributions of funds and property. See “—*Charter Capital*”.

State corporations are established to pursue defined objectives for the public’s benefit and are assigned specific functions that determine the scope of their business activities and powers. Accordingly, state corporations are permitted to engage in commercial activity only to the extent that such activity is consistent with their purposes and contributes to the accomplishment of their specific goals. Any profits generated by VEB from its business activities must be applied only in furtherance of its specific purposes and goals.

Although VEB is not a governmental body, it is included in the Russian statistical register of state authorities in acknowledgement of its special role in the Russian economy and its support of certain state functions and capacities.

### LEGAL AND REGULATORY FRAMEWORK

The legal status and powers of a state corporation in the Russian Federation are generally regulated by Federal Law No. 7-FZ dated 12 January 1996 “On Non-Commercial Organisations” and applicable provisions of the Civil Code of the Russian Federation. Each state corporation is formed on the basis of a specific Federal law. VEB is established under the Development Bank Law, which sets forth VEB’s specific status, purposes and powers and governs various aspects of its operations. See “*Description of VEB’s Business—VEB as the Development Bank of the Russian Federation.*” The Development Bank Law also defines the powers of the Supervisory Board and the Management Board. See “*Management and Employees—Management—The Supervisory Board*” and “*Management and Employees—Management—the Management Board*”.

Although VEB is considered a financial institution and its official name includes the term “bank”, its status differs from that of ordinary commercial banks in several ways. The Development Bank Law contains specific regulations in respect of VEB, which supersede general laws and regulations applicable to banks and other financial institutions in the Russian Federation. Under the Development Bank Law, VEB is authorised to conduct banking operations without a licence from the CBR and VEB is generally not required to comply with regulatory requirements of the CBR. VEB has, however, entered into an agreement with CBR, pursuant to which it voluntarily reports on a number of matters, which are in substance, similar to those provided by other commercial banks in the Russian Federation, including reports relating to cash flow, credit balances and currency control regulations. See “—*Reporting Obligations*”.

The Development Bank Law further provides that VEB may perform only a limited number of banking functions and only in connection with eligible investment projects. In particular, VEB is permitted to carry out the following limited banking activities:

- accepting deposits from legal entities participating in the implementation of VEB’s projects;
- opening and maintaining bank accounts for legal entities taking part in the implementation of VEB’s projects and correspondent accounts with the CBR, credit institutions in the Russian Federation, foreign banks and international settlement and clearing centres;
- investing deposited funds in its own name and for its own account;
- clearing payments according to the instructions of legal entities, including those taking part in the implementation of VEB’s projects and including correspondent banks;
- purchasing and selling foreign currencies;
- collecting cash, bills, payment documents and cash services for legal entities taking part in the implementation of VEB’s projects; and



- providing bank guarantees to legal entities taking part in the implementation of VEB's projects.

VEB is also governed by the 2007 Memorandum, which specifies VEB's core business areas and types of investment and financial activities, quantitative and qualitative restrictions on VEB's investment and financial activities, and basic terms and procedures for making loans, participating in other entities and providing guarantees and insurance. See "*Description of VEB's Business*" and "*Risk Factors*".

The following laws govern various other aspects of VEB's activities:

- Federal Law No. 395-1 "On Banks and Banking Activity" dated 2 December 1990, as amended;
- Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996;
- Federal Law of the Russian Federation dated 13 October 2008 No. 173-FZ "On Additional Measures for Supporting the Financial System of the Russian Federation", as amended;
- Tax Code of the Russian Federation;
- Federal Law No. 173-FZ "On Currency Regulation and Control" dated 10 December 2003 (the "Currency Law");
- Federal laws relating to the Russian Federal budget; and
- other regulations, orders, decrees and implementing regulations of Russian state authorities (including the Russian Government and the Ministry of Finance) adopted in accordance with the laws referred to above to the extent relating to VEB.

VEB is specifically restricted from taking deposits from individuals. VEB is authorised under the Development Bank Law to act without a licence in the financial markets as a dealer, depositary, securities manager or trust manager. Similar to other banks in the Russian Federation, VEB performs the function of a currency control agent pursuant to the Currency Law.

In addition, the Supervisory Board and the Management Board are governed by their own sets of internal regulations. For example, the "Regulation on the Supervisory Board" dated 27 July 2007 (approved by a Russian Government Decree) sets out the procedures for the Supervisory Board's formation, its authority and its decision making processes. The Regulation on the Management Board (approved by Supervisory Board decision) contains rules on scheduling and holding Management Board meetings, decision-making procedures and formalisation of decisions made. There are also specific regulations on providing documentary and information support to the Supervisory Board and Management Board at their respective meetings.

### **Regulatory Environment Applicable to VEB's Banking Subsidiaries**

VEB has banking subsidiaries which carry out banking activities in the Russian Federation, Ukraine and Belarus. The activities of VEB's banking subsidiaries are regulated by the applicable banking legislation of the jurisdictions where they operate.

### **VEB'S OBJECTS AND POWERS**

#### **Requirements and Ratios**

The Development Bank Law provides that the general regulations on banks and banking apply to VEB only to the extent they are consistent with the provisions of the Development Bank Law. In particular, under a specific exemption set out in the Development Bank Law, VEB is not subject to regulations imposed by the CBR on commercial banks operating in the Russian Federation in respect of the following matters:

- state registration of credit institutions and issuance of banking licences;

- liquidation and reorganisation of credit institutions;
- provision of information on credit institutions' activities;
- performance of certain banking operations and transactions to the extent the requirements contained in the banking legislation contradict the Development Bank Law; and
- stability and financial soundness standards established for credit institutions and compliance with other mandatory requirements and ratios.

VEB is subject to certain parameters established by the 2007 Memorandum, which regulate VEB's financial and investment policy and activities, including the following:

- VEB must maintain a minimum capital adequacy ratio of 10% (the capital adequacy ratio is the ratio of total equity to risk weighted assets);
- Medium and long-term (over three years) investment projects must constitute not less than 80% of VEB's overall loan portfolio;
- VEB is authorised to finance investment projects provided that the minimum amount of financing must be not less than RUB 1,000 million or its equivalent in other currencies;
- VEB is authorised to provide loans, guarantees and sureties or other financing on a repayment basis to companies with payback periods exceeding five years and with project costs exceeding RUB 2,000 million;
- VEB's exposure, at any one time, to a single borrower or a group of related borrowers, may not exceed 25% of VEB's total equity;
- VEB's total exposure to large credit risks (a loan or loans to a borrower or a group of related borrowers exceeding 5% of VEB's total equity) at any one time may not exceed 800% of VEB's total equity;
- VEB's maximum commitment relating to guarantee support for exports or insurance for any single borrower or a group of related borrowers may not exceed 25% of VEB's total equity; and
- the terms of loans to be extended to SMEs through on-lending facilities with credit institutions and legal entities supporting SMEs must exceed two years and the amount of each such loan may not exceed RUB 150 million.

In addition, although VEB is not legally subject to the supervision of the CBR, it voluntarily complies with most regulations imposed by the CBR. See "*—Reporting Obligations*".

VEB has adopted a set of internal regulations to implement and supplement the requirements established by the applicable legislation. These regulations relate to, among other things: (i) the methods for calculating VEB's equity, risk-weighted assets and capital adequacy ratio; (ii) VEB's credit policy and procedures; (iii) Regulation on Consideration of Investment Projects for confirmation of their eligibility for financing in accordance with the requirements set out in the 2007 Memorandum and internal regulations; (iv) VEB's credit portfolio structure; (v) the regulation of VEB's investment in the equity capital of other entities; and (vi) VEB's operations in support of SMEs.

The 2007 Memorandum requires VEB to establish a reserve fund, to which VEB must contribute at least 20% of its annual profits. VEB's internal regulations do not cap or set out a target value for the reserve fund. As at 31 December 2009, VEB's reserve fund (which is calculated in accordance with Russian accounting standards) was RUB 3,214 million. VEB's internal regulations also provide for the establishment of an accumulation fund that is financed out of annual profits at the discretion of the Supervisory Board. As at 31 December 2009, the accumulation fund (which is calculated in accordance with Russian accounting standards) totaled RUB 37,881 million.

## RELATIONSHIP WITH THE RUSSIAN GOVERNMENT

According to the Development Bank Law, VEB and the Russian Federation are not liable for one another's obligations. Federal, regional and municipal authorities are generally prohibited from intervening in VEB's business operations to try to influence the manner in which it realises its purposes.

The Development Bank Law grants the Russian Government certain powers over VEB, including the power to:

- appoint and dismiss members of VEB's Supervisory Board;
- approve regulations governing VEB's Supervisory Board;
- approve any amendments or extensions of the 2007 Memorandum; and
- approve compensation for the members of the Supervisory Board.

The Russian Government has the right to appoint and dismiss the members of VEB's Supervisory Board. The Chairman of VEB's Supervisory Board is the Prime Minister of the Russian Federation (currently Vladimir Putin), whilst the remaining eight members are appointed by the Russian Government and include the Chairman of VEB (currently Vladimir Dmitriev), who is ex officio a member of the Supervisory Board and of the Management Board. The Chairman of VEB is appointed by the President of the Russian Federation upon the recommendation of the Prime Minister. The other members of VEB's Management Board are, in turn, appointed by the Supervisory Board based on recommendations of the Chairman of VEB. Accordingly, the Russian Government has substantial control over VEB's management, although Federal, regional and municipal authorities are generally prohibited from intervening in VEB's day-to-day business operations to try to influence the manner in which it realises its purposes.

Generally, VEB's Supervisory Board approves VEB's annual budget, high-level policies and the issuance of loans that exceed certain financial thresholds. See "*Management and Employees—Management—The Supervisory Board*". VEB's Management Board is responsible for the day-to-day activities of VEB. See "*Risk Management*" and "*Lending Policies and Procedures*".

In accordance with the 2007 Memorandum, VEB is also required to provide the Russian Government with VEB's annual report and its annual consolidated financial statements prepared in accordance with IFRS, together with the auditors' report thereon.

VEB does not report directly to any particular ministry of the Russian Government, although VEB's activities relating to its participation in State programmes are coordinated with various ministries, including principally the Ministry of Finance and the Ministry for Regional Development.

As an entity that uses funds from the Russian Federal budget, VEB's activities are audited on a regular basis by the Accounts Chamber of the Russian Federation, which conducts comprehensive reviews of VEB's use of such funds and evaluates whether such funds are being spent in accordance with the terms and purposes for which they were provided.

## CHARTER CAPITAL

Under the Development Bank Law, the Russian Federation contributed property and funds into the charter capital of VEB. The Russian Government may, from time to time, authorise additional contributions into VEB's charter capital, either from the Russian Federal budget or out of VEB's profits.

In accordance with the Development Bank Law, VEB's charter capital is formed from: (i) assets of Vnesheconombank of the USSR; (ii) the shares of RBD and ROSEXIMBANK previously owned by the Russian Government; and (iii) other assets contributed by the Russian Government. Since VEB's establishment in 2007, VEB's charter capital, initially comprised of RUB 1,000 million, has been increased as follows:

- in November 2007, in furtherance of the Development Bank Law, the Russian Government contributed RUB 180,000 million in cash to the charter capital of VEB;

- in August 2008, the Russian Government contributed 100% of the State-owned shares in RBD, valued for statutory purposes at RUB 7,469 million, to the charter capital of VEB;
- in November 2008, the Russian Government contributed RUB 75,000 million in cash to the charter capital of VEB in connection with VEB's support of the stock market;
- in October 2008, the Russian Government contributed 5.2% of the State-owned shares in ROSEXIMBANK, valued for statutory purposes at RUB 49.7 million, to the charter capital of VEB;
- in June 2009, in accordance with a Decree of the Russian Government, the Ministry of Finance transferred RUB 100,000 million to the charter capital of VEB to support VEB's involvement in the measures in support of the Russian banking system; and
- in December 2009, the Russian Federation contributed RUB 21,000 million to the charter capital of VEB to enable VEB to acquire additional shares of the OJSC United Aircraft Construction Corporation.

As at 31 December 2009, VEB's charter capital was RUB 382,489 million.

### **Special Powers of VEB Related to State Functions**

VEB also acts as a public institution representing the Russian Federation. Article 3(3) of the Development Bank Law specifies VEB's responsibilities related to State functions, such as:

- providing export credit loan insurance against commercial and political risks as set forth by the Russian Government;
- implementing Federal special purpose programmes and government investment programmes and projects, including foreign economic projects, projects involving governmental support for the export of industrial goods and services as provided for by Federal laws and other regulations;
- participating in infrastructure projects in special economic zones, in investment projects of national significance and in projects involving PPPs;
- servicing budgetary loans extended to support the export of Russian industrial products, including construction of facilities abroad, the issuance of bank guarantees for Russian companies taking part in international bids and supporting the performance of executed export contracts;
- supporting SMEs through the provision of financing to credit organisations and other legal entities that on-lend these funds to SMEs;
- participating in financial and guarantee support for the export of Russian-made goods, including the issuance of state guarantees to Russian exporters of industrial products and to Russian and foreign banks extending loans to Russian exporters, foreign importers, non-resident banks and foreign states in connection with the export of industrial goods and services; and
- performing operations related to the servicing and repayment of State credits extended by the Russian Federation to foreign countries, and by foreign countries to the Russian Federation, and the execution of international settlements in respect of such credits and loans.

In addition, VEB manages debt obligations of the Russian Federation and the former Soviet Union, as well as foreign financial assets comprising debt obligations owed to the Russian Federation by sovereign states, financial institutions and commercial entities; and, through STMC, VEB is responsible for managing the pension savings of insured Russian citizens, who have not transferred their savings to private pension funds or private asset management companies and provides banking services in relation to the State debt of the former

Soviet Union that still remains outstanding. These two functions are scheduled to be transferred to another designated organisation by 1 January 2014 and 31 December 2015, respectively. VEB receives a fee for performing these functions. See “*Description of VEB’s Business—VEB as Agent for Investment Securities Portfolio for the Russian Government—Pension Funds Management (STMC)*”.

Under the Federal Budget 2010 and Decree of the Russian Government No. 46-r dated 26 January, VEB is authorised to perform certain agency functions for the Russian Government, including in connection with litigation related to debt recovery. See “*Description of VEB’s Business—VEB as Agent for Investment Securities Portfolio for the Russian Government*”.

As part of its activity in the sphere of PPP support, VEB performs as a financial consultant to the Russian Government in assessing applications to the Russian Investment Fund (formed within the Russian Federal budget and used for financing of PPP projects in the Russian Federation). This service includes evaluating state and regional projects and/or investments and submitting to the Russian Ministry for Regional Development qualified opinions on the relevant projects’ compliance with the established criteria for financial, budgetary and economic efficiency.

## REPORTING OBLIGATIONS

Although, under the Development Bank Law, VEB is exempt from the general reporting obligations applicable to banks, non-bank financial institutions and non-commercial organisations in the Russian Federation, specific reporting provisions applicable to VEB are set out in the Development Bank Law and in the 2007 Memorandum as follows:

- Under the Development Bank Law, VEB is required to prepare an annual report on the results of its activities by 30 April in each year for approval by the Supervisory Board no later than 15 June of each year. The annual report should include consolidated financial statements, together with an audit report from VEB’s external auditors. The 2007 Memorandum further provides that VEB is required to submit its annual report, including the audited annual consolidated financial statements prepared in accordance with IFRS, to the Russian Government within ten business days upon receipt of the auditors’ opinion. VEB is required to submit consolidated financial statements prepared in accordance with IFRS, together with the auditors’ report thereon, to the Russian Government within ten business days of receipt of the auditors’ report. VEB must also submit quarterly reports to the Supervisory Board including information about:
  - investment projects meeting the requirements set forth in the 2007 Memorandum in respect of which VEB has carried out expert evaluations and agreed to arrange financing, including information on the implementation of such projects;
  - investment projects meeting the requirements set forth in the 2007 Memorandum in respect of which VEB has carried out expert evaluation and rejected the request to arrange financing, including the reasons for such rejection;
  - investment projects where the amount of financing exceeds 1% of VEB’s total equity; and
  - the volume and structure of VEB’s securities portfolio held for the purposes of managing temporary idle funds (liquidity) and risks.

The 2007 Memorandum also sets out the following general reporting requirements applicable to VEB in connection with its various operations as an issuer of bonds, as a professional participant in the Russian financial markets, as manager of State pension funds, and in its capacity as a currency control agent pursuant to the Currency Law.

VEB is also required to submit tax reports to the Federal Tax Service and statistical data to the Federal State Securities Service (Rosstat) including information about investment in capital, number of employees and salaries, turnover of the employees, information about the use of information and communication systems.

On November 2007, VEB entered into an agreement with the CBR regarding the provision of information on VEB's operations, including on monetary policy, financial statistics, currency control operations and tax information. VEB's obligations to submit information to the CBR generally corresponds to the reporting obligations of commercial banks under CBR Instruction No. 1376-U that refers to the provision of daily, five-day, ten-day, monthly, quarterly and annual reports. In April 2009, pursuant to the Financial System Support Law, VEB entered into an agreement with the CBR pursuant to which the CBR undertook to compensate VEB for certain losses which result from certain recovery finance transactions undertaken by VEB (i.e. REPOs) with one of 69 Russian commercial banks between 14 October 2008 through 31 December 2009, provided that such losses are caused due to the revocation by the CBR of any one of these 69 Russian commercial bank's banking licences. In compliance with this agreement, VEB is obliged to provide daily reports to the CBR on its inter-bank credits and related deposits.

Federal Law No. 4015-1 "On Organisation of Insurance Business in the Russian Federation" dated 27 November 1992 was amended to state that its provisions do not apply to the insurance of export credit loans against commercial and political risks. Accordingly, VEB is exempt from relevant licensing and reporting obligations under this law.

#### **LIQUIDATION AND REORGANISATION**

The Development Bank Law provides that any reorganisation or liquidation of VEB and all related issues are to be regulated by a special Federal law. No such law is in effect as at the date of this Base Prospectus. VEB is not subject to reorganisation and liquidation procedures applicable to banks, non-bank financial institutions or any other legal entities. See "*Risk Factors—VEB is not subject to defined Russian insolvency laws and procedures generally applicable to Russian commercial entities*".

#### **ANTI-MONEY LAUNDERING LEGISLATION**

The Russian Federation, as a member of the Financial Action Task Force ("FATF"), has developed and enacted certain anti-money laundering legislation. The basic Russian anti-money laundering law is Federal Law No. 115-FZ "On Combating Legalisation (Laundering) of Criminally Gained Income and Financing of Terrorism" dated 7 August 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 VEB and its subsidiaries, involved in transactions with money and certain property. Pursuant to the Anti-Money Laundering Law, VEB (in common with other Russian banks) is obligated to, *inter alia*: (i) establish and maintain systems of internal controls ensuring that the bank and its clients are in compliance with Russian anti-money laundering legislation; (ii) monitor and record certain client transactions, as specified in the Anti-Money Laundering Law; and (iii) report certain client transactions specified by the Anti-Money Laundering Law to the relevant Russian authorities. Furthermore, in certain cases, VEB (in common with other Russian banks) must suspend client transactions and inform the relevant Russian authorities. The current Anti-Money Laundering Law, which is also applicable to VEB, does not permit banks to suspend or freeze client transactions for longer than two business days unless extended by the authorised body for a longer period.

The FSFM 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 FSFM with respect to the types of transactions mentioned above.

Failure by Russian banks or their officers to comply with the requirements of the Anti-Money Laundering Law may result in the imposition of sanctions, including the revocation of their banking licences (with a subsequent liquidation of the bank) and criminal penalties for individuals. VEB has developed internal policies on money-laundering prevention, established by the order of the Chairman of VEB, which policies have in turn been approved by the CBR and FSFM. The policies include VEB's procedures in relation to: client identification, determining transactions subject to controlling measures and notification thereof of the authorised bodies, verification procedures of information provided by the customers (know-your-customer policy), documenting of the customer related information and transactions. See "*Risk Management—Anti-Money Laundering Policies and Procedures*".

## **RELATED PARTY TRANSACTIONS**

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties (i.e. market rates).

Related parties include the Russian Government, key management of the Group and associated companies. Since VEB is a State corporation, all State-controlled entities are considered to be related parties of the Group.

From time to time in the ordinary course of its business, VEB enters into transactions with related parties. For example, in connection with its acquisition of GLOBEXBANK, VEB provided a group of loans to one of its associates to finance such associate’s purchase of real estate and other assets from certain borrowers of GLOBEXBANK to permit such borrowers to repay obligations owed by them to GLOBEXBANK in connection with the rehabilitation of GLOBEXBANK to restore its financial viability following the global financial crisis.

See Note 32 to the IFRS Financial Statements for the year ended 31 December 2009 for further information on related party transactions.

## MANAGEMENT AND EMPLOYEES

### MANAGEMENT

In accordance with the Development Bank Law, VEB's management structure consists of the Supervisory Board, the Management Board and the Chairman of VEB.

#### The Supervisory Board

The Supervisory Board is VEB's supreme governing body and the Russian Prime Minister, Vladimir Putin, is the Chairman of VEB's Supervisory Board. In addition to the Chairman of the Supervisory Board, the Supervisory Board consists of the Chairman of VEB and seven additional members appointed by the Russian Government for a five-year term. Although the applicable regulations allow for the nomination to the Supervisory Board of individuals that are not state officials, as at the date of this Base Prospectus, all members of the Supervisory Board are members of the Russian Government.

The Supervisory Board meets as often as necessary but at least once quarterly and has exclusive competence in respect of certain matters, including (among others):

- defining the key focus areas for VEB's activities within the scope of the 2007 Memorandum, including the parameters for VEB's investing and financing activities;
- establishing credit policies, limits and procedures, including, guidelines for the structure of VEB's loan portfolio and procedures for the provision of loans and guarantees to credit institutions and other legal entities;
- approving the internal by-laws and regulations governing its branches and representative offices and certain management bodies, such as the Management Board, the Internal Control Service and the Committee on Examining Borrowers' Applications for Refinancing under Foreign Loans;
- approving VEB's annual budget, annual reports and other fundamental internal documents (including credit policy regulations);
- approving the establishment of branches and representative offices;
- approving the appointment of external independent auditors, the procedures governing the activities of the Internal Control Service and appointing the head of VEB's Internal Control Service;
- establishing the methodology for calculating VEB's equity capital and capital adequacy ratio, impairment and other losses, as well as related provisioning policies;
- regulations governing VEB's lower management bodies
- approving any transaction (or related transactions) involving amounts equal to or exceeding 10% of VEB's equity as at the last accounting date preceding the date of the decision to enter into the transaction(s);
- establishing the maximum amount of free cash to be held by VEB to manage liquidity; and
- attending to other matters provided for by law, including the remuneration of and reimbursement of expenses to members of the Management Board.



As at the date of this Base Prospectus, the members of the Supervisory Board are:

<i>Name</i>	<i>Position</i>
<i>Vladimir Putin</i>	<i>Chairman of Supervisory Board</i>
<i>Viktor Zubkov</i>	<i>Member</i>
<i>Viktor Khristenko</i>	<i>Member</i>
<i>Sergei Ivanov</i>	<i>Member</i>
<i>Dmitry Kozak</i>	<i>Member</i>
<i>Alexei Kudrin</i>	<i>Member</i>
<i>Elvira Nabiullina</i>	<i>Member</i>
<i>Igor Levitin</i>	<i>Member</i>
<i>Vladimir Dmitriev</i>	<i>Chairman of VEB, Member ex officio</i>

***Vladimir Putin – Prime Minister of the Russian Federation***

Since May 2008, Mr. Putin has served as the Russian Prime Minister. From 2000 to 2008, Mr. Putin was the President of the Russian Federation. In 1999, Mr. Putin was appointed Secretary of the Russian Security Council and Head of the Russian Government. Prior to that, in 1997 and 1998, Mr. Putin served as First Deputy Chief of the Presidential Executive Office and as the Director of the Federal Security Service of the Russian Federation (“FSB”). In 1996, Mr. Putin served as Deputy Chief of the Russian President’s Business Administration Department. From 1991 to 1995, Mr. Putin served as Chairman of the committee for foreign relations of the city of St. Petersburg and, from 1994, also held the post of First Deputy Mayor of St. Petersburg. In 1990, Mr. Putin worked as an assistant rector of Leningrad State University for international affairs and later served as adviser to the mayor of Leningrad. From 1985 to 1990, Mr. Putin worked in East Germany for the Committee for State Security. Mr. Putin was born in 1952 and graduated from the Leningrad State University in 1975 with a degree in law.

***Viktor Zubkov – First Deputy Prime Minister of the Russian Federation***

Since 2008, Mr. Zubkov has served as First Deputy Prime Minister of Russian Federation. In 2007, Mr. Zubkov was appointed Prime Minister of the Russian Federation. In 2004, Mr. Zubkov was appointed as Head of the Federal Service for Financial Monitoring. In 2001, Mr. Zubkov was appointed as First Deputy Minister for Taxes and Duties and Head of the Financial Monitoring Committee of the Russian Federation. From 1999 to 2001, Mr. Zubkov served as Deputy Minister for Taxes and Duties and as Head of the Ministry’s department for St. Petersburg. From 1993 to 1999, Mr. Zubkov served as Deputy Head of Russia’s Federal Tax Service and Head of State Tax Inspectorate for St. Petersburg. From 1992 to 1993, Mr. Zubkov served as Deputy Head of the Foreign Relations Committee of St. Petersburg City Hall. Mr. Zubkov was born in 1941. He graduated from the Leningrad Agricultural Institute in 1965 with a degree in economics and started his career in the management of several agribusinesses and agribusiness departments of the Leningrad regional authorities.

***Viktor Khristenko – Minister of Industry and Trade of the Russian Federation***

Since 2008, Mr. Khristenko has served as Minister of Industry and Trade of the Russian Federation. In 2004, Mr. Khristenko was appointed Minister of Industry and Energy. From February to March 2004, Mr. Khristenko served as Acting Prime Minister of the Russian Federation. From 2000 to 2004, Mr. Khristenko served as Deputy Prime Minister. In 1999, Mr. Khristenko was appointed First Deputy Prime Minister. From 1998 to 1999, Mr. Khristenko served as First Deputy Finance Minister. From 1997 to 1998, Mr. Khristenko served as Deputy Finance Minister. In 1997, Mr. Khristenko was appointed as Presidential Plenipotentiary Envoy to the Chelyabinsk Region. From 1991 to 1996, Mr. Khristenko served as Deputy Governor of the Chelyabinsk Region. In 1990, Mr. Khristenko was elected Deputy to the Chelyabinsk City Council. Mr. Khristenko was born in 1957 and graduated in 1979 from the Chelyabinsk Polytechnic Institute with a degree in construction management and economics, and in 1995, with a doctorate in economics from the Academy of the National Economy under the Russian Government.

***Sergei Ivanov – Deputy Prime Minister of the Russian Federation***

In 2008, Mr. Ivanov was appointed Deputy Prime Minister of the Russian Federation. In 2007, Mr. Ivanov was appointed First Deputy Prime Minister of the Russian Federation. In 2005, Mr. Ivanov was appointed Deputy Prime Minister and Defence Minister of the Russian Federation. Since 2001, Mr. Ivanov has served as Defence Minister of the Russian Federation. In 1999, Mr. Ivanov was appointed as Secretary of Russia’s Security Council. In 1998, Mr. Ivanov was appointed Deputy FSB Director and Head of Analysis, Forecasting and

Strategic Planning. Following the Committee for State Security reorganisation, Mr. Ivanov pursued his career in the Foreign Intelligence Service and then in the FSB. From 1981 to 1998, Mr. Ivanov rose from the rank of detective officer of the First Chief Directorate of the Committee for State Security to First Deputy Head of a department in the Foreign Intelligence Service of the Russian Federation. Mr. Ivanov was born in 1953 in Leningrad and graduated from the Translation Department of the Philology Faculty of Leningrad State University, and later from the Higher Courses of the Committee for State Security in Minsk.

#### ***Dmitry Kozak – Deputy Prime Minister of the Russian Federation***

Since 2008, Mr. Kozak has served as Deputy Prime Minister of the Russian Federation. In September 2007, Mr. Kozak was appointed as Minister of Regional Development of the Russian Federation. In 2004, Mr. Kozak was appointed as Presidential Plenipotentiary Envoy in the Southern Federal District. In 2004, Mr. Kozak was appointed as Chief of the Government Staff. In 2003, Mr. Kozak was appointed as First Deputy Chief of the President's Executive Office. In 2000, Mr. Kozak was appointed as Deputy Chief of the President's Executive Office and Chairman of the Board of Trustees of the Centre for Strategic Studies. In 1999, Mr. Kozak was appointed Chief of the Government Staff with the rank of minister. In 1999, Mr. Kozak was elected chairman of the board of directors of the International Investment Financial Union. In 1998, Mr. Kozak served as Deputy Governor of St. Petersburg and Chairman of the Law Committee of the St. Petersburg Mayor's Secretariat. From 1996 to 1998, Mr. Kozak served as Chairman of the Law Committee of the St. Petersburg Mayor's Secretariat. From 1994 to 1996, Mr. Kozak served as Chairman of the Law Committee of St. Petersburg City Hall. From 1990 to 1994, Mr. Kozak successively served as Deputy Head of the Legal Department, Head of the Legal Sector and Head of the Legal Department of the St. Petersburg City Council. From 1985 to 1989, Mr. Kozak worked in the Leningrad Prosecutor's Office as prosecutor and senior prosecutor. Mr. Kozak was born in 1958 and graduated from Leningrad State University with a degree in law.

#### ***Alexei Kudrin – Deputy Prime Minister and Minister of Finance of the Russian Federation***

Since 2000, Mr. Kudrin has served as Deputy Prime Minister and Finance Minister of the Russian Federation. In 1999, Mr. Kudrin was appointed First Deputy Finance Minister of the Russian Federation. In 1999, Mr. Kudrin was appointed First Deputy Chairman of the Board of the Russian Federation's Unified Energy System. In 1997, Mr. Kudrin was appointed First Deputy Finance Minister of the Russian Federation. In 1996, Mr. Kudrin was appointed Deputy Head of the Presidential Executive Office and Head of the Main Control Directorate of the President of the Russian Federation. From 1993 to 1996, Mr. Kudrin was appointed Deputy Mayor, First Deputy Mayor, member of the City Government, and Chairman of the Economic and Finance Committee of St. Petersburg City Hall. From 1992 to 1993, Mr. Kudrin served as Chairman of the Main Financial Directorate of St. Petersburg City Hall (later renamed the Financial Committee). From 1991 to 1992, Mr. Kudrin served as Deputy Chairman of the Committee for Economic Development. In 1990, Mr. Kudrin was appointed Deputy Chairman of the Economic Reform Commission of the Leningrad Council's Executive Committee. Mr. Kudrin was born in 1960 and graduated from Leningrad State University in 1983 with a degree in Economics. Before enrolling at Leningrad University, Mr. Kudrin worked at the Soviet Union Defence Ministry's Academy of Logistics and Transport in Leningrad as a motor-vehicle mechanic and a practical training instructor at the engines laboratory. In 1985, Mr. Kudrin began post-graduate studies at the Economics Institute of the Soviet Union Academy of Sciences. After defending a PhD thesis, Mr. Kudrin engaged in research at the Institute of Social and Economic Problems of the Soviet Union Academy of Sciences.

#### ***Elvira Nabiullina – Minister of Economic Development of the Russian Federation***

Since 2008, Ms. Nabiullina has served as Minister of Economic Development of the Russian Federation. In 2007, Ms. Nabiullina was appointed Minister of Economic Development and Trade. From 2005, Ms. Nabiullina served as the Head of the Expert Council of the Organising Committee on Preparation for Russia's Presidency of the G8 in 2006 and Head of Research at the Centre for Strategic Research. From 2003 to 2005, Ms. Nabiullina served as President of the Centre for Strategic Research. From 2000 to 2003, Ms. Nabiullina served as First Deputy Minister of Economic Development and Trade. From 1999 to 2000, Ms. Nabiullina worked as Vice President of the Centre for Strategic Research. In 1999, Ms. Nabiullina was appointed as Executive Director of the Eurasian Ratings Service. From 1998 to 1999, Ms. Nabiullina was appointed Deputy Chairman of the Promtorgbank Board. From 1997 to 1998, Ms. Nabiullina served as Deputy Minister of Economy. From 1996 to 1997, Ms. Nabiullina was appointed as Head of the Department for Economic Reform of the Russian Ministry of Economy and a member of the Ministry's Board. From 1995 to 1996, Ms. Nabiullina was appointed Deputy Head of the Department for Economic Reform of the Russian Ministry of Economy. From 1994 to 1995, Ms. Nabiullina was appointed Deputy Head of the Department for Economic Reform and Head of the

Department for State Regulation of the Economy of the Russian Ministry of Economy. In 1994, Ms. Nabiullina was elected as an adviser at the Expert Institute of the Russian Union of Industrialists and Entrepreneurs. From 1992 to 1994, Ms. Nabiullina served as chief specialist and consultant for the Directorate of the Russian Union of Industrialists and Entrepreneurs on Issues of Economic Policy. From 1991 to 1992, Ms. Nabiullina served as chief specialist in the Directorate of the Managing Committee of the Soviet Union Scientific-Industrial Union on issues of Economic Reform in Moscow. Ms. Nabiullina was born in 1963 and graduated in 1986 from Lomonosov Moscow State University with a degree in economics.

### ***Igor Levitin – Minister of Transport of the Russian Federation***

Since 2004, Mr. Levitin has served as Minister of Transport of the Russian Federation. From 1996 to 2004, Mr. Levitin was employed at SeverStalTrans. In 1998, Mr. Levitin was appointed deputy chief executive officer of SeverStalTrans, where Mr. Levitin supervised the transport engineering sector, railway transport and seaport operations. From 1985 to 1994, Mr. Levitin served as section military commandant, head of a military transport department and deputy head of military transport on the Moscow railway. From 1983 to 1985, Mr. Levitin was appointed as military commandant for a section of railway and the Urgal station on the Baikal-Amur railway line. From 1976 to 1980, Mr. Levitin served in the South Army Group. From 1973 to 1976, Mr. Levitin worked on the Transdnestr Railway in the Odessa Military District. Mr. Levitin was born in 1952 and graduated in 1973 from the Railway Corps and Military Transport School in Leningrad and in 1983 from the Military Logistics Support and Transport Academy with a degree in railway engineering.

### ***Vladimir Dmitriev – Chairman of VEB***

In June 2007, Mr. Dmitriev began his current role as Chairman of VEB. From 2004 to 2007, Mr. Dmitriev served as chairman of the Bank for Foreign Economic Affairs of the Soviet Union (OJSC). From 2002 to 2004, Mr. Dmitriev served as deputy president and chairman of the board of the Bank for Foreign Trade of the Soviet Union. In 1993, Mr. Dmitriev was appointed as deputy chief executive officer of the Russian Finance Ministry Department, where he worked until 1997 when he was appointed as First Deputy Chairman of the Bank for Foreign Affairs of the Soviet Union, a position he held until 2002. From 1992 to 1993 Mr. Dmitriev served as First Secretary of the Russian Embassy at the Russian Ministry for Foreign Affairs and from 1987 to 1992, as second and first Secretary of the Soviet Union Embassy at the Soviet Union Ministry for Foreign Affairs. From 1986 to 1987, Mr. Dmitriev worked as a researcher at the Institute of World Economics and International Relations of the Soviet Union Academy of Sciences. From 1979 to 1986, Mr. Dmitriev worked as an *attaché* and third secretary for the Soviet Union Foreign Ministry Department. From 1975 to 1979, Mr. Dmitriev worked as an engineer for the State Committee of the Soviet Union Council of Ministers for Foreign Economic Relations. Mr. Dmitriev was born in 1953 and graduated in 1975 from the Moscow Finance Institute with a degree in international economic relations. Mr. Dmitriev holds a doctorate in economics and is a corresponding member of the Russian Academy of Natural Sciences.

The business address of each of the members of the Supervisory Board is the registered address of VEB at 9 Akademika Sakharova, Moscow B-78, GSP-6, 107996, Russian Federation.

### **Management Board**

The Management Board is VEB's collective executive body consisting of the Chairman of VEB and eight members appointed by the Supervisory Board upon recommendation of the Chairman of VEB. The Chairman of VEB heads the Management Board. The members of the Management Board are employees of VEB.

The Management Board meets at least once per month. The matters falling within its competence include (among others):

- preparing and submitting proposals to the Supervisory Board relating to (i) the key focus areas of VEB's activities within the scope of the 2007 Memorandum and (ii) the establishment of parameters for VEB's investment and financial operations;
- reviewing and submitting VEB's annual budget, revenue and annual reports, as well as proposals on VEB's profit allocation, to the Supervisory Board for approval;
- approving decisions on the financing of investment projects within thresholds established by VEB's by-laws;

- approving VEB’s staff list and employment terms and conditions for the hiring of all VEB employees, VEB’s organisational structure and other labour-related issues;
- approving any transaction or related transactions involving amounts from 2% and up to 10% of VEB’s equity as at the last financial year end accounting date preceding the date of the decision to enter into the relevant transaction; and
- other matters provided for by law.

As at the date of this Base Prospectus, the members of the Management Board are as follows:

<i>Name</i>	<i>Position</i>
<i>Vladimir Dmitriev</i>	<i>Chairman of VEB</i>
<i>Anatoly Tikhonov</i>	<i>First Deputy Chairman of VEB</i>
<i>Nikolay Kosov</i>	<i>First Deputy Chairman of VEB</i>
<i>Sergey Vasiliev</i>	<i>Deputy Chairman of VEB</i>
<i>Sergey Lykov</i>	<i>Deputy Chairman of VEB</i>
<i>Mikhail Kopeikin</i>	<i>Deputy Chairman of VEB</i>
<i>Anatoly Ballo</i>	<i>Deputy Chairman of VEB</i>
<i>Petr Fradkov</i>	<i>Deputy Chairman of VEB</i>
<i>Vladimir Shaprinsky</i>	<i>Chief Accountant of VEB</i>

***Vladimir Dmitriev – Chairman of VEB***

See “*Management and Employees—Management—The Supervisory Board—Vladimir Dmitriev*”.

***Anatoly Tikhonov – First Deputy Chairman of VEB***

In October 2008, Mr. Tikhonov was appointed to his current role as First Deputy Chairman of VEB. From July 2008 to October 2008, Mr. Tikhonov served as Deputy Chairman of the Krasnoyarsk Territory Government. From 2007 to 2008, Mr. Tikhonov was the Head of the Foreign Relations and Investment Department of the Krasnoyarsk Territory Administration. From 2003 to 2007, Mr. Tikhonov also served as the Head of the Russian Government Representation in Krasnoyarsk Territory. From 2003 to 2008, Mr. Tikhonov served as Deputy Governor of Krasnoyarsk Territory. From 1999 to 2003, Mr. Tikhonov served as Vice-Chairman of the St. Petersburg Administration Finance Committee. From 1996 to 1999, Mr. Tikhonov served as commercial director and vice president for economics and finances for the Russian non-governmental fund for disabled ex-servicemen. From 1987 to 1989, Mr. Tikhonov served in the armed forces of the Soviet Union. During 1987, Mr. Tikhonov worked as a court clerk for the Military Tribunal of the Moscow Garrison. Mr. Tikhonov was born in 1969 and graduated from Lomonosov Moscow State University in 1995 with a degree in jurisprudence. Following his graduation from Lomonosov Moscow State University in 1995, Mr. Tikhonov served as general director of CJSC “Bagram”.

***Nikolay Kosov – First Deputy Chairman of VEB***

In June 2007, Mr. Kosov was appointed as First Deputy Chairman of VEB. Mr. Kosov has served as Chairman of the Board of Directors of ROSEXIMBANK since 2004, member of the board of OJSC National Trade Bank since 2006 and member of the Board of Directors of OJSC “RZhd” since 2008. In 1998, Mr. Kosov was appointed First Deputy Chairman of Vnesheconombank of the USSR. From 1993 to 1998, Mr. Kosov served as First Deputy Director General and Director General of the All-Russian Automobile Alliance. From 1992 to 1993, Mr. Kosov served in the Russian Presidential Administration as Assistant to the Russian Vice-President. From 1977 to 1992 Mr. Kosov worked as a desk officer, senior desk officer, *attaché*, third, second and first secretary, and counsellor at the Soviet Union Embassy, as well as a Counsellor of Department of the Soviet Union Foreign Ministry. Mr. Kosov was born in 1955 and graduated from the Moscow State Institute of International Relations in 1977 with a degree in international relations. In 2000, he graduated from the Finance Academy under the Russian Government, having specialised in world economics. Mr. Kosov was awarded a Candidate of Economics degree in 2000.

### ***Sergey Vasiliev – Deputy Chairman of VEB***

In June 2007, Mr. Vasiliev was appointed to his current role as Deputy Chairman of VEB. From 2002 to 2007, he also served as Chairman of the Federation Council Committee for Financial Markets and Monetary Circulation. From 2001 to 2007, Mr. Vasiliev was a member of the Federation Council of the Federal Assembly. From 1999 to 2001, Mr. Vasiliev served as President of the International Centre for Socio-Economic Studies. From 1998 to 1999, Mr. Vasiliev served as a board member of International Investment Bank. From 1997 to 1998, Mr. Vasiliev served as First Deputy Head of the Russian Government Administration. From 1994 to 1997, Mr. Vasiliev was Russian Deputy Economics Minister, serving also as Secretary of State from 1995 to 1997. From 1991 to 1994, Mr. Vasiliev was Head of the Working Centre for Economic Reform under the Russian Government. From 1990 to 1991, Mr. Vasiliev served as chairman of the Leningrad City Council (*Lensoviet*). Standing Commission for Economic Reform. From 1979 to 1990, Mr. Vasiliev worked as an economist, senior economist, senior research worker and laboratory head at the Leningrad Finance and Economics Institute. Mr. Vasiliev was born in 1957 and graduated from the Leningrad Finance and Economics Institute in 1979 with a degree in economic cybernetics. Mr. Vasiliev holds a doctorate in economics.

### ***Sergey Lykov – Deputy Chairman of VEB***

In June 2007, Mr. Lykov was appointed to his current role as Deputy Chairman of VEB. From 2005 to 2007, Mr. Lykov was deputy chairman of Vnesheconombank of the USSR. From 1996 to 2005, Mr. Lykov worked for Eurofinance Mosnarbank as deputy board chairman and senior vice president. From 1994 to 1996, Mr. Lykov served as vice-president of Mosbusinessbank. From 1991 to 1994, Mr. Lykov served as First Deputy Director general and First Deputy Board Chairman at Commercial Bank “Eurofinance”. From 1981 to 1982, Mr. Lykov was employed by East-West United Bank in Luxembourg. From 1978 to 1991, Mr. Lykov worked as a lead consultant, chief expert, department head and deputy head of Gosbank of the Soviet Union Directorate. From 1976 to 1978, Mr. Lykov served in the armed forces of the Soviet Union. From 1975 to 1976, Mr. Lykov worked as a senior economist at Gosbank of the Soviet Union Directorate. Mr. Lykov was born in 1952 and graduated from the Moscow Finance Institute in 1975 with a degree in international economic relations.

### ***Mikhail Kopeikin – Deputy Chairman of VEB***

In December 2008, Mr. Kopeikin was appointed to his current role as Deputy Chairman of VEB. From September 2003, Mr. Kopeikin was Deputy Chief of the Administration of the Government of the Russian Federation. From June 2003, Mr. Kopeikin was Deputy Chief of the Administration of the Russian Government and Head of the Economics and Property Management Department. From 1996, Mr. Kopeikin worked at the Administration of the Russian Government where he was Head of the Economics and Investment Department, Head of the Economics Department and Head of the Economics and Property Management Department. From 1991 to 1996, Mr. Kopeikin was a Senior Executive at the Soviet Union Economics Ministry and the Finance Ministry of the Russian Federation. From 1989, Mr. Kopeikin worked at Gosplan of the Soviet Union. From 1976 to 1989, Mr. Kopeikin worked for the State Institute for Designing Plants of Basic Chemical Industry of Research and Production Association “Minudobreniya” of the Soviet Union Ministry for Manufacturing Mineral Fertilisers. Mr. Kopeikin was born in 1954 and is a doctor of economics, professor and Honoured Economist of the Russian Federation. Mr. Kopeikin graduated from the Ordzhonikidze Moscow Management Academy. In 1987, Mr. Kopeikin graduated from the professional development department of the All-Union Foreign Trade Academy. In 1988, Mr. Kopeikin graduated from the Moscow Professional Development Institute of Executives and Specialists in the Chemical Industry. In 1990, Mr. Kopeikin graduated from the Higher Economics Courses of Gosplan of the Soviet Union. In 1991, Mr. Kopeikin completed a course at the Scandinavian Management Centre in Stockholm, Sweden. In 1992, Mr. Kopeikin completed a course at the United Vienna Institute in Vienna, Austria. In 1994, Mr. Kopeikin was elected as a full member of the Russian Quality Problems Academy and in 1996 as a full member of the International Informatisation Academy. In 1999, Mr. Kopeikin received the academic title of professor. In 2002, Mr. Kopeikin was awarded the academic title of doctor of economics.

### ***Anatoly Ballo – Deputy Chairman of VEB***

In 2007, Mr. Ballo was appointed to his current role as Deputy Chairman of VEB. From 2005 to 2007, Mr. Ballo worked as a department director and directorate director at Vnesheconombank of the USSR. From 2002 to 2005, Mr. Ballo served as a deputy department head at Foreign Trade Bank (JSC). From 2000 to 2002, Mr. Ballo was a consultant to Vnesheconombank of the USSR. From 1992 to 2000, Mr. Ballo worked for the Russian Project Financing Bank in the roles of lead expert, manager, executive secretary of the board, executive director and financial director. During 1992, Mr. Ballo served as a chief expert to the CBR. From 1991 to 1992,

Mr. Ballo worked as a lead expert for Gosbank of the Soviet Union. From 1983 to 1991, Mr. Ballo worked as an economist and researcher at the Research Institute of Scientific and Technical Information and Construction Materials Industry Management of the Soviet Union Construction Materials Ministry. Mr. Ballo was born in 1961 and graduated from the Moscow Finance Institute in 1983 with a degree in international economic relations.

***Petr Fradkov – Deputy Chairman of VEB***

In June 2007, Mr. Fradkov was appointed to his current role as Deputy Chairman of VEB. From 2005 to 2007, Mr. Fradkov held the roles of deputy director, department director and First Deputy Director at Vnesheconombank of the USSR. From 2004 to 2005, Mr. Fradkov served as deputy general director of the Far East Shipping Company. From 2003 to 2004, Mr. Fradkov served as Deputy Representative for Vnesheconombank of the USSR in the United States and Department Head at Vnesheconombank of the USSR. Mr. Fradkov was born in 1978. He graduated from the Moscow Institute of International Relations of the Russian Foreign Ministry in 2000 with a degree in world economics. He also earned two master of business administration degrees in 2007 from the Kingston Business School of Kingston University and the Academy of National Economy under the Russian Government, and was awarded a candidate of economics degree from the latter.

***Vladimir Shaprinsky – Chief Accountant of VEB***

In June 2007, Mr. Shaprinsky was appointed to his current role as Chief Accountant of VEB. From 1988, Mr. Shaprinskiy worked for Vnesheconombank of the USSR as a department head and chief accountant. From 1979 to 2007, Mr. Shaprinsky held the roles of inspector, senior inspector, deputy chief accountant and chief accountant at Soyuzraschetimport of Vneshtorgbank of the Soviet Union. From 1977 to 1979, Mr. Shaprinsky served in the armed forces of the Soviet Union. In 1977, Mr. Shaprinsky worked at the Russian Soviet Federative Socialist Republic Ministry of Textile Industry. In 1977, Mr. Shaprinsky graduated from the Plekhanov Moscow Institute of National Economy, with a degree in finances and credit. From 1972 to 1973, Mr. Shaprinsky worked at the Research Institute of Pricing and the State Pricing Committee of the Soviet Union Council of Ministers. Mr. Shaprinsky was born in 1955.

The business address of the Chairman of VEB and each of the members of the Management Board is the registered address of VEB at 9 Akademika Sakharova, Moscow B-78, GSP-6, 107996, Russian Federation.

**The Chairman**

The Chairman of VEB is responsible for the day-to-day management of VEB. The Chairman of VEB is appointed for a term not exceeding five years with the approval of the President of the Russian Federation upon the nomination of the Prime Minister of the Russian Federation.

The Chairman of VEB is entitled to:

- act on behalf of and represent VEB in relations with governmental authorities, local authorities, foreign and international organisations and other entities;
- serve as the head of the Management Board and arrange for the implementation of decisions adopted by the Management Board and is *ex-officio* member of the Supervisory Board;
- approve any transaction (or related transactions) involving the acquisition, alienation or possible alienation by VEB of assets with a total book value below 2% of VEB's equity (*sobstvennie sredstva*) as at the last accounting date preceding the date of the decision to enter into the transaction(s);
- issue orders and instructions in connection with VEB's activities;
- delegate duties to his deputies who are other members of the Management Board;
- recommend candidates to the Management Board to be appointed or dismissed by the Supervisory Board;

- appoint and dismiss VEB’s employees; and
- decide on other matters provided by law for VEB’s competence, unless they fall within the competence exclusive of the Supervisory Board or the Management Board.

The Chairman of VEB is currently Vladimir Dmitriev. See “*Management and Employees—Management—The Supervisory Board—Vladimir Dmitriev*”.

### **Board Committees**

To assist VEB’s Supervisory Board and Management Board, the Credit Committee and the Committee for Development of Investment Operations have been established.

#### ***Credit Committee***

The Credit Committee prepares resolutions based on proposals made by VEB’s various business divisions in respect of the granting of loans, guarantees and other financing; equity participations and debt purchases; setting risk limits by counterparty and issuer; financing export support activities; debt recovery and proposed write-offs. The Credit Committee reports directly to the Management Board.

#### ***Committee for the Development of Investment Operations***

The main function of the Committee for the Development of Investment Operations is the preliminary selection of investment projects for further consideration by VEB. The Committee for the Development of Investment Operations reports directly to the Management Board. See “*Lending Policies and Procedures—Credit Approval*”.

### **INTERNAL CONTROL SERVICE**

VEB’s Internal Control Service is an internal division of VEB operating pursuant to the Development Bank Law and the Internal Control Service Regulation adopted by the Supervisory Board on 28 June 2007. The Internal Control Service is independent of VEB’s other departments and divisions and is responsible for conducting internal audits of VEB’s operations. The Head of the Internal Control Service (currently, Vyacheslav Ulupov) is appointed by the Supervisory Board. The Internal Control Service prepares quarterly reports for the Supervisory Board and reports directly to the Chairman of VEB with respect to its day-to-day activities.

The main functions of the Internal Control Service are (among others):

- supervising the financial, accounting and other reports and statements published by VEB (excluding press announcements or interviews with journalists);
- analysing the cost-effectiveness of VEB’s operations;
- co-ordinating between VEB’s internal divisions and external auditors and governmental bodies;
- undertaking reviews of the activities of VEB’s internal business divisions and other departments;
- reviewing all materials submitted by VEB to rating agencies; and
- analysing VEB’s human resource management system.

In addition, pursuant to the Internal Service Control Regulation, and subject to the decisions of the Supervisory Board or the Chairman of VEB, the Internal Control Service is authorised to oversee the activities of VEB’s banking subsidiaries.

## **COMPENSATION**

Pursuant to applicable law, the Russian Government sets the compensation payable to members of the Supervisory Board. No compensation has been paid to the members of the Supervisory Board since VEB's establishment in June 2007.

The Supervisory Board determines the amount of compensation payable to members of the Management Board. The aggregate amount paid to the members of the Management Board in 2009 was RUB 95 million. No bonuses were paid to the members of the Management Board based on the results of 2008 and 2009.

## **CONFLICT OF INTEREST**

As at the date of this Base Prospectus and, for the previous five years, none of the members of the Supervisory Board or members of the Management Board nor the Chairman of VEB:

- has had any convictions in relation to fraudulent offences;
- has been 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.

There are no potential conflicts of interest between any duties owed to VEB by the members of the Supervisory Board, the Management Board or the Chairman of VEB and their respective private interests or other duties.

## **EMPLOYEES AND TRAINING**

As at 31 December 2009, VEB had 19,189 employees including the employees of its subsidiaries and associates, whilst VEB itself had 1,680 employees as at the same date. VEB provides regular training to its employees in areas such as accounting and financial reporting, taxation, currency control and anti-money laundering. VEB shares its experience with other leading Russian and foreign financial institutions.

VEB's social programmes primarily aim to contribute to the welfare of employees and their families. VEB has also traditionally sought to provide social support for working women. Since 2008, all female employees with dependent children are entitled to have an extra day of holiday on 1 September of each year. In addition, they are entitled to have working days rescheduled to better accommodate their children's needs. An optional medical insurance package offered to female employees now includes, among others, a new "maternity care" option.



## THE ISSUER

VEB Finance Limited (the “**Issuer**”) was incorporated in Ireland on 1 March 2010, with registered number 481529 as a private company with limited liability under the Companies Acts 1963 - 2009 (as amended) of Ireland (the “**Companies Acts**”). The registered office of the Issuer is 53 Merrion Square, Dublin 2 and its phone number is +353 1 614 6240.

The authorised share capital of the Issuer is EUR 100 divided into 100 ordinary shares of par value EUR 1 each (the “**Shares**”). The Issuer has issued 1 Share, which is fully paid and is held on trust by TMF Management (Ireland) Limited (the “**Share Trustee**”) under the terms of a declaration of trust (the “**Declaration of Trust**”) dated 8 March 2010, under which the Share Trustee holds the Share 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 Share. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

TMF Administration 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 24 June 2010 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 two months written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider’s principal office is 53 Merrion Square, Dublin 2.

### Principal Activities

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 contracts 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 organised as a special purpose company. The Issuer was established to raise capital by the issuances of debt securities and to use the amounts equal to the proceeds of such issuances to advance loans to VEB.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Acts and those related to the establishment of the Programme and the Issue of the Notes thereunder. 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:

Sandra Richardson            53 Merrion Square, Dublin.

Neasan Cavanagh            53 Merrion Square, Dublin.

The Company Secretary is TMF Administration Services Limited.

The Directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the Directors is provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The Directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

Save as disclosed herein, there has been no material adverse change in the financial position or prospects of the Issuer since the date of its incorporation. The Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

### **Financial Statements**

Since its date of incorporation, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as at the date of this Base Prospectus. The Issuer intends to publish its first financial statements in respect of the period ending on 31 December 2010. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

The profit and loss account and balance sheet can be obtained free of charge from the specified offices of the Irish Paying Agent. 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 Deloitte & Touche of Earlsfort Terrace, Dublin 2 who are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

## FACILITY AGREEMENT

This Facility Agreement is made on 24 June 2010 between:

- (1) STATE CORPORATION “BANK FOR DEVELOPMENT AND FOREIGN ECONOMIC AFFAIRS (VNESHECONOMBANK)”, registration number 1077711000102 with its registered address at 9 Akademika Sakharova, Moscow B-78, GSP-6, 107996, Russia (the “Borrower”); and
- (2) VEB FINANCE LIMITED, a company incorporated in Ireland with limited liability, whose registered office is at 53 Merrion Square, Dublin 2, Ireland (the “Lender” or the “Issuer”).

Whereas:

- (A) The Lender has at the request of the Borrower agreed, pursuant, *inter alia*, to this facility agreement dated 24 June 2010 (the “Facility Agreement”) and any subordinated loan agreements to be entered into from time to time by the Lender and the Borrower in connection with the Programme (each a “Subordinated Loan Agreement”), to make available to the Borrower Loans in principal amounts which, when aggregated with the principal amounts advanced under any Subordinated Loan Agreement, will not exceed the total aggregate amount equal to the Programme Limit on the terms and subject to the conditions of this Agreement, as amended and supplemented in relation to each Loan by a Loan Supplement dated the Closing Date substantially in the form set out in Schedule 1 hereto (each, a “Loan Supplement”); and
- (B) It is intended that, concurrently with the granting of any Loan under this Agreement, the Lender will issue certain loan participation notes.

Now it is hereby agreed as follows:

### 1 Definitions and Interpretation

#### 1.1 Definitions

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

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

“**Agency Agreement**” means the paying agency agreement relating to the Programme dated 24 June 2010 between the Lender, the Borrower, the Trustee and the agents named therein, as may be supplemented by a Supplemental Agency Agreement and/or otherwise amended or supplemented from time to time;

“**Arrangers**” means Barclays Bank PLC, Citigroup Global Markets Limited, HSBC Bank plc and Société Générale or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement;

“**Base Prospectus**” means the base prospectus dated 24 June 2010 relating to the Notes, which comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive as it may be replaced, amended or supplemented from time to time;

“**Borrower Account**” means an account in the name of the Borrower as specified in the relevant Loan Supplement for receipt of Loan funds;

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

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

“**Business Day**” means (save in relation to Clause 4) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Loan Currency other than euro hereunder,

where payment is to be made by transfer to an account maintained with a bank in the Loan Currency, foreign exchange transactions may be carried on in the Loan Currency in the principal financial centre of the country of such Loan Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating, and (d) in relation to a Loan corresponding to a Series of Notes to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City;

“**Business Day Convention**” has the meaning specified in the relevant Loan Supplement;

“**Calculation Agent**” means, in relation to a Loan, The Bank of New York Mellon, London Branch or any person named as such in the relevant Loan Supplement or any successor thereto;

“**Call Option**”, if applicable, means the call option granted to the Borrower pursuant to the relevant Loan Supplement and the Conditions of the relevant Series of Notes;

“**Call Option Commencement Date**”, if applicable, has the meaning given to it in the relevant Loan Supplement;

“**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 Central Bank of the Russian Federation;

“**Change of Control**” means the occurrence of either (a) the Borrower ceasing at any time to be controlled by the Russian Federation or (b) the Russian Federation no longer has the right to appoint or remove a majority of the Borrower’s supervisory board;

“**Change of Control Payment Date**” means the Business Day falling 90 days after the Borrower gives notice to the Lender of a Change of Control pursuant to Clause 5.4 or, if such day is not a Business Day, the next following Business Day;

“**Change of Control Put Option**” means the change of control put option granted to Noteholders pursuant to the Conditions of a Series of Notes;

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

“**Conditions**” has the meaning ascribed to it in the Trust Deed;

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

“**Dealer Agreement**” means the dealer agreement relating to the Programme dated 24 June 2010 between the Lender, the Borrower, the Arrangers and the other dealers named therein or appointed pursuant to it, as it may be amended or supplemented from time to time;

“**Early Redemption Amount**” has the meaning specified in the relevant Loan Supplement;

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

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

“**Event of Default**” has the meaning assigned to such term in Clause 11.1 hereof;

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

- (a) moneys borrowed or raised (including the capitalised value of obligations under finance leases and hire purchase agreements which would, in accordance with IFRS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital) and interest and other charges thereon or in respect thereof;
- (b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;
- (c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;
- (d) any liability under any interest rate or currency hedging agreement (and the amount 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 the Borrower or any Subsidiary), at the relevant time);
- (e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and
- (f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group);

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

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

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

“**Group**” means the Borrower and its Subsidiaries taken as a whole, and a “member of the Group” means any of the Borrower or any of its Subsidiaries;

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

“**Interest Payment Date**” means the dates specified as such in the relevant Loan Supplement, or, in the event of a prepayment in whole or in part in accordance with Clauses 5.4 and 5.5, the date set for such redemption in respect of the part of the Loan to be redeemed;

“**Issue Date**” means the date specified as such in the relevant Loan Supplement;

“**Law on the Bank for Development**” means Federal Law of the Russian Federation No 82-FZ of 17 May 2007 “On the Bank for Development” (as amended, supplemented or superseded from time to time);

“**Law on Non-Commercial Organisations**” means Federal Law of the Russian Federation No.7-FZ of 16 January 1996 “On Non-Commercial Organisations” (as amended, supplemented or superseded from time to time);

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

“**Lender Agreements**” means the Dealer Agreement, this Agreement, the Agency Agreement and the Principal Trust Deed together with, in relation to each Loan, the relevant Subscription Agreement,

Loan Supplement, any Swap Agreement, the relevant Supplemental Agency Agreement (if any) and the relevant Supplemental Trust Deed;

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

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

“**Loan Currency**” means the currency specified as such in the relevant Loan Supplement;

“**Margin**” shall have the meaning given to such term in the Conditions of the relevant Series of Notes;

“**Material Adverse Effect**” means a material adverse effect on or a material adverse change in (a) the financial condition, assets or business of the Borrower or the consolidated financial condition, assets or business of the Group taken as a whole or (b) the Borrower’s ability to perform its obligations under a Loan Agreement or (c) the validity, legality or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement;

“**Maximum Rate of Interest**” shall have the meaning given to such term in the Conditions of the relevant Series of Notes;

“**Memorandum on Financial Policy of the Borrower**” means the memorandum on financial policies of the Borrower, adopted by the Government of the Russian Federation, as amended, supplemented or superseded from time to time;

“**Minimum Rate of Interest**” shall have the meaning given to such term in the Conditions of the relevant Series of Notes;

“**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) maintained in respect of such Notes;

“**Notes**” means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Loan and relating to a Loan as defined in the relevant Loan Supplement or a subordinated Loan pursuant to a Subordinated Loan Agreement;

“**Officers’ Certificate**” means a certificate signed by two officers of the Borrower one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower;

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

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

“**Potential Event of Default**” means any event which, after notice, the expiry of any grace period or passage of time or after making a determination on the fulfilment of any other requirements, would be an Event of Default;

“**Principal Subsidiary**” means at any relevant time a Subsidiary of the Borrower:

- (a) 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 10 per cent. of the total consolidated assets or the gross consolidated revenues of the Borrower 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 the Borrower (produced on the basis of IFRS, consistently applied) and its consolidated Subsidiaries; or

- (b) to which are transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

“**Principal Trust Deed**” means principal trust deed dated 24 June 2010 between the Lender and the Trustee, as it may be amended or supplemented from time to time;

“**Programme**” means the programme for the issuance of Loan Participation Notes by the Lender for the purpose of financing Loans;

“**Programme Limit**” means U.S.\$30,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement;

“**Prospectus Directive**” means Directive 2003/71/EC of the European Parliament and of the Council;

“**Put Option**”, if applicable, means the put option granted to Noteholders pursuant to the relevant Loan Supplement and the Conditions of the relevant Series of Notes;

“**Put Settlement Date**”, if applicable, has the meaning given to it in the relevant Loan Supplement;

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

“**Relevant Dealer(s)**” has the meaning specified in the Dealer Agreement;

“**Relevant Indebtedness**” means any Financial Indebtedness which:

- (i) (a) is in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument, which, in each case, is listed or quoted on any stock exchange or regulated trading system; and (b) was initially offered and distributed (as to more than 50 per cent. of the original principal amount of such debt) outside the Russian Federation; or
- (ii) is in the form of a loan to the Borrower or its Subsidiaries which is financed by the issuance of any of the foregoing forms of debt in (i)(a) above, where such issuance is by a special purpose company or a bank or any other entity and the rights to payment of the holders of such forms of debt are limited to payments actually made by either the Borrower or its Subsidiaries pursuant to such loan;

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

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

“**Roubles**” means the lawful currency of the Russian Federation;

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

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

“**Series Prospectus**” means a stand alone prospectus produced from time to time in relation to a Series of Notes and which incorporates by reference, supplements and/or amends the entire Base Prospectus;

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

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

“**Supplemental Agency Agreement**” means a supplemental agency agreement as may be entered into in respect of a Series of Notes dated the relevant Closing Date and made between the Lender, the Borrower, the Trustee, the Agents and the Swap Counterparties (substantially in the form set out in Schedule 3 of the Agency Agreement);

“**Supplemental Trust Deed**” means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender, the Trustee and the Swap Counterparties (if any) (substantially in the form set out in Schedule 9 of the Principal Trust Deed);

“**Swap Agreement**” means, if applicable, any agreement specified as such in the relevant Loan Supplement;

“**Swap Counterparty**” means, if applicable, any party specified as such in the relevant Loan Supplement;

“**Swap Loan**” means a Loan in relation to which the Lender has entered into one or more Swap Agreements with one or more Swap Counterparties;

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

“**Taxes**” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, 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 the Issuer 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;

“**Total Assets**” means the book value of the consolidated total assets of the Borrower as determined by reference to the Borrowers most recent annual consolidated balance sheet;

“**Trust Deed**” means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed (and as supplemented and/or amended from time to time) and specified as such in the relevant Loan Supplement;

“**Trustee**” means BNY Corporate Trustee Services Limited as trustee under the Trust Deed and any successor thereto as provided thereunder;

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

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



## 1.2 Other Definitions

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

## 1.3 Interpretation

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

- 1.3.1 All references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Agreement.
- 1.3.2 The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.
- 1.3.3 Words importing the singular number include the plural and vice versa.
- 1.3.4 All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- 1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.
- 1.3.6 All references to “this Agreement” or “this Facility Agreement” are references to this facility agreement dated 24 June 2010.

## 2 Loans

### 2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to the Borrower Loans in principal amounts which, when aggregated with the principal amounts advanced under any Subordinated Loan Agreement, will not exceed the total aggregate amount equal to the Programme Limit.

### 2.2 Purpose

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

### 2.3 Separate Loans

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

### **3 Drawdown**

#### **3.1 Drawdown**

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

#### **3.2 Loan Arrangement Fee**

In consideration of the Lender's undertaking to make a Loan available to the Borrower, the Borrower hereby agrees that it shall, one Business Day before each Closing Date, pay to the Lender, in Same-Day Funds, an arrangement fee in connection with the financing of such Loan, including negotiation, preparation and execution of all related documents and transactions and other costs connected with and necessary for the extension of the Loan (the "**Arrangement Fee**"). The Arrangement Fee shall be calculated taking into account the front-end commissions, fees and costs, properly documented and reasonably incurred by the Lender in connection with financing such Loan. The total amount of the Arrangement Fee is to be as specified in the relevant Loan Supplement.

#### **3.3 Disbursement**

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

#### **3.4 Ongoing Fees and Expenses**

In consideration of the Lender agreeing to make Loans to the Borrower and making available the facility hereunder, the Borrower shall pay in one or more instalments on demand to the Lender each year all properly incurred and documented ongoing commissions, costs, taxes and fees as set forth to the Borrower in an invoice from the Lender (including, without limitation, any corporate services provider fees, stock exchange fees, listing fees, audit fees, legal fees and the anticipated winding-up expenses of the Lender). If applicable, the Borrower shall also pay on demand to the Lender all ongoing commissions, costs and expenses connected with any corresponding Swap Agreement.

### **4 Interest**

#### **4.1 Rate of Interest for Fixed Rate Loans**

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

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Loan Supplement. For the avoidance of doubt, neither the Trustee nor the Agents will be responsible for determining the Fixed Amount or the Broken Amount.

#### **4.2 Payment of Interest for Fixed Rate Loans**

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid by the Borrower to the Lender in arrear, in accordance with Clause 6.1, in each case unless agreed otherwise.

### 4.3 Interest for Floating Rate Loans

**4.3.1** *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, such interest shall be paid by the Borrower to the Lender in arrear, in accordance with Clause 6.1, in each case unless agreed otherwise. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

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

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

(i) ISDA Determination for Floating Rate Loans

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

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

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

(ii) Screen Rate Determination for Floating Rate Loans

(x) Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(a) the offered quotation; or

(b) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. London time (in the case of LIBOR) or Brussels time (in the case of EURIBOR) on the Interest Determination Date in question. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent and the arithmetic mean of such offered quotations shall be determined using the remainder of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Loans is specified in the relevant Loan Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Loans will be determined as provided in the relevant Loan Supplement.

(y) If the Relevant Screen Page is not available or if, paragraph (x)(a) applies and no such offered quotation appears on the Relevant Screen Page or if paragraph (x)(b) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(z) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Loan Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Loan Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Loan Currency for a period equal to that which would have been used for the

Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Lender (with the consent of the Trustee) suitable for such purpose (which, for the avoidance of doubt, shall mean a bank or banks regularly providing such rates in the London inter-bank market or Euro-zone inter-bank market, as applicable)) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

#### **4.4 Accrual of Interest**

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

#### **4.5 Margin, Maximum/Minimum Rates of Interest and Rounding**

**4.5.1** If any Margin is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

**4.5.2** If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

**4.5.3** For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, “**unit**” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

#### **4.6 Calculations**

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

#### 4.7 **Determination and Notification of Rates of Interest and Interest Amounts**

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

#### 4.8 **Determination or Calculation by an Alternative Institution**

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Lender and the Borrower shall jointly appoint an alternative institution as Calculation Agent, whose determination of any rate or calculation shall (in the absence of manifest error) be final and binding on all parties.

#### 4.9 **Definitions**

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

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

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

- (i) if “**Actual/Actual**” or “**Actual/Actual-ISDA**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;

- (iii) if “**Actual/360**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (v) if “**30E/360**” or “**Eurobond Basis**” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (vi) if “**30E/360 (ISDA)**” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30; and

- (vii) if “**Actual/Actual-ICMA**” is specified in the relevant Loan Supplement:

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(i) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(ii) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

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

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

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



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

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

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

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

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified in the relevant Loan Supplement.

“**ISDA Definitions**” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case as specified in the relevant Loan Supplement or, failing that, as selected by the Calculation Agent.

“**Reference Rate**” means the rate specified as such in the relevant Loan Supplement.

“**Relevant Screen Page**” means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Supplement.

#### **4.10 Calculation Agent**

The Lender shall procure that there shall at all times be specified one or more Calculation Agents if provision is made for them hereon and for so long as any amount remains outstanding under a Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of the Borrower) appoint a leading bank or investment banking firm engaged in the inter-bank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both the Borrower and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to each particular Series.

### **5 Repayment and Prepayment**

#### **5.1 Repayment**

Unless agreed otherwise herein and in the applicable Loan Supplement, the Borrower shall repay each Loan (other than a Swap Loan) not later than 10.00 a.m. one Business Day prior to the Repayment Date therefor and shall repay each Swap Loan not later than 10.00 a.m. two Business Days prior to the Repayment Date.

## **5.2 Special Prepayment for Tax Reasons or Change in Circumstances**

If, as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application) in, the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in any Trust Deed, the Borrower would thereby be required to make or increase any payment due pursuant to any Loan Agreement as provided in Clauses 6.2 or 6.3 (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clauses 3 and 13), or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 8, and such additional amounts cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 10 days' notice to the Lender (which notice shall be irrevocable), prepay the relevant Loan in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

## **5.3 Illegality**

If, at any time after the date of the relevant Loan Supplement, by reason of the introduction of, or any change in, any applicable law or regulation or regulatory requirement or directive of any agency of any state the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the relevant Loan or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Loan, then upon notice by the Lender to the Borrower in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified the Borrower. If such a basis has not been determined within the 30 days, then upon notice by the Lender to the Borrower in writing, the Borrower shall prepay such Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on such date as the Lender shall certify to be necessary to comply with such requirements, subject to the right of the Lender to require prepayment earlier than set out in this Clause 5.3 the extent that any applicable grace periods permitted by law would otherwise be exceeded.

## **5.4 Prepayment in the Event of Change of Control**

**5.4.1** If, following a Change of Control, any Noteholder has exercised its Change of Control Put Option, the Borrower shall, on the Change of Control Payment Date, prepay the principal amount of the relevant Loan in an amount which corresponds to the aggregate principal amount of the corresponding Series of Notes in relation to which the Change of Control Put Option has been duly exercised in accordance with the Conditions of such Series of Notes.

**5.4.2** Promptly, and in any event within 10 calendar days after the date of any Change of Control, the Borrower shall deliver to the Lender a written notice in the form of an Officers' Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.

**5.4.3** The Lender shall notify the Borrower not more than three Business Days after receipt of notice thereof from the Paying Agent of the amount of each relevant Loan to be prepaid as a consequence of the exercise of the Change of Control Put Option by any Noteholders.

**5.4.4** For the avoidance of doubt, this Clause 5.4 may be disappplied under the terms of the relevant Loan Supplement.

## **5.5 Optional Prepayment under Call Option**

If Call Option is specified in the relevant Loan Supplement, the Borrower may, at its option at any time from the Call Option Commencement Date but prior to the Repayment Date on giving not less than 30 nor more than 60 calendar days' irrevocable notice to the Lender, in whole or in part, repay the Loan at the Early Redemption Amount. The notice to be given shall specify the date for repayment of the relevant Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the relevant Loan. Immediately on receipt of such notice, the Lender shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. The Loan shall be repaid on the date specified in such notice.

#### **5.6 Optional Prepayment under Put Option**

If a Put Option is specified in the relevant Loan Supplement, following notification from the Lender, the Borrower shall prepay the Loan (without premium or penalty), to the extent of the aggregate principal amount of the Notes to be properly redeemed in accordance with Condition 6 of the Conditions of the Notes, two Business Days prior to the Put Settlement Date.

#### **5.7 Reduction of a Loan Upon Redemption and Cancellation of Notes**

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions of the Notes, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that an amount of Notes has been surrendered to the Lender (as Issuer of such Notes) for cancellation by the Borrower or any of the Borrower's Subsidiaries and cancelled, the relevant Loan shall be deemed to have been prepaid by the Borrower in an amount corresponding to the aggregate principal amount of the Notes surrendered to the Lender for cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

#### **5.8 Payment of Other Amounts**

**5.8.1** If a Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clauses 5.2, 5.3, 5.4, 5.6 or pursuant to the terms of the relevant Loan Agreement, the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual receipt of payment by the Lender and all other sums payable by the Borrower pursuant to the relevant Loan Agreement.

**5.8.2** If, pursuant to Clauses 5.2 or 5.3, the Borrower elects to repay a Loan, it shall, on the date of prepayment, in addition to any amounts it is required to pay pursuant to sub-Clause 5.8.1 above, pay to the Lender by way of additional amounts a sum sufficient to ensure that the Lender is able to discharge in full its obligations under any relevant Swap Agreement and the Notes, in both cases (i) ignoring any limitation of the liability of the Lender to pay only sums actually received but treating all sums potentially payable by the Lender as due and (ii) treating any payment due by any Swap Counterparty but unpaid as of zero value.

#### **5.9 Provisions Exclusive**

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

#### **5.10 Ongoing Additional Interest Payments**

If, at any time after the date of the relevant Loan Agreement, (i) the Lender is obliged to make additional payments to a Swap Counterparty pursuant to a relevant Swap Agreement or (ii) any applicable Swap Agreement is terminated for any reason (including due to a default by a Swap Counterparty or a novation entered into in accordance with any Swap Agreement), then the Borrower will (i) on any date on which a termination payment or other payment is due under any such Swap Agreement; (ii) on each Interest Payment Date; and (iii) on the Repayment Date, pay to the Lender, by way of additional interest, a sum, calculated up to the date of such payment, sufficient to ensure that the Lender is able to discharge in full its obligations under any such Swap Agreement and the Notes due on such date, ignoring any limitation of the liability of the Lender to pay only sums actually

received but treating all sums potentially payable by the Lender as due and treating any payment due by any Swap Counterparty but unpaid as of zero value.

### **5.11 Interest Reimbursement**

If, pursuant to Clauses 5.2 to 5.6 or 11.3, (i) a Loan is declared due and payable, any relevant Swap Agreement is terminated and the sum paid by the Borrower in repayment of such Loan is greater than the amount required by the Lender to discharge in full its obligations under any such relevant Swap Agreement and the Notes, or (ii) for any reason any relevant Swap Agreement is terminated and the relevant Swap Counterparty is required by the terms of any such Swap Agreement to make a termination payment to the Lender, the Lender shall return to the Borrower, or to its order, an amount, by way of a reimbursement of interest payable on such Loan, equal to such excess sum.

### **5.12 Currency of Payment**

If applicable and in the event that (i) any payments in the Specified Currency as may be made by any Swap Counterparty under a relevant Swap Agreement on any date are insufficient to pay the amounts due and owing to the Noteholders on the relevant Interest Payment Date or Maturity Date in full (whether by reason of a Swap Counterparty default or otherwise), or (ii) any relevant Swap Agreement is terminated for any reason, the Borrower shall satisfy its obligations to make payments under the relevant Loan Agreement in whole or in part by the payment of amounts in the Specified Currency to the Notes Specified Currency Account (as defined in the relevant Supplemental Trust Deed).

### **5.13 No Prepayment due to Swap Agreements**

The Borrower and the Lender agree that the Borrower may not prepay any Loan, including in exercise of its rights, or pursuant to its obligations under Clauses 5.2 and 5.3 hereof, due to any increased payment required to be made under the relevant Loan Agreement (whether under Clause 6.2, 6.3 or 8 or the relevant Loan Supplement or otherwise) by the Borrower in relation to any Swap Agreement nor shall it be entitled to prepay any Loan in the event of the termination (whether due to a Swap Counterparty default or otherwise) of the corresponding Swap Agreement.

## **6 Payments**

### **6.1 Making of Payments**

All payments of principal and interest to be made by the Borrower under each Loan Agreement shall, in each case unless otherwise agreed:

- (i) in the case of a Loan other than a Swap Loan, be made to the relevant Account of the Lender not later than 10.00 a.m. one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds; and
- (ii) in the case of a Swap Loan, be made to the relevant Account of the Lender not later than 10.00 a.m. two Business Days prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds.

The Lender agrees with the Borrower that it will not deposit any other monies into such Account and will not withdraw any amounts from such Account other than as provided for and in accordance with the Trust Deed and the Agency Agreement.

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

All payments to be made by the Borrower under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any Taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in the Loan Currency equal to the full amount which it would have received had payment not been made subject to such Taxes together with

a sum (if any), calculated up to the date of such payment, sufficient to ensure that the Lender is able to discharge in full its obligations under such Loan Agreement due on such date, ignoring any limitation of the liability of the Lender to pay only sums actually received but treating all sums potentially payable by the Lender as due and treating any payment due by any relevant Swap Counterparty but unpaid as of zero value, and shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender in the Loan Currency for such payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to the obligations of the Lender pursuant to Clauses 10.5.1 and 10.5.3.

### **6.3 Withholding on a Series of Notes**

If the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower 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, or would otherwise be due but for the imposition of any such withholding or deduction for or on account of any such Taxes, in respect of a Series of Notes (including, if applicable, any Swap Agreement) in circumstances where the Lender, subject to receipt thereof, is required to pay additional amounts pursuant to Condition 8 or otherwise or in connection with its funding of any Loan or, if applicable, any Swap Agreement, the Borrower agrees to pay to the Lender, not later than 10.00 a.m. one Business Day (in the case of a Loan other than a Swap Loan) or two Business Days (in the case of a Swap Loan only), as the case may be, prior to the date on which payment from the Lender is due to the Noteholders of such Series or the relevant Swap Counterparty or such other party (as the case may be) in Same-Day Funds to the relevant Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to Condition 8 or in connection with the funding of any Loan or, if applicable, any Swap Agreement. However, immediately upon receipt by the Lender of any sums paid pursuant to this provision, to the extent that the Noteholders of such Series or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes or, if applicable, any Swap Agreement, the Lender shall repay such additional amounts to the Borrower (it being understood that neither the Lender, nor the Principal Paying Agent, nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series or such other party is entitled to such additional amount).

### **6.4 Reimbursement**

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which the Borrower has made a payment pursuant to this Clause 6 or obtains any other reimbursement in connection therewith, it shall pay to the Borrower 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 the Borrower 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 the Borrower, 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 the Borrower any information regarding its tax affairs or computations provided that the Lender shall notify the Borrower 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 the Borrower and pursuant to this Clause 6 an increased amount is paid by the Borrower 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 the Borrower) 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 the Borrower of the receipt of such tax refund and (upon instructions by the Borrower) promptly transfer the entire amount of the tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

## **6.5 Mitigation**

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower'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. The Borrower agrees to reimburse the Lender for all properly documented costs and expenses (including but not limited to legal fees) reasonably incurred by the Lender in connection with this Clause.

## **7 Conditions Precedent**

### **7.1 Documents to be Delivered**

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the persons mentioned in Clauses 14.12 and 14.13 hereof have agreed to receive process in the manner specified therein.

### **7.2 Further Conditions**

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement, (b) if applicable, performed its obligations to be performed on or before the relevant Closing Date under any relevant Swap Agreement and (c) the Lender shall have received in full the amount referred to in sub-Clauses 3.2 and 3.4, if due and payable, above, as specified in the relevant Loan Supplement.

## **8 Change in Law or Increase in Cost**

### **8.1 Compensation**

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

**8.1.1** subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement or, if applicable, any Swap Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in Clauses 6.2 or 6.3); or

**8.1.2** increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement or, if applicable, any Swap 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 Clauses 6.2 or 6.3); or

**8.1.3** imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan or, if applicable, any Swap Agreement,

and, if as a result of any of the foregoing:

- (i) the cost to the Lender of making, funding or maintaining such Loan or, if applicable, any Swap Agreement is increased; or
- (ii) the amount of principal, interest or other amount payable to or received by the Lender under such Loan Agreement or, if applicable, any Swap Agreement is reduced; or
- (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan or, if applicable, any Swap Agreement, then subject to the following, and in each such case:
  - (a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by an authorised signatory 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
  - (b) the Borrower, in the case of sub-clauses (i) and (iii) above, shall, on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

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

## **8.2 Mitigation**

In the event that the Lender becomes aware it is entitled (having exercised due care) to make a claim pursuant to Clause 8.1 the Lender shall consult in good faith with the Borrower 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, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless the Borrower agrees to reimburse the Lender such costs or expenses.

## **9 Representations and Warranties**

### **9.1 The Borrower's Representations and Warranties**

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

- 9.1.1** The Borrower is duly organised and incorporated and validly existing under the laws of the Russian Federation as a legal entity and each of its Principal Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation; the Borrower and each of its Principal Subsidiaries has the power and legal right to own its respective property and to conduct its business as currently conducted, except where the failure to do so would not have a Material Adverse Effect; the Borrower has the power and legal right to enter into and to perform its obligations under each Loan Agreement and to borrow Loans; the Borrower has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Loan

Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its terms.

- 9.1.2** The Borrower is a state corporation established and existing according to the Law on the Bank for Development and the Law on Non-Commercial Organisations, entitled to carry out banking operations under applicable Russian laws and is in full compliance with the mandatory economic ratios imposed by the Borrower's supervisory board and/or its applicable regulatory authorities.
- 9.1.3** The Loan Agreement, including each Loan Supplement in relation thereto, has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditor's 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 some concepts of English law are not recognised under Russian law and may not be enforceable.
- 9.1.4** The execution, delivery and performance of each Loan Agreement, including each Loan Supplement in relation thereto, by the Borrower 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 applicable to the Borrower including, without limitation, the Memorandum of Financial Policy of the Borrower as well as the rules and regulations of the Borrower; (ii) the constitutive documents, rules and regulations of any of the Principal Subsidiaries; or (iii) (to the extent that such conflict, breach or violation would have a Material Adverse Effect) any agreement or other undertaking or instrument to which the Borrower or any of its Principal Subsidiaries is a party or which is binding upon the Borrower or any of its Principal Subsidiaries or any of their assets, nor result in the creation or imposition of any Encumbrance on any of their assets pursuant to the provisions of any such agreement or other undertaking or instrument.
- 9.1.5** All consents, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian Federation required by the Borrower in connection with the execution, delivery, performance, legality, validity, enforceability, and, subject to Russian legal requirements, admissibility in evidence of each Loan Agreement have been obtained or effected and are in full force and effect other than, in each case, such consents, authorisations or approvals or filings required which may only be obtained after the date of any Loan Agreement which, where appropriate, the Borrower covenants that it will obtain promptly thereafter.
- 9.1.6** To the knowledge of the Borrower, having made proper enquiries, no event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Financial Indebtedness of the Borrower or any of its Principal Subsidiaries, as the case may be, and no such event will occur upon the making of the relevant Loan.
- 9.1.7** Except as disclosed in the Base Prospectus and/or the relevant Series Prospectus, if applicable, there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of the Borrower, threatened against the Borrower or any of its Principal Subsidiaries, the adverse determination of which could reasonably be expected to have a Material Adverse Effect.
- 9.1.8** The Borrower 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) or other legal and valid title to its property free and clear of all Encumbrances (other than Encumbrances not prohibited under Clause 10.1 (*Negative Pledge*)) which if existing would have a Material Adverse Effect and the Borrower's obligations under



the Loans will rank at least *pari passu* with all its other unsecured and unsubordinated Financial Indebtedness (apart from any obligations mandatorily preferred by law).

- 9.1.9** The most recent audited consolidated financial statements of the Borrower:
- (i) were prepared in accordance with IFRS, as consistently applied; and
  - (ii) save as disclosed therein, present fairly in all material respects the assets and liabilities as at that date and the results of operations of the Group as at the dates and in respect of the periods for which they were prepared.
- 9.1.10** Except as disclosed in the Base Prospectus and/or the relevant Series Prospectus, if applicable, there has been no material adverse change since the date of the last audited consolidated financial statements of the Borrower in the financial condition, results of business operations or prospects of the Borrower or the Group taken as a whole.
- 9.1.11** Under the laws of the Russian Federation it is not necessary that any Loan Agreement be filed, recorded or enrolled with any court or other authority in that jurisdiction and the execution, delivery and enforceability of each Loan Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim filed with a Russian court).
- 9.1.12** Neither the Borrower nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement.
- 9.1.13** Its execution of each Loan Agreement will constitute, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes.
- 9.1.14** The Borrower is in compliance with all laws and regulations applicable or relevant to it, except where failure to be so in compliance would not have a Material Adverse Effect.
- 9.1.15** Without any limitations to the statements set out in Clause 9.1.14 above, the Borrower is in compliance with the provisions of the Memorandum on Financial Policy of Borrower (as amended from time to time), regulations on management bodies of the Borrower (as amended from time to time) and other internal documents or by-laws of the Borrower (as amended from time to time).
- 9.1.16** The currency operations under and in connection with each Loan Agreement and the transactions contemplated thereby can be carried out by it freely without any restriction.
- 9.1.17** The Borrower is not subject to any economic normatives or other financial requirements established by the CBR with respect to credit institutions generally.
- 9.1.18** Neither the Borrower nor any of its Principal Subsidiaries:
- (i) is unable or has admitted its inability to pay its debts as they fall due, or, by reason of actual or anticipated financial difficulties, has suspended making payments on any of its debts or commenced negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness; or
  - (ii) has taken any action nor to the Borrower's knowledge have any other steps been taken by any other party or legal proceedings been started or, to the Borrower's knowledge, threatened in writing against the Borrower or any of its Principal Subsidiaries that could result in:
    - (A) revocation of the general banking licence of (a) any Principal Subsidiary or (b) the Borrower, if it obtains such licence;

- (B) a law or regulation which orders the Borrower to cease all or a material part of its banking operations being enacted;
- (C) any Principal Subsidiary seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation committee (*likvidatsionnaya komissiya*) or a similar officer of such Principal Subsidiary or any analogous procedure or event in any other relevant jurisdiction;
- (D) the institution of the supervision (*nablyudeniyе*), financial rehabilitation (*finansovoye ozdorovleniye*), external administration (*vneshnee upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) of any Principal Subsidiary that is not a credit organisation or where such Principal Subsidiary enters into a settlement agreement (*mirovoye soglasheniye*) with its bankruptcy creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” of 26 October 2002 (as amended or replaced from time to time) or any analogous procedure or event in any other relevant jurisdiction;
- (E) the institution of the financial rehabilitation (*finansovoye ozdorovleniye*), temporary administration (*vremennaya administratsiya*), bankruptcy management (*konkursnoye proizvodstvo*) or insolvent reorganisation (*reorganizatsiya*) with respect to any Principal Subsidiary that is a credit organisation, as such terms are defined in the Federal Law of the Russian Federation No. 40-FZ “On Insolvency (Bankruptcy) of Credit Organisations” dated 25 February 1999 (as amended or replaced from time to time), the commencement of any bankruptcy prevention measures by the Deposit Insurance Agency pursuant to the Federal Law of the Russian Federation No.175-FZ “On Additional Measures for Strengthening Stability of the Russian Banking System until 31 December 2011” dated 27 October 2008 (as amended or replaced from time to time) with respect to any Principal Subsidiary or any analogous procedure or event in any other relevant jurisdiction;
- (F) the initiation of proceedings in relation to the Borrower aimed at its reorganisation or liquidation or the commencement of any bankruptcy or analogous proceedings against the Borrower;
- (G) any judicial liquidation, dissolution, administration or winding-up in respect of the Borrower or any Principal Subsidiary; or
- (H) the Government of the Russian Federation or the shareholders of the Borrower or any Principal Subsidiary, as the case may be, approving any plan of dissolution, administration or winding-up of the Borrower or such Principal Subsidiary,

it being noted that in respect to all of the foregoing, the reorganisation, liquidation or commencement of analogous proceedings against the Borrower may only occur following an amendment to the law or the enactment of a new law; or

- (iii) has had any of its material assets expropriated, attached, sequestered, distressed or executed unless such expropriation, attachment, sequestration, distress or execution (i) was discharged or stayed within 20 Business Days or (ii) would not have a Material Adverse Effect

**9.1.19** There are no strikes or other employment disputes against the Borrower which are pending or, to the knowledge of the Borrower’s Management Board, threatened in writing which could reasonably be expected have a Material Adverse Effect.

**9.1.20** Except as disclosed in the Base Prospectus and/or the relevant Series Prospectus, in any proceedings taken in the Russian Federation in relation to each Loan Agreement, the choice of

English law as the governing law of each Loan Agreement and any arbitration award obtained in England pursuant to Clause 14.10.1 in relation to each Loan Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in Russia subject to any restrictions that apply by mandatory application of Russian laws.

- 9.1.21** As of the date of the Loan Supplement and the Closing Date (though not on any of the other dates included in the definition of Warranty Date) and subject to Clause 10.6.1, under the laws of the Russian Federation, it will not be required to make any deduction or withholding from any payment it may make hereunder.
- 9.1.22** It has no overdue tax liabilities which could have a Material Adverse Effect other than those which it has disclosed to the Lender prior to the date of the relevant Loan or which it is contesting in good faith.
- 9.1.23** All licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable each of the Borrower and its Principal Subsidiaries to own its assets and carry on its business:
- (i) are in full force and effect, save to the extent that those that are not would not have a Material Adverse Effect; and
  - (ii) will not be revoked or otherwise terminated, save to the extent that such revocation or termination would not have Material Adverse Effect,

and each of the Borrower and its Principal Subsidiaries has not received notice of any event or circumstance which might be expected to materially adversely affect its right to hold and/or obtain renewal of all such licences, consents, examinations, clearances, filings, registrations and authorisations and/or to obtain any new licences, consents, examinations, clearances, filings, registrations and authorisations which will be required to enable it to carry on its business or that of its Principal Subsidiaries.

- 9.1.24** The execution of a Loan Agreement and the performance of the obligations thereunder by the Borrower serve the objectives of the Borrower's operations specified in the Law on the Bank for Development (the "**Permitted Objectives**"), accord to such Permitted Objectives and, accordingly, any assets, including, without limitation, any funds, obtained by the Borrower pursuant to a Loan Agreement will be appropriated towards achievement of the Permitted Objectives.

## **9.2 Lender's Representations and Warranties**

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

- 9.2.1** The Lender is duly incorporated under the laws of Ireland and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.
- 9.2.2** The execution of the Lender Agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Ireland or the constitutive documents, rules and regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.
- 9.2.3** The Lender (i) is a company duly incorporated under Irish law which at the date hereof is resident for Irish taxation purposes in Ireland, is subject to taxation in Ireland on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Ireland merely on income from sources in Ireland or

connected with property located in Ireland, and (ii) save for any that may be created as a result of entering into this Agreement and the transactions contemplated herein, it does not have a permanent establishment in Russia.

**9.2.4** The Lender Agreements constitute legal, valid and binding obligations of the Lender.

**9.2.5** All Irish authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

## **10 Covenants**

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

### **10.1 Negative Pledge**

Neither the Borrower nor any of its Principal Subsidiaries will create or permit to subsist any Encumbrance (other than an Encumbrance upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation, asset-backed financing or like arrangement and whereby all payment obligations secured by such Encumbrance, or having the benefit of such Encumbrance, are to be discharged solely from such assets or revenues, provided that such Encumbrances shall not be incurred if that would result in the principal amount of such encumbered Relevant Indebtedness exceeding 15 per cent. of the total assets of the Borrower and its Subsidiaries on a consolidated bases (as reported in the most recent audited consolidated financial statements of the Borrower)) upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Relevant Indebtedness unless, at the same time or prior thereto, the Borrower's obligations hereunder are to the satisfaction of the Trustee secured equally and rateably therewith or benefit from such other security or other arrangements, as the case may be, to the satisfaction of the Trustee.

### **10.2 Maintenance of Authorisations**

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

### **10.3 Disposals**

- (a) The Borrower shall not (and shall ensure that no Principal Subsidiary shall) enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer or otherwise dispose of any of its respective assets.
- (b) Paragraph (a) above does not apply to any sale, lease, transfer or other disposal:
  - (i) made at arm's-length and in the ordinary course of business of the disposing entity;
  - (ii) of assets in exchange for other assets comparable or superior as to type, value and quality;
  - (iii) made by a Principal Subsidiary to either the Borrower or another Principal Subsidiary or to another Subsidiary that prior to or upon such sale, lease, transfer or other disposal becomes a Principal Subsidiary;
  - (iv) which would not otherwise have a Material Adverse Effect; or
  - (v) which is specifically required by the laws of the Russian Federation as they apply to the Borrower.

#### **10.4 Maintenance of Capital Adequacy**

The Borrower shall ensure that neither it nor any Principal Subsidiary which carries on a banking business (other than with respect to any such Principal Subsidiary acquired by the Borrower after 24 June 2010 directly or indirectly pursuant to the Borrower's role in stabilising the Russian banking system, for the period of one year from the date of any such acquisition) shall permit its total capital ratio to fall below the minimum total capital ratio required by, in the case of the Borrower, regulations implemented in accordance with the Memorandum on Financial Policy of the Borrower and, in the case of any other such Principal Subsidiary, the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in the jurisdiction in which such other Principal Subsidiary carries on its banking business (including, without limitation, any requirement of the CBR), such calculation to be made by reference to, in the case of the Borrower, the latest annual non-consolidated audited accounts of the Borrower prepared in accordance with Russian legislation and, in the case of each such Principal Subsidiary, the latest annual non-consolidated audited accounts of such Principal Subsidiary or, if such Principal Subsidiary does not prepare audited accounts, the latest annual non-consolidated unaudited accounts of such Principal Subsidiary (in either case as prepared under the accounting regulations used to calculate its capital adequacy in the relevant jurisdictions) provided that, should the Borrower or any other Principal Subsidiary carry on a banking business in more than one jurisdiction, it shall not permit its total capital ratio to fall below the minimum capital ratio required by the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in each such jurisdiction.

#### **10.5 Merger or Acquisition**

The Borrower shall (i) not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation as these terms are construed by applicable Russian legislation); and (ii) ensure that no Principal Subsidiary enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable legislation) if, in the case of (i) or (ii) above, any such reorganisation or other type of corporate reconstruction could reasonably be expected to result in a Material Adverse Effect, unless the surviving entity will be the Borrower or, if different, the surviving entity will succeed to and fully assume the obligations of the Borrower under this Agreement and all other related documents.

#### **10.6 Withholding Tax Exemption**

**10.6.1** The Lender shall use its reasonable endeavours to provide the Borrower no later than 10 Business Days before the first Interest Payment Date with respect to the first Loan made pursuant to this Agreement (and thereafter, using its reasonable endeavours, as soon as possible at the beginning of each calendar year but in any event by 16 January each 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 the Borrower 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.

**10.6.2** The Borrower and the Lender (each using its reasonable 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 Clause 10.6.1 will be deemed changed accordingly.

**10.6.3** The Lender shall within 30 days of the request of the Borrower (to the extent it is able to do so under applicable law including Russian laws) deliver to the Borrower 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 Clause 10.6.3 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 the Borrower shall be duly signed and apostilled or otherwise

legalised. The Lender shall provide the Borrower with all assistance it may reasonably require to ensure that the Borrower can deliver to the tax authorities the information or forms specified in this Clause 10.6.3. The Borrower 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 Clause 10.6.3. The Lender shall not be obligated to take any step under this sub-Clause 10.6.3 if, in the reasonable opinion of the Lender, to do so would be prejudicial to it (other than the incurrence of costs and expenses of an administrative nature).

## **10.7 Reports**

- 10.7.1** The Borrower will furnish to the Lender commencing with the year ending 2010, within nine months of the relevant year-end, a copy of its annual audited consolidated financial statements prepared in accordance with IFRS as consistently applied and in English, including a report thereon by the Borrower's certified independent accountants.
- 10.7.2** Within 30 calendar days of the close of each calendar quarter and within seven Business Days of any request by the Lender or the Trustee, the Borrower shall deliver to the Lender and the Trustee an Officers' Certificate, substantially in the form attached as Schedule 2, stating whether, to the knowledge of the Borrower, after due enquiry, any Potential Event of Default or Event of Default has occurred and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.
- 10.7.3** The Borrower will on request of the Lender provide the Lender with such further information, other than information which the Borrower determines in good faith to be confidential, about the business and financial condition of the Borrower and its Subsidiaries as the Lender may reasonably request (including information referred to in Clauses 14.5 and 14.12 of the Principal Trust Deed).
- 10.7.4** The Borrower consents that any information provided to the Lender pursuant to this Clause 10.7 and Clause 5.4 may also be provided to the Trustee without violating any duty of confidentiality or secrecy that the Lender may owe to the Borrower under the laws of Ireland.
- 10.7.5** The Borrower will, at the same time as delivering its annual audited consolidated financial statements pursuant to Clause 10.7.1 and within 30 days of a request from the Lender, deliver to the Lender an Officers' Certificate specifying those Subsidiaries which were, at a date no more than 10 days before the date of such Officers' Certificate, Principal Subsidiaries.
- 10.7.6** Within 30 calendar days of any request by the Lender, the Borrower shall provide an Officers' Certificate to the Lender setting out in reasonable detail the book value of any asset disposed of under sub-paragraph (iv) of Clause 10.3(b) and, within 60 calendar days of any request by the Lender, the Borrower shall provide an Officers' Certificate to the Lender setting out in reasonable detail the book value of all the Borrower's assets (calculated on a non-consolidated basis and in accordance with IFRS).
- 10.7.7** Delivery of such reports, information and documents to the Lender is for informational purposes only and the Lender's receipt thereof shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Borrower's compliance with any of their respective covenants hereunder (as to which the Lender and the Trustee is entitled to rely exclusively on Officers' Certificates).

## **10.8 Further Instruments and Acts**

Upon request of the Lender or the Trustee, the Borrower shall execute and deliver such further instruments and do such further acts as may be reasonably necessary to carry out more effectively the purpose of this Agreement.

## **10.9 Officers' Certificates**

- 10.9.1** Following the occurrence of any matter or event specified in this Agreement where this Agreement provides for a determination of whether such matter or event has or will have a

Material Adverse Effect, the Borrower shall provide the Lender (with a copy to the Trustee) with an Officers' Certificate certifying whether such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Lender and the Trustee shall each be entitled to rely solely on an Officers' Certificate from the Borrower, certifying whether or not such matter has or will have a Material Adverse Effect without liability to the Noteholders or any other person for so doing.

**10.9.2** The Borrower shall deliver within 14 days of any written request by the Trustee an Officers' Certificate addressed to the Trustee and to the Lender as to any fact or matter prima facie within the knowledge of the Borrower as sufficient evidence thereof and a like certificate to the effect that any particular dealing or transaction or step or thing is expedient, in the opinion of the person so certifying, shall be sufficient evidence that such dealing, transaction, step or thing is expedient and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by its failing to do so.

**10.9.3 Notes held by the Borrower:** Upon being requested in writing by the Lender or the Trustee, the Borrower shall deliver to the Lender and to the Trustee an Officers' Certificate of the Borrower setting out the total principal amount of Notes which, at the date of such certificate, are held by any person (including, but not limited to, the Borrower, the Lender or any of their respective Subsidiaries) for the benefit of the Borrower or any Subsidiary of the Borrower.

**10.9.4 Verification:** Neither the Lender nor the Trustee shall be under any obligation to verify the authenticity of any Officers' Certificate or any other certificate received by it or be responsible for determining the existence of any Event of Default or Potential Event of Default. The Lender and the Trustee shall each be at liberty to accept any aforementioned Officers' Certificate as sufficient evidence of any fact or matter stated in such Officers' Certificate and neither the Lender nor the Trustee shall be bound to call for further evidence or be responsible for any loss that may be occasioned by acting on such Officers' Certificate or selection or failure to determine the existence of any Event of Default or Potential Event of Default or whether any matter shall have a Material Adverse Effect.

## **11 Events of Default**

### **11.1 Events of Default**

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

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

**11.1.2** The Borrower fails to perform or observe any of its other obligations under a Loan Agreement and (except where in any such case that failure is not capable of remedy when no such notice as is hereinafter mentioned will be required) that failure continues for the period of 30 calendar days (or such longer period as the Lender may permit) next following the submission by the Lender to the Borrower of notice in writing requesting the same to be remedied.

**11.1.3** (i) The Borrower or any Principal Subsidiary fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes payable, taking into account any applicable grace period; or (ii) any Financial Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Borrower or such Principal Subsidiary or (provided that no event of default, howsoever described, has occurred) any person or entity entitled to such Financial Indebtedness; provided that the total amount of such Financial Indebtedness unpaid or becoming due and payable exceeds U.S.\$100,000,000 (or its equivalent in another currency).

**11.1.4** The Borrower or any Principal Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its Financial Indebtedness or makes

a general assignment for the benefit of or a composition with its creditors generally; provided that in the case of a Principal Subsidiary the same could have a Material Adverse Effect.

**11.1.5** The occurrence of any of the following events:

- (i) the Borrower or any Principal Subsidiary fails or is unable to pay its debts generally as they become due;
- (ii) revocation of the general banking licence, other licences, consents, examinations, clearances, filings, registrations and authorisations necessary for the carrying on of the business of (a) any Principal Subsidiary or (b) the Borrower, if it obtains such licence; in any such case (other than with respect to a general banking licence obtained by the Borrower) resulting in a Material Adverse Effect.
- (iii) a law or regulation ordering the Borrower to cease all or a material part of the banking operations it conducted at the date of a Loan Agreement has officially been published and is due to come into force;
- (iv) any Principal Subsidiary seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation committee (*likvidatsionnaya komissiya*) or a similar officer of such Principal Subsidiary or any analogous procedure or event in any other relevant jurisdiction;
- (v) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovlenie*), external administration (*vneshnee upravlenie*), bankruptcy management (*konkursnoye proizvodstvo*) of any Principal Subsidiary that is not a credit organisation or where such Principal Subsidiary enters into a settlement agreement (*mirovoye soglashenie*) with its bankruptcy creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” of 26 October 2002 (as amended or replaced from time to time) or any analogous procedure or event in any other relevant jurisdiction;
- (vi) the institution of the financial rehabilitation (*finansovoye ozdorovleniye*), temporary administration (*vremennaya administratsiya*), bankruptcy management (*konkursnoye proizvodstvo*) or insolvent reorganisation (*reorganizatsiya*) with respect to any Principal Subsidiary, as such terms are defined in the Federal Law of the Russian Federation No. 40-FZ “On Insolvency (Bankruptcy) of Credit Organisations” dated 25 February 1999 (as amended or replaced from time to time), the commencement of any bankruptcy prevention measures by the Deposit Insurance Agency pursuant to the Federal Law of the Russian Federation No.175-FZ “On Additional Measures for Strengthening Stability of the Russian Banking System until 31 December 2011” dated 27 October 2008 (as amended or replaced from time to time) with respect to any Principal Subsidiary or any analogous procedure or event in any other relevant jurisdiction;
- (vii) the initiation of proceedings in relation to the Borrower aimed at its reorganisation or liquidation or the commencement of any bankruptcy or analogous proceedings against the Borrower;
- (viii) any judicial liquidation, dissolution, administration or winding-up in respect of the Borrower or any Principal Subsidiary;
- (ix) the Government of the Russian Federation or the shareholders of the Borrower or any Principal Subsidiary, as the case may be, approving any plan of dissolution, administration or winding-up of the Borrower or such Principal Subsidiary; or
- (x) a moratorium is declared or *de facto* comes into effect on the payment of interest or repayment of principal on international debts of Russian residents generally or a class of Russian residents to which the Borrower or any Principal Subsidiary belongs,



Without prejudice to the foregoing, it is noted that in respect to all of the foregoing, the reorganisation, liquidation or commencement of analogous proceedings against the Borrower may only occur following an amendment to the law or enactment of a new law.

- 11.1.6** Any governmental authorisation necessary for the performance of any obligation of the Borrower under a Loan Agreement fails to be in full force and effect or the statutes or legislation relating to the status or capacity of the Borrower is amended in a way which would materially contravene or result in the contravention of any provision of a Loan Agreement and, without prejudice to any other provision under this Clause 11.1, such failure has not been remedied within 30 Business Days after the occurrence thereof.
- 11.1.7** Any governmental authority or court takes any action that has a Material Adverse Effect on the Borrower's ability to perform its obligations under a Loan Agreement or the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement.
- 11.1.8** Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of the Borrower or any Principal Subsidiary having a fair market value of more than U.S.\$100,000,000 or the equivalent thereof in any other currency or any event occurs which under the laws of any jurisdiction has a similar or analogous effect unless such execution, distress, enforcement of an Encumbrance or similar or analogous event is being contested in good faith by the Borrower and is not removed, paid out, stayed or discharged within 45 calendar days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.
- 11.1.9** The aggregate amount of unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against the Borrower and its Principal Subsidiaries exceeds U.S.\$100,000,000 or the equivalent thereof on any other currencies and there is a period of 45 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for ten days after the notice specified in Clause 11.2.
- 11.1.10** Any seizure, compulsory acquisition, expropriation, nationalisation without appropriate compensation or renationalisation after the date of a Loan Agreement by or under the authority of a government authority of all or part (the IFRS book value of which is 15 per cent. or more of the book value of the whole) of the assets of the Borrower or any Principal Subsidiary.
- 11.1.11** The Borrower ceases to be a development bank, implementing the Russian Federation's investment and development policy.
- 11.1.12** At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under a Loan Agreement or any of such obligations (subject as provided in Clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable.
- 11.1.13** The Borrower repudiates any Loan Agreement.
- 11.1.14** Any foreign exchange law is enacted or introduced in the Russian Federation which has the effect of prohibiting or restricting any payment that the Borrower is required to make pursuant to the terms of each Loan Agreement.
- 11.1.15** Any litigation, arbitration or administrative proceeding is current, threatened or pending against the Borrower or any Principal Subsidiary which is reasonably likely to be adversely determined and, if so adversely determined, would in the opinion of the Lender be reasonably likely to have a Material Adverse Effect.
- 11.1.16** Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

## 11.2 Notice of Default

The Borrower shall deliver to the Lender and the Trustee, within two Business Days after becoming aware thereof and, in accordance with Clause 10.7.2, within seven Business Days of any written request by the Lender or the Trustee and also within 30 days of the end of each calendar quarter, written notice in the form of an Officers' Certificate, substantially in the form attached as Schedule 2, of any event which is a Potential Event of Default or an Event of Default, its status and what action the Borrower is taking or proposes to take with respect thereto.

## 11.3 Default Remedies

**11.3.1** If any Event of Default shall occur, the Lender may, by notice in writing to the Borrower, (a) declare the obligations of the Lender under the relevant Loan Agreement to be immediately terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by the Borrower; provided, however, that if any event of any kind referred to in Clause 11.1.5 occurs, the obligations of the Lender under such Loan Agreement shall immediately terminate, and all amounts payable under such Loan Agreement by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all especially waived by the Borrower.

**11.3.2** If, pursuant to sub-Clause 11.3.1 above, a Loan is declared due and payable, then the Borrower shall, in addition to any amounts it is required to pay pursuant to sub-Clause 11.3.1 above, pay to the Lender, by way of additional amounts, a sum, calculated up to the date it repays the relevant Loan in full, sufficient to ensure that the Lender is able to discharge in full its obligations under any relevant Swap Agreement and the Notes, ignoring any limitation of the liability of the Lender to pay only sums actually received but treating all sums potentially payable by the Lender as due and treating any payment due by any relevant Swap Counterparties but unpaid as of zero value.

## 11.4 Rights Not Exclusive

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

## 12 Indemnity

### 12.1 Indemnification

The Borrower 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, of the exercise of the Borrower's powers, authorities and discretions and the performance of the Borrower's duties under, and in any other manner in relation to, this Agreement or any Loan Agreement, unless, in any such case, such Liability was caused by such Indemnified Parties' negligence or wilful misconduct or resulted from its breach of this Agreement. "**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 and properly documented out-of-pocket costs and expenses (including legal fees) on a full indemnity basis (but excluding any Liability that is the subject of the undertakings contained in Clause 13 and Clauses 14.2 and 14.6 of this Agreement to the extent such amounts due are paid in full).

## **12.2 Independent Obligation**

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

## **12.3 Evidence of Loss**

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

## **12.4 Survival**

The obligations of the Borrower pursuant to Clauses 6.2, 6.3, 12.1, 13.2, 14.2 and 14.6 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by the Borrower.

## **13 Fees and Expenses**

### **13.1 Front End Fees and Expenses for the Provision of the Loan by the Lender**

The Borrower shall, pursuant to Clause 3.2 hereof and the relevant Loan Supplement, pay the Lender front-end commissions, costs and fees in the Loan Currency incurred and properly documented by the Lender in connection with the financing, negotiation, preparation and execution of each Loan Agreement and all related documents and transactions and other costs connected with the extension of each Loan.

### **13.2 Payment of Ongoing Fees and Expenses**

In addition, the Borrower hereby agrees to pay to the Lender on demand in the Loan Currency all reasonably incurred and properly documented ongoing commissions, costs, taxes and fees payable by the Lender under or in respect of the Lender Agreements (including, without limitation, any corporate services provider fees, stock exchange fees, listing fees, audit fees, legal fees and the anticipated winding-up expenses of the Lender). Payments to the Lender referred to in this Clause 13.2 shall be made by the Borrower at least one Business Day before the relevant payment is to be made or expense incurred; provided that before such payment is made by the Borrower, the Lender shall (at least five Business Days prior to the relevant payment) submit an invoice providing, in reasonable detail, the nature and calculation of the relevant payment or expense.

## **14 General**

### **14.1 Evidence of Debt**

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

### **14.2 Stamp Duties**

**14.2.1** The Borrower shall pay all stamp, registration and documentary taxes, duties or similar charges (if any) imposed on the Borrower 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 any Loan Agreement and shall indemnify the Lender against any and all costs, expenses or penalties properly documented which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges.

**14.2.2** The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes, duties or similar charges (if any) imposed by any person in the Russian

Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as Notes of corresponding Series and any documents related thereto, the Borrower shall repay the Lender on demand an amount equal to such stamp or other documentary taxes, charges or duties incurred or actually paid by the Lender after documentary evidence has been provided to the Borrower that the Lender has incurred or paid such amount and shall indemnify the Lender against any and all costs and expenses properly documented and connected with the payment of such amounts.

### **14.3 Waivers**

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

### **14.4 Notices**

All notices, requests, demands or other communications to or upon the respective parties to each Loan Agreement shall be given or made in writing and in English by electronic communication, delivery by hand or fax to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Loan Agreement, addressed as follows:

#### **14.4.1 if to the Borrower :**

State Corporation “Bank for Development and Foreign Economic Affairs  
(Vnesheconombank)”  
Akademika Sakharova Prospekt, 9

Moscow, B-78, GSP-6, 107996

Russian Federation

Attention: Julia Slyusar, Head of Debt Finance Division

Tel: +7 (495) 721 98 40

Fax: +7 (495) 604 61 43

#### **14.4.2 if to the Lender:**

VEB Finance Limited  
53 Merrion Square  
Dublin 2  
Ireland

Attention: The Directors

Tel: + 353 1 614 6240

Fax: + 353 1 614 6250

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

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

## **14.5 Assignment**

**14.5.1** Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in Clause 14.5.3 below, shall be references to the exercise of such rights or discretions by the Trustee. Notwithstanding the foregoing, neither the Trustee nor any Swap Counterparty shall be entitled to participate in any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower pursuant to Clauses 6.4 or 6.5 or Clause 8.2.

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

**14.5.3** The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement except (i) with the prior written consent of the Borrower, to a company located in Ireland and/or (ii) in connection with the funding of each 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 each Loan Agreement and, in each case under (ii) hereof, the Borrower 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 the Loan 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.

## **14.6 Currency Indemnity**

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

## **14.7 Prescription**

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

## **14.8 Contracts (Rights of Third Parties) Act 1999**

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

#### **14.9 Governing Law**

This Agreement, and any non-contractual obligations arising out of or in connection with it, is governed by, and shall be construed in accordance with, English law.

#### **14.10 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 14.10 (a “**Dispute**”), shall be resolved:

**14.10.1** subject to Clause 14.10.2 below, 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. Save as provided in Clause 14.10.2, the parties agree to exclude the jurisdiction of the English courts under sections 45 and 69 of the Arbitration Act 1996; or

**14.10.2** at the sole option of the Lender, by proceedings brought in the courts of England, which courts are to have exclusive jurisdiction. If the Lender is in the position of a respondent and the Lender wishes to exercise this option, it must do so by notice to the other parties to the Dispute within 60 days of service on it of a request for arbitration.

For the avoidance of doubt, Clause 14.10.2 is for the benefit of the Lender alone and shall not limit the right of the Lender to bring proceedings in any other court of competent jurisdiction.

#### **14.11 Appropriate Forum**

Subject to Clause 14.10.1, each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.

#### **14.12 Lender’s process agent**

The Lender irrevocably appoints Aquila International Services Limited (the “**Lender’s Agent**”), of 2<sup>nd</sup> Floor, Berkeley Square House, Berkeley Square, London W1Y 6BD, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

**14.12.1** service upon the Lender’s Agent shall be deemed valid service upon the Lender at the expiry of 24 hours after the time of posting whether or not the process is forwarded to or received by the Lender;

**14.12.2** 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;

**14.12.3** 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

**14.12.4** nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

#### **14.13 The Borrower's process agent**

The Borrower irrevocably appoints the Representative Office of Vnesheconombank, London (the "**Borrower's Agent**"), of 101 St Martin's Lane, London WC2N 4AZ, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

**14.13.1** service upon the Borrower's Agent shall be deemed valid upon the Borrower at the expiry of 24 hours after the time of posting whether or not the process is forwarded to or received by the Borrower;

**14.13.2** the Borrower shall inform all other parties to this Agreement, in writing, of any changes in the address of the Borrower's Agent within 28 days of such change;

**14.13.3** if the Borrower's Agent ceases to be able to act as a process agent or to have an address in England, the Borrower 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

**14.13.4** nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

#### **14.14 Waiver of Immunity**

To the extent that the Borrower or the Lender may, in relation to any Dispute, claim in any jurisdiction, for itself or its assets or revenues, immunity from the jurisdiction of any court or tribunal, service of process, injunctive or other interim relief, or any process for execution of any award or judgment against its property, the Borrower and the Lender irrevocably waive such immunity to the full extent permitted by the laws of such jurisdiction.

#### **14.15 Counterparts**

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

#### **14.16 Language**

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

#### **14.17 Amendments**

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

#### **14.18 Partial Invalidity**

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

#### **14.19 Limited Recourse**

The Borrower 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, provided that, for as long as a Swap Agreement is in effect, recourse shall be limited in respect of amounts exchanged pursuant to such Swap Agreement (in each case after deduction on 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 relation to the Notes or the Swap

Agreement and for which the Lender has not recovered a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Lender in respect thereof pursuant to this Agreement or the Swap 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 Dealers (as defined in the Subscription Agreement) shall rank in priority to claims of the Borrower hereunder, and that any such claim by the Dealers or the Borrower 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 the Borrower 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 the Borrower 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.

None of the parties to this Agreement shall have recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

#### **14.20 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, 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.



**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed on the date first written above.

**For and on behalf of STATE CORPORATION “BANK FOR DEVELOPMENT AND FOREIGN ECONOMIC AFFAIRS (VNESHECONOMBANK)”:**

By:  
Title:

By:  
Title:

**Signed by a duly authorised attorney for and on behalf of VEB FINANCE LIMITED:**

By:  
Title:

Schedule 1  
Form of Loan Supplement

[DATE]

**STATE CORPORATION “BANK FOR DEVELOPMENT AND FOREIGN ECONOMIC AFFAIRS  
(VNESHECONOMBANK)”**

and

**VEB FINANCE LIMITED**

**LOAN SUPPLEMENT**

**to be read in conjunction with a Facility Agreement dated 24 June 2010  
in respect of  
a Loan of [●]  
Series [●]**

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

- (1) **VEB FINANCE LIMITED**, a company incorporated in Ireland with limited liability, whose registered office is at 53 Merrion Square, Dublin 2, Ireland (the “**Lender**”); and
- (2) **STATE CORPORATION “BANK FOR DEVELOPMENT AND FOREIGN ECONOMIC AFFAIRS (VNESHECONOMBANK)”**, registration number 1077711000102 with its registered address at 9 Akademika Sakharova, Moscow B-78, GSP-6, 107996, Russia (the “**Borrower**”).

**Whereas:**

- (A) The Borrower has entered into a facility agreement dated 24 June 2010 (such facility agreement, as may be amended or supplemented from time to time, the “**Facility Agreement**”) with the Lender in respect of the Borrower’s U.S.\$30,000,000,000 programme for the issuance of loan participation notes by the Lender (the “**Programme**”).
- (B) The Borrower proposes to borrow [●] (the “**Loan**”) and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

**It is agreed** as follows:

## **1 Definitions**

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

## **2 Additional Definitions**

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

“**Account**” means the account in the name of the Lender in the Loan Currency (account number [●], [●]) [and the Notes Specified Currency Account (as defined in the Supplemental Trust Deed)]; *[include if any Currency Swap Agreements is/are to be entered into, otherwise delete]*

“**Borrower Account**” means the account in the name of the Borrower (account number [●]).

“**Calculation Agent**” means [●]

“**Closing Date**” means [●];

[“**Early Redemption Amount**” means [●] per [●] amount of the Loan, plus accrued interest, if any, to the Call Redemption Date;] *[include if Call Option applicable, otherwise delete]*

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

“**Loan Currency**” means [●];

[“**Loan Interest Basis**” means the Rate of Interest specified in Clause 4.2 below;] *[include if any Interest Rate Swap Agreements is/are to be entered into, otherwise delete]*

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

[“**Notes Interest Basis**” has the meaning given to it in the relevant Final Terms;] *[include if any Interest Rate Swap Agreements is/are to be entered into, otherwise delete]*

[“**Put Settlement Date**” means [●];] *[include if Put Option applicable, otherwise delete]*

“**Rate of Interest**” has the meaning given to it in Clause 4.2 below;

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

[“**Specified Currency**” means [●];] [*Include if any Swap Agreements is/are to be entered into, otherwise delete*]

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

[“**Swap Agreement**” means the swap documentation between the Lender and [SWAP COUNTERPARTY A] dated [●] in respect of the [Loan Currency/Specified Currency currency swaps]/[Loan Interest Basis/Notes Interest Basis interest rate swaps] and “**Swap Agreement**” means any of them;] [*Include if one Swap Agreement is to be entered into, otherwise delete*]

[“**Swap Agreements**” means the swap documentation between (i) the Lender and [SWAP COUNTERPARTY A] and (ii) the Lender and [SWAP COUNTERPARTY B], each dated [●] in respect of the [Loan Currency/Specified Currency currency swaps]/[Loan Interest Basis/Notes Interest Basis interest rate swaps] and “**Swap Agreement**” means any of them;] [*Include if more than one Swap Agreements are to be entered into, otherwise delete*]

[“**Swap Counterparty**” means [●];] [*Include if one Swap Agreement is to be entered into, otherwise delete*]

[“**Swap Counterparties**” means [●], [●] and “**Swap Counterparty**” means any of them;] [*Include if more than one Swap Agreements are to be entered into, otherwise delete*]

[“**Treasury Rate**” means a rate equal to the yield, as published by the [●], on actively traded [●] with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the Calculation Date, the Treasury Rate will be calculated by reference to quotations from selected primary [●] dealers in [●] selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in [●] preceding the Call Redemption Date;] [*include if Call Option applicable, otherwise delete*] and

“**Trust Deed**” means Principal Trust Deed between the Lender and the Trustee dated [●] 2010 (as may be amended or supplemented from time to time) as amended and supplemented by a Supplemental Trust Deed dated [●] constituting and securing the Notes.

### **3 Incorporation by Reference**

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

### **4 The Loan**

#### **4.1 Drawdown**

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

#### **4.2 Loan Interest Basis**

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

- 4.2.1 Fixed Rate Loan Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Commencement Date: [●]
  - (ii) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually] in arrear
  - (iii) Interest Payment Date(s): [●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted]
  - (iv) Fixed Amount[(s)]: [●] per [●] in principal amount
  - (v) Broken Amount: *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount[(s)] and the Interest Payment Date(s) to which they relate]*
  - (vi) Day Count Fraction (Clause 4.9): [●]
- (Day count fraction should be Actual/Actual-ICMA for all fixed rate loans other than those denominated in U.S. dollars, unless specified)*
- (vii) Determination Date(s) (Clause 4.9): [●] in each year. *[Insert regular Interest Payment Dates, ignoring Issue Date or Maturity Date in the case of a long or short first or last Interest Period]\**
  - (viii) Other terms relating to the method of calculating interest for Fixed Rate Loans: [Not Applicable/give details]
- 4.2.2 Floating Rate Loan Provisions** [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Commencement Date: [●]
  - (ii) Interest Period(s): [●]
  - (iii) Specified Interest Payment Dates: [●]
  - (iv) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]

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

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

- (xi) Margin(s): [ +/-][●] per cent. per annum
- (xii) Minimum Rate of Interest: [●] per cent. per annum
- (xiii) Maximum Rate of Interest: [●] per cent. per annum
- (xiv) Day Count Fraction (Clause 4.6): [●]
- (xv) Rate Multiplier: [●]
- (xvi) Fall-back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement: [●]

**4.2.3 Prepayment in the Event of Change of Control** [Applicable]/[Not Applicable]

**4.2.4 Put Option** [Applicable]/[Not Applicable]

**4.2.5 Call Option** [Applicable]/[Not Applicable]

Call Option Commencement Date: [●]/[Not Applicable]

## **5 Fees and Expenses**

Pursuant to Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to the Borrower, the Borrower hereby agrees that it shall, one Business Day before the Closing Date, pay to the Lender, in Same-Day Funds, the Arrangement Fee calculated taking into account the front-end fees, commissions and costs incurred and properly documented by the Lender in connection with financing the Loan pursuant to an invoice submitted by the Lender to the Borrower in the total amount of [●].

## **6 Governing Law**

This Loan Supplement, and any non-contractual obligations arising out of or in connection with it, shall be governed by and construed in accordance with English law.

## **7 Limited Recourse and Non-Petition**

The provisions of clause 14.19 and 14.20 of the Facility Agreement shall apply to the parties to this Agreement as if specifically incorporated herein.

## **8 Jurisdiction**

The provisions of Clause 14.10 of the Facility Agreement shall apply to the parties to this Agreement as if specifically incorporated herein.

This Loan Supplement has been entered into on the date stated at the beginning.

**For and on behalf of STATE CORPORATION “BANK FOR DEVELOPMENT AND FOREIGN ECONOMIC AFFAIRS (VNESHECONOMBANK)”:**

By:

By:

Title:

Title:

**Signed by a duly authorised attorney for and on behalf of VEB FINANCE LIMITED:**

By:

Title:



**Schedule 2**  
**Form of Officers' Certificate**

[Date]

To: VEB Finance Limited

CC: BNY Corporate Trustee Services Limited as Trustee

From: State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"

We, the undersigned, on behalf of the Borrower, certify that to our knowledge, after due enquiry:

**1** Pursuant to Clause 10.7 (Reports) of the Agreement, we confirm that [no Event of Default or Potential Event of Default has occurred as of the date hereof (the "Certification Date")][an Event of Default][a Potential Event of Default] [has occurred] since the Certification Date of the last such certificate or (if none) the date of the Principal Trust Deed. [Delete as appropriate]

**2** [We intend to take the following actions to address the above mentioned [Event of Default][Potential Event of Default]:

[Describe actions being taken or proposed to be taken by the Borrower with respect to the Event of Default or Potential Event of Default] [Delete if no Event of Default or Potential Event of Default is being declared]

Terms used in this Certificate shall have the meanings given to them or incorporated by reference into the Facility Agreement dated 24 June 2010.

\_\_\_\_\_  
for and on behalf of  
**State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"**

\_\_\_\_\_  
for and on behalf of  
**State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"**

## TERMS AND CONDITIONS OF THE NOTES

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

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the “**Supplemental Trust Deed**”) supplemental to a trust deed dated 24 June 2010 (as may be amended or supplemented from time to time, the “**Principal Trust Deed**”), made between VEB Finance Limited (the “**Issuer**”) and BNY Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee and successors thereof for the holders of the Notes (the “**Noteholders**”) and, in the case of the Supplemental Trust Deed only, any Swap Counterparty (if any). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the “**Trust Deed**”.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing either a Senior Loan (if the status of the Loan is specified as “**Senior**” hereon) or a Subordinated Loan (if the status of the Loan is specified as “**Subordinated**” hereon and together with a Senior Loan, the “**Loans**”, and any one of them a “**Loan**”) to State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” (the “**Borrower**”) subject to, and in accordance with, either (i) in relation to a Senior Loan, a facility agreement between the Issuer and the Borrower dated 24 June 2010 (the “**Facility Agreement**”) as amended and supplemented by a loan supplement to be dated the Trade Date (the “**Loan Supplement**” and, together with the Facility Agreement, the “**Senior Loan Agreement**”) or (ii) in relation to a Subordinated Loan, a subordinated loan agreement between the Issuer and the Borrower to be entered into on the Trade Date (the “**Subordinated Loan Agreement**”). In these Terms and Conditions, “**Loan Agreement**” shall mean either (i) a Senior Loan Agreement (in respect of a Senior Loan) or (ii) a Subordinated Loan Agreement (in respect of a Subordinated Loan), as applicable.

In connection with a Loan, the Issuer and one or more swap counterparties (each a “**Swap Counterparty**”) specified hereon may enter into currency exchange transactions under swap documentation (each a “**Currency Swap Agreement**” and together the “**Currency Swap Agreements**”), or into interest rate exchange transactions under swap documentation (each an “**Interest Rate Swap Agreement**” and together the “**Interest Rate Swap Agreements**”, and any such Currency Swap Agreement and the Interest Rate Swap Agreement, a “**Swap Agreement**”).

If applicable, under any Currency Swap Agreement, the Issuer will agree to make payments of one currency (the “**Loan Currency**”) (subject to receipt of a corresponding amount thereof in the same currency under the Loan Agreement) against payment by any relevant Swap Counterparty of amounts in a different currency, being the Specified Currency (as set out in the relevant Final Terms) corresponding to the amounts due in the Specified Currency under the Notes and the Trust Deed from time to time. If applicable, under any Interest Rate Swap Agreement the Issuer will agree to make payments calculated on the interest basis set out in the relevant Loan Supplement or Subordinated Loan Agreement (the “**Loan Interest Basis**”) against payment by any relevant Swap Counterparty of amounts calculated on the interest basis set out in the relevant Final Terms (the “**Notes Interest Basis**”).

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 and retained net of tax by or for the account

of the Issuer from the Borrower pursuant to the Loan Agreement, or from any relevant Swap Counterparty under any applicable Swap Agreement less any amount in respect of the Issuer Reserved Rights (as defined in the Trust Deed).

The Issuer has (a) charged by way of first fixed charge in favour of the Trustee certain of (i) its rights and interests as lender under the Loan Agreement (other than the Issuer Reserved Rights and any amounts relating to the Issuer Reserved Rights) and, if applicable, as a counterparty under any relevant Swap Agreement and (ii) its rights, title and interest in and to all sums of money held from time to time in the Account and, if applicable, the Notes Specified Currency Account (as defined below) (the “**Charge**”), and (b) has assigned absolutely to the Trustee certain other rights under the Loan Agreement (other than the Issuer Reserved Rights) and, if applicable, any Swap Agreement (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 or, in certain circumstances, by a Swap Counterparty Direction (as defined in the Trust Deed) to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests), as more fully described in Condition 9 below.

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 and, if applicable, for the performance of the Issuer’s obligations (if any) under any Swap Agreement in each case, as trustee for itself and/or the Noteholders and any relevant Swap Counterparty on a *pari passu* basis, save that no Swap Counterparty shall benefit from the security in respect of any Swap Agreement.

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower and/or, if applicable, the Swap Counterparty) pursuant to a paying agency agreement dated 24 June 2010, and made between the Issuer, The Bank of New York Mellon, London Branch as principal paying agent, calculation agent and transfer agent (the “**Principal Paying Agent**”; a “**Transfer Agent**” and the “**Calculation Agent**”), The Bank of New York Mellon, New York Branch as U.S. paying agent and a transfer agent (the “**U.S. Paying Agent**” and a “**Transfer Agent**”), The Bank of New York Mellon (Ireland) Limited as a Irish paying agent (the “**Irish Paying Agent**”), The Bank of New York Mellon (Luxembourg) S.A. as Registrar (the “**Registrar**”), the Borrower and the Trustee (as may be amended or supplemented from time to time, the “**Agency Agreement**”), and as may be supplemented, if applicable, by a supplemental agency agreement dated the Issue Date specified hereon and made between the Issuer, the Borrower, the Principal Paying Agent and Registrar, any Swap Counterparty and the Paying Agents and Transfer Agents named therein (the “**Supplemental Agency Agreement**”). References herein to principal paying agent, registrar, paying agent or transfer agent shall include any additional or successor principal paying agent, registrar, paying agent or transfer agent.

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement, the Supplemental Agency Agreement (if applicable), any Swap Agreement (if applicable) and the Final Terms are available for inspection at the principal office of the Trustee being, at the date hereof, One Canada Square, London E14 5AL, United Kingdom and at the specified offices of the Principal Paying Agent and the Paying Agent located in Ireland.

The statements contained in these Terms and Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed), the Final Terms, the relevant Loan Supplement, the Agency Agreement and the relevant Supplemental Agency Agreement (if applicable). 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 Terms and Conditions shall, if defined in the Trust Deed, have the meanings given to them there.

## **1 Status**

The Notes constitute secured, limited recourse obligations of the Issuer. The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan or, if applicable, to fund any relevant payment under any Swap Agreement. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely to finance the Loan or, if applicable, to fund any relevant payment under any Swap Agreement and use the corresponding payment from the relevant Swap Counterparty to finance the 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 Loan Agreement or, if applicable, any amounts actually received and retained net of tax by or for the account of the Issuer pursuant to any corresponding Swap Agreement less any amounts in respect of the Issuer Reserved Rights.

If specified, the Issuer has entered into one or more Currency Swap Agreements pursuant to which the Issuer will exchange sums of money with the relevant Swap Counterparty in order to finance the Loan and exchange amounts due under the Loan Agreement from the Borrower in the Loan Currency. The Issuer will 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 in the Specified Currency pursuant to the Currency Swap Agreement following the exchange of amounts received from the Borrower pursuant to the Loan Agreement (less any amounts in respect of the Issuer Reserved Rights). In the event that any Currency Swap Agreement is terminated early, then the Borrower will make any further payments due under the Loan Agreement in the relevant Specified Currency and the Issuer will account to Noteholders for such sums in the relevant Specified Currency. Neither the Issuer nor the Borrower will have the right to prepay the Loan or redeem the Notes in such circumstances.

If specified, the Issuer has entered into one or more Interest Rate Swap Agreements pursuant to which the Issuer will agree to make payments calculated on the Loan Interest Basis against payment by any relevant Swap Counterparty of amounts calculated on the Notes Interest Basis. The Issuer will account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) calculated on the Notes Interest Basis pursuant to the relevant Interest Rate Swap Agreements following the exchange of amounts calculated on the Loan Interest Basis and actually received and retained net of tax by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of the Issuer Reserved Rights). In the event that one or more such Interest Rate Swap Agreements are terminated early, then the Borrower will make any further payments due under the relevant Loan Agreement on the relevant Notes Interest Basis. Neither the Issuer nor the Borrower will have the right to prepay or redeem the Notes in such circumstances.

The Trust Deed provides that payments in respect of the Notes equal to the sums actually received and retained net of tax by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement and/or, if applicable, any amounts actually received and retained net of tax by or for the account of the Issuer pursuant to any Swap Agreement will be made *pro rata* among all Noteholders, on the date of and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement and, if applicable, any Swap 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. 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 counterclaims that may arise out of other transactions between the Issuer and/or the Borrower.

Noteholders have notice of, and are deemed to have accepted, these Terms and Conditions, the Final Terms and the contents of the Trust Deed and the provisions applicable to them in the Agency Agreement, if applicable, any Swap Agreement and the Loan Agreement, and are deemed to have accepted the following:

- 1.1** neither the Issuer nor the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar nor any Transfer Agent 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, in the Loan Agreement (in the case of the Issuer) or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or, if applicable, any Swap Counterparty of its obligations under any corresponding Swap Agreement or the recoverability of any sum of principal or interest or any additional amounts due or to become due from the Borrower under the Loan Agreement or, if applicable, any amount due or to become due from any Swap Counterparty under any Swap Agreement;
- 1.2** neither the Issuer nor the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar nor any Transfer Agent 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 the Borrower or, if applicable, the Swap Counterparty;

- 1.3 neither the Issuer nor the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar nor any Transfer Agent shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement or, if applicable, any Swap Counterparty, under or in respect of any corresponding Swap 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 Registrar or any Transfer Agent of their respective obligations under the Agency Agreement and the Supplemental Agency Agreement, as the case may be;
- 1.5 the financial servicing and performance of the terms of the Notes depend upon performance by the Borrower of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing and, if applicable, upon the performance by any Swap Counterparty of its obligations under any relevant Swap Agreement. The Borrower has represented and warranted to the Issuer that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower;
- 1.6 the Issuer and the Trustee shall be entitled to rely on (i) Officers' Certificates (as defined in the relevant Loan Agreement) as to whether or not an Event of Default or Potential Event of Default (each as defined in the Loan Agreement) has occurred and the details of any steps being taken to remedy such Event of Default or Potential Event of Default if such an event has occurred and (ii) periodic Officers' Certificates (if any) identifying the Principal Subsidiaries (as defined in the Loan Agreement) of the Borrower (in each case, whether or not addressed to, or obtained by, the Issuer or the Trustee), and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation to the Loan Agreement and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Security Interests 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, the Principal Paying Agent, any Paying Agent, the Registrar nor any Transfer Agent 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 Terms and Conditions until the Issuer or the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar or any Transfer Agent, as the case may be, has received from the Borrower 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 required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement, which will or may affect payments made or to be made by the Borrower under the Loan Agreement, save to the extent that it has received additional amounts under the 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 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.

In respect of a Note issued under a Subordinated Series only (and to the extent subordination with respect to the Issuer is recognised under Russian law), the claims of the Issuer under the Loan Agreement constitute the direct, unconditional and unsecured subordinated obligations of the Borrower and will rank at least equally with all other unsecured and subordinated obligations of the Borrower (whether actual or contingent) as more fully set out in the relevant Subordinated Loan Agreement.

In the event that the payments under the Loan Agreement and, if applicable, any Swap Agreement are made by the Borrower and, if applicable, any Swap Counterparty 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 (unless, upon due presentation of a Note) payment is improperly withheld or refused.

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 Loan Agreement, any Swap Agreement (if applicable), the Loan, the Account (and the Notes Specified Currency Account (if applicable) or the Charged Property (as defined in the Trust Deed) exist for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or, if applicable, any Swap Agreement or direct recourse to the Borrower or, if applicable, any Swap Counterparty 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 Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take steps, actions or proceedings to enforce payment under the Loan Agreement or, if applicable, any relevant Swap Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction.

The obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equal to each sum actually received and retained by or for the account of the Issuer from the Borrower in respect of principal, interest or, as the case may be, other amounts relating to the Loan pursuant to the Loan Agreement provided that, for as long as a Swap Agreement is in effect, recourse shall be limited in respect of amounts exchanged pursuant to such Swap Agreement (in each case after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of or in relation to such sum or in respect of the Notes or the Swap Agreement 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 Loan Agreement) (less any amounts in respect of Issuer Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums actually received and retained net of tax or recovered by or on behalf of the Issuer or the Trustee (following an Issuer Relevant Event or (if applicable) an Event of Default). Noteholders shall look solely to such sums for payment to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. To the extent that such sums and the proceeds of the enforcement of the security relating to the Notes are less than the amounts that would otherwise be due to Noteholders if the full amount due under the Loan Agreement had been received and retained net of tax (the difference being the referred to as a "**shortfall**"), such shortfall shall be extinguished and Noteholders may take no further action to recover such amounts.

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 agreement entered into or made by the Issuer in respect of the Notes, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

## **2 Form, Denomination and Title**

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon or integral multiples thereof, without interest coupons, provided that (i) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$100,000 and (ii) the minimum Specified Denomination of any Notes shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

So long as any certificated Notes are represented by a Global Note and the relevant clearing system(s) so permit, those Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided hereon and higher integral multiples of U.S.\$1,000 (or its equivalent in other currencies).

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

## **3 Register, Title and Transfers**

The Registrar will maintain a register (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Terms and 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 require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

No transfer of a Note will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number) or a nominee.

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 or after any of the Notes have been called for redemption pursuant to Condition 6(c) or put for redemption pursuant to Condition 6(d).

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes in the schedules to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations and is available at the specified office of a Transfer Agent.

#### 4 **Restrictive Covenants**

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

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys other than the issue of notes on a limited recourse basis for the sole purpose of making loans to the Borrower, engage in any other business (other than entering into any agreements related to the issue of notes (including derivative transactions on a limited recourse basis) and performing any acts incidental to or necessary in connection with the issue of notes or such related agreements (including the holding of any security in connection therewith), making a loan to the Borrower pursuant to a loan agreement and performing any act incidental to or necessary in connection therewith), 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 Terms and Conditions and the Trust Deed), issue any shares (other than those in issue on the Issue Date), give any guarantee or assume any other liability, or, subject to the laws of Ireland, petition for any winding-up or bankruptcy.

#### 5 **Interest**

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) specified hereon. Accordingly, on each Interest Payment Date or as soon thereafter as the same shall be received by the Issuer and, if applicable, for as long as any Currency Swap Agreement is in effect, subject to exchange of such funds for equivalent amounts in the relevant Specified Currency under such Currency Swap Agreement, 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 under the Loan Agreement. If and for as long as any Interest Rate Swap Agreement is in effect, then, subject to receipt of amounts of interest actually received and retained net of tax by or for the account of the Issuer under the Loan Agreement calculated on the Loan Interest Basis and exchange of such funds for equivalent amounts calculated on the Notes Interest Basis, the Issuer shall, on each Interest Payment Date, account to Noteholders for an amount equal to the amount of interest due on the Notes on such Interest Payment Date.

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



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

- (i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, or as soon thereafter as the same shall be received by the Issuer, and, if applicable, for as long as any relevant Currency Swap Agreement is in effect, subject to exchange of such funds for equivalent amounts in the relevant specified Currency under any such Currency Swap Agreement, the Issuer shall account to Noteholders for an amount equivalent to amounts of interest actually received and retained net of tax by or for the account of the Issuer under the Loan Agreement. If and for so long as any Interest Rate Swap Agreement is in effect, then, subject to receipt of amounts of interest actually received and retained net of tax by or for the account of the Issuer under the Loan Agreement calculated on the Loan Interest Basis and exchange of such funds for equivalent amounts calculated on the Notes Interest Basis, the Issuer shall, on each Interest Payment Date, account to Noteholders for an amount equal to the amount of interest due on the Notes on such Interest Payment Date.
- (ii) *Business Day Convention:* If any date referred to in these Terms and Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and as set forth in the Facility Agreement.
- (c) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8) provided that the Issuer shall account to the relevant Noteholder *pro rata* for an amount equivalent to the amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement.
- (d) **Calculations:** Notwithstanding the fact that payments of any nature shall be made in the manner provided in Condition 1, the amount of interest payable in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount and the Day Count Fraction for such Interest Accrual Period as specified hereon and in the relevant Loan Supplement, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period is specified, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any

Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions made above shall apply save that the Day Count Fraction shall be for the relevant period for which interest is required to be calculated.

- (e) **Publication of Rates of Interest and Interest Amounts:** The Calculation Agent shall, as soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, the Borrower, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the prior written consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable as a consequence of amounts under the Loan Agreement becoming due and payable prior to the Repayment Date (as defined in the Loan Agreement), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5 but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.
- (f) **Determination or Calculation by Replacement Calculation Agent:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Issuer and the Borrower shall jointly appoint an alternative institution as Calculation Agent to do so. In doing so, such alternative institution shall apply the foregoing provisions of this Condition 5, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by such alternative institution shall (in the absence of manifest error) be final and binding upon all parties.

## 6 Redemption and Purchase

- (a) **Final Redemption:** Unless the Loan has been previously prepaid or repaid in full prior to the Repayment Date pursuant to the terms and conditions of the Loan Agreement, the Borrower will be required to repay the Loan on the Repayment Date and, if a Currency Swap Agreement is in effect, the Issuer shall pay such amounts actually received and retained net of tax in the Loan Currency to any relevant Swap Counterparty and such Swap Counterparty shall make payments of an equivalent amount in the Specified Currency. Subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will on that date be redeemed or repaid by the Issuer in the relevant Specified Currency on the Redemption Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 per cent. of the principal amount thereof) together with accrued interest.
- (b) **Early Redemption:** If the Loan should become repayable in full (and be repaid in full) pursuant to the terms and conditions of the Loan Agreement prior to its Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (as defined in the Facility Agreement) (which, unless

otherwise specified hereon, is par together with interest accrued to the date of redemption), and if any Swap Agreement is in effect, the Issuer shall pay such Early Redemption Amounts actually received and retained net of tax in the Loan Currency and/or on the Loan Interest Rate Basis, as the case may be, to any such relevant Swap Counterparty and any such Swap Counterparty shall make payments of an equivalent amount in the Specified Currency and/or calculated on the Notes Interest Basis, as the case may be) and the Issuer will endeavour to give not less than 14 days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14. For the avoidance of doubt, neither the Trustee nor any of the Agents (as defined in the Agency Agreement) (except, where applicable, the Calculation Agent) will be responsible for making any calculations of the Early Redemption Amount.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Issuer Reserved Rights) following acceleration and/or enforcement, as the case may be, of the Loan, the Issuer shall, if any Swap Agreement is in effect, pay such amounts actually received and retained net of tax in the Loan Currency and/or calculated on the Loan Interest Rate Basis, as the case may be, to any relevant Swap Counterparty and any such Swap Counterparty shall make payments of an equivalent amount in the Specified Currency and/or calculated on the Notes Interest Basis, as the case may be), following which the Issuer shall pay an amount equivalent to such amounts actually received and retained net of tax from the Borrower or any relevant Swap Counterparty, as the case may be, on the business day following receipt of such amounts, subject as provided in Condition 7.

- (c) **Call Option:** If Call Option is specified hereon, then, pursuant to Clause 5.5 of the Facility Agreement and the relevant Loan Supplement, the Borrower may, at its option at any time from the Call Option Commencement Date but prior to the Repayment Date (each as specified hereon) on giving not less than 30 nor more than 60 calendar days' irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount specified hereon (the "**Call Option**"). The notice to be given (the "**Call Option Notice**") shall specify the date for repayment of the Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. If the Loan should become repayable following exercise of the Call Option by the Borrower (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable, in whole or in part as specified in the Call Option Notice, and the Issuer shall, subject to receipt of such amounts from the Borrower under the Loan, redeem the Notes on the Call Redemption Date. In the case of a partial redemption, the Notes shall be redeemed *pro rata* or with the application of a pool factor or otherwise in such manner as the Trustee deems in its sole discretion appropriate, subject to compliance with any applicable laws and stock exchange or other regulatory requirements. The Issuer's obligations in respect of this Condition 6(c) to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Call Redemption Date for an amount equivalent to the sums actually received and retained net of tax by or for the account of the Issuer pursuant to the relevant Loan Agreement.
- (d) **Put Option:** If Put Option is specified hereon, the Issuer shall, at the option of any Noteholder, redeem such Note on the Put Settlement Date specified hereon (the "**Put Option**") at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed put option notice ("**Put Option Notice**") in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days prior to the Put Settlement Date. No Note so deposited may be withdrawn; provided, however, that if, prior to the Put Settlement Date, a Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Option Notice. The Issuer shall notify the Borrower, not more than three Business Days after receipt of notice thereof from the Paying Agent, of the amount of the Loan to be prepaid as a consequence of the exercise of the Put Option. Subject to timely receipt of the relevant amounts from the Borrower under the Loan

Agreement, the Issuer shall redeem the Notes in accordance with this Condition 6(d) on the Put Settlement Date, subject as provided in Condition 7.

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

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a “**Change of Control Put Event Notice**”) to the Noteholders in accordance with Condition 14 and to the Trustee and the Principal Paying Agent, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the option contained in this Condition 6(e).

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

For the purposes of these Terms and Conditions, a “**Change of Control**” shall occur at any time that (i) the Borrower ceases at any time to be controlled by the Russian Federation; or (ii) the Russian Federation no longer has the right to appoint or remove a majority of the Borrower’s supervisory board.

“**Change of Control Put Event**” means a Change of Control has occurred.

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

This Condition 6(f), with respect to cancellation of any Notes, will only apply to Notes issued under a Subordinated Series to the extent specified to be applicable in the relevant Final Terms.

- (g) **Compulsory Sale:** The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in

Rule 144A under the Securities Act) and also a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

## 7 Payments and Agents

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent or of the Registrar and in the manner provided in the paragraph below.

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

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

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

The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will be a Paying Agent and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other law implementing or complying with or introduced in order to conform to such Directive, and (iii) there will be a Calculation Agent for so long as any Notes are outstanding for which a Calculation Agent is required. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days’ and not less than 30 days’ notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement and, if applicable and for so long as any relevant Swap Agreement is in effect, exchanged for the Specified Currency and/or an equivalent amount calculated on the Notes Interest Basis, as the case may be, pursuant to any such relevant Swap Agreement.

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 7 of the Agency Agreement, require the Borrower to make all payments of principal and interest to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the “**Account**”) held with the Principal Paying Agent. Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account (with the exception of sums relating to the Issuer Reserved Rights) in favour of the Trustee for the benefit of the Trustee and the Noteholders. For so long as any Currency Swap Agreement is entered into in respect of the relevant Series then the Issuer will require the Borrower to make all payments of principal and interest to be made pursuant to the Loan Agreement to the Principal Paying Agent in the Loan Currency to the Account. All payments to be made by any Swap Counterparty under any Swap Agreement will be made to the Principal Paying Agent in the Specified Currency to an account in the name of the Issuer (the “**Notes Specified Currency Account**”). In these circumstances, under the Charge, the Issuer will charge by way of fixed first charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account and in the Notes Specified Currency Account in favour of the Trustee for the benefit of the Trustee and 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 the Borrower under the Loan Agreement. To the extent that the Issuer receives a lesser amount from the Borrower, 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 and retained net of tax by, or for the account of, the Issuer pursuant to the 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:

- (a) 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;
- (b) 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;
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) 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 Loan Agreement, or, if applicable, a Swap Agreement, first becomes due but (ii) if the full amount payable by the Borrower, or any Swap Counterparty, as the case may be, has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement, or the relevant Swap Agreement, as the case may be, on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

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

## **9 Enforcement**

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

In acting as Trustee under the Trust Deed, the Trustee shall not assume any duty or responsibility to any relevant Swap Counterparty (other than to pay, or procure that the Principal Paying Agent pays, to any such party any moneys received and payable to it pursuant to Clause 8 of the Trust Deed) and shall have regard solely to the interests of the Noteholders. In the event that there is more than one relevant Swap Counterparty and the Trustee has received more than one Swap Counterparty Direction and the instructions given therein are conflicting, the Trustee shall only have regard to the Swap Counterparty Direction which it received first.

At any time after the occurrence of (i) an Event of Default in respect of a Senior Note (as defined in the Senior Loan Agreement); or (ii) an Event of Default in respect of a Subordinated Note (as defined in the Subordinated Loan Agreement) or if an Issuer Relevant Event (as defined in the Trust Deed) has occurred, the Trustee may, at its discretion and without notice, take such steps or actions or institute such proceedings as it may think fit (subject to the non-petition covenant in Condition 1) to enforce the rights of the Noteholders and the provisions of these presents (which, for the avoidance of doubt, in the case of an Issuer Relevant Event, shall include enforcing the security created hereunder by the Issuer and, in the case of an Event of Default, shall include (i) (in the case of a Note issued under a Senior Series (as defined in the Trust Deed) only) declaring all amounts payable under the relevant Loan Agreement by the Borrower or terminating any relevant Swap Agreement or (ii) (in the case of a Note issued under a Subordinated Series (as defined in the Trust Deed) only) taking the action permitted by the Issuer under each relevant Subordinated Loan Agreement or any relevant Swap Agreement but, in each case, the Trustee shall not be bound to take any such steps, actions or institute such proceedings or action under these presents or the Notes unless (i) so requested to do so in writing by Noteholders owning 25 per cent. in aggregate principal amount of the relevant Notes outstanding or if directed to do so by an Extraordinary Resolution or (ii), if applicable, it shall have received a Swap Counterparty Direction (as defined in the Trust Deed), and, in each case, subject to its being secured and/or indemnified and/or prefunded to its satisfaction against all Liabilities (as defined in the Trust Deed) to which it may thereby become liable and all Liabilities which may be incurred by it in connection therewith. In the event that the Trustee shall have been directed by Noteholders and shall have received a Swap Counterparty Direction and the instructions given in such directions are conflicting, the Trustee shall only have regard to the direction which it received first. Upon repayment of the Loan following an Event of Default and a declaration as provided herein, any Swap Agreement will be terminated and the Notes will, subject to the provisions of the Trust Deed and these Terms and Conditions, be redeemed or repaid at their principal amount together with interest accrued thereon to the date fixed for redemption and thereupon shall cease to be outstanding.

## **10 Meetings of Noteholders; Modification of Notes, Trust Deed, Loan Agreement and Swap Agreements; 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 Loan Agreement, any Swap Agreement or the Trust Deed. Noteholders will vote *pro rata* 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 Loan Agreement and any applicable Swap 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 resolution in writing signed by or on behalf of the holders of 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in like form, each signed by or on behalf of one or more Noteholders.

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or the Loan Agreement or any relevant Swap Agreement (subject to certain exceptions as provided in the Trust Deed), which in the opinion of the Trustee, in each case following, is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders.

The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Terms and Conditions of the Notes, the Trust Deed, the terms of the Loan Agreement or the terms of any relevant Swap Agreement (subject to certain exceptions as provided in the Trust Deed). Any such 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, having obtained the written consent of the Borrower (if such substitution is not to be made at the request of the Borrower), and any relevant Swap Counterparty and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as party to the Loan Agreement and, if applicable, any relevant Swap Agreement as issuer and obligor in respect of the Notes and as obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement and, if applicable, any Swap 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 (as defined in the Trust Deed), 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 resignation 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 steps, actions or proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction and for it to be paid its costs and expenses in priority to the claims of the Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or the Borrower and/or any Swap Counterparty and any entity related to the Issuer and/or the Borrower and/or any Swap Counterparty 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 Loan Agreement or any Swap 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 the Borrower of its obligations under or in respect of the Loan Agreement or by any Swap Counterparty under any relevant Swap Agreement. The Trustee shall not assume any duty or responsibility to any relevant Swap Counterparty except as provided in the Trust Deed. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests. The Trustee is entitled to assume that the Borrower is performing all of its obligations pursuant to the Loan Agreement (and shall have no liability to any person for doing so).

### **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 the Principal 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 Irish Stock Exchange and the guidelines of that exchange so require, filed with the Companies Announcement Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

### **15 Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer, the Trustee and, if applicable, any Swap Counterparty. 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 loan agreement supplemental to the Loan Agreement with the Borrower on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Loan) and, if applicable, enter into one or more swap agreements on substantially the same terms as any existing Swap Agreement or amend and restate the Loan Agreement and, if applicable any Swap Agreement 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 Loan Agreement and, if applicable, any Swap Agreement as so supplemented or amended and restated and will assign absolutely certain of its rights under such further Loan Agreement and (any Swap Agreement as supplemented or amended and restated 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 and Jurisdiction**

The Notes, the Agency Agreement and the Trust Deed, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England..

## SUMMARY OF THE PROVISIONS RELATING TO NOTES IN GLOBAL FORM

### The Global Notes

Unless otherwise indicated in the relevant Final Terms, each Series of Notes will be evidenced on issue by (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co., as nominee of DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—*Exchange for Definitive Notes—Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all relevant Dealers have so certified, (the “**distribution compliance period**”), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “*Transfer Restrictions*”. Unless otherwise indicated in the relevant Final Terms, beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See “—*Exchange for Definitive Notes—Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), 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 Agency Agreement, and with respect to Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under “*Transfer Restrictions*”. A beneficial interest in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note in denominations greater than or equal to the minimum denominations applicable to interests in a 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 a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a 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 a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the 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 certificated Notes in definitive form (the “**Definitive Notes**”). The Notes are not issuable in bearer form.

### *Amendments to Conditions*

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- *Payments.* Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes. All payments in respect of the Notes represented by a Global Note will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday (inclusive), except 25 December and 1 January.
- *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, and such notice shall be deemed to have been given on the date of delivery to the relevant clearing system, 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 filed with the Companies Announcements Office of the Irish Stock Exchange.
- *Meetings.* The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.
- *Trustee's Powers.* In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.
- *Redemption at the Option of Noteholders.* If a Change of Control Put Event (as defined in the “*Terms and Conditions of the Notes*”) occurs, the Issuer must, upon becoming aware of the occurrence of a Change of Control, promptly give notice to the Noteholders in accordance with the “*Terms and Conditions of the Notes*” and the standard procedures of DTC, Euroclear and Clearstream, Luxembourg of such Change of Control. For so long as all of the Notes are represented by the Global Notes and such Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg and DTC, as applicable, such option of the Noteholders to require redemption of the Notes may be exercised by an accountholder (shown in the records of Euroclear and/or Clearstream, Luxembourg and DTC, as applicable, as the holder of Notes) giving notice to a Paying Agent in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC, as applicable, of the principal amount of the Notes in respect of which such option is to be exercised, not later than 30 days after the Issuer has given the notice of the Change of Control referred to above. Following presentation of the relevant Global Notes to the Principal Paying Agent for notation, the Issuer shall (subject to certain limitations on the obligation of payment of the Issuer in Condition 7) redeem the relevant proportion of each Global Note five business days after the expiration of the 30 day

period detailed above and the Paying Agent will mark down the Global Notes in accordance with the terms of the Agency Agreement.

### **Exchange for Definitive Notes**

#### ***Exchange***

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (A) 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 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 similar to, the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer or exchange of interests in, a Global Note for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

#### ***Delivery***

In such circumstances, the relevant Global Note shall be exchanged in full for definitive Notes and the Issuer will, at the cost of VEB (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 a 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 a 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***

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be 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.

Unless otherwise indicated in the relevant Final Terms, investors may hold their interests in Rule 144A Global Notes 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 relevant Rule 144A Global Notes 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 relevant 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 Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and unless otherwise indicated in the relevant Final Terms, will be registered in the name of a nominee for, and deposited with a common depository 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 Rule 144A Global Note representing Rule 144A Notes of any Series will have a CUSIP number and, if specified in the relevant final terms, an ISIN and Common Code and unless otherwise indicated in the relevant Final Terms, 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 depository 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. Subject to the foregoing, 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 a 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, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, arrangements may be put in place for a Series of Notes for DTC participants to either elect to receive such non-U.S. Dollar payment outside of DTC or for such non-U.S. Dollar payment to be converted into U.S. Dollars by a foreign exchange agent at the applicable U.S. Dollar spot rate prevailing on or about the relevant time of such payment and for such converted U.S. Dollar amount to be paid through DTC, all as more fully described, if applicable, in the relevant Final Terms of such Series of Notes.

#### ***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 a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a 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 12:00 p.m., 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 Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. (or such other nominee as may be specified in the relevant Final Terms) and evidenced by the 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 depository 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 a 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 depository 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 depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the 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 depository for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. (or such other nominee as may be specified in the relevant Final Terms) and evidenced by a 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 Notes will be made against payment therefor on the 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, in instances where the Closing Date is more than three business days following the pricing date, the 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 Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisers.

## SUBSCRIPTION AND SALE

### SUMMARY OF DEALER AGREEMENT

Subject to the terms and on the conditions contained in the dealer agreement dated 24 June 2010, between the Issuer, VEB, the Permanent Dealers and the Arrangers (the “**Dealer Agreement**”), the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, inter alia, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer and VEB has agreed to indemnify the Dealers against certain losses, as set forth in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

### SELLING RESTRICTIONS

#### United States

The Notes and the corresponding Loans 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, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or and (ii) otherwise until 40 days after completion of the distribution compliance period 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 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 Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of 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.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes offered and sold outside the United States to non-U.S. persons may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealer(s) may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs and also QPs who can represent that (a) they are QIBs who are also QPs within the meaning of Rule 144A, (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.\$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 also a QP, (e) they are not formed for the purpose of investing in the Issuer or the Notes, (f) each account for which they are purchasing will hold and transfer at least U.S.\$100,000 in principal amount of Notes at any time, and (g) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

This Base Prospectus has been prepared by the Issuer and VEB for use in connection with the offer and sale of the Notes outside the United States and the resale of the Notes in the United States and for the listing of Notes on the Irish Stock Exchange, or other stock exchange specified in the Final Terms. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base 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 Dealers or its U.S. broker-dealer affiliate. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB that is also a QP within the United States to any U.S. person or to any other person within the United States, other than any QIB that is also a QP and those persons, if any, retained to advise such non-U.S. person or QIB that is also a 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 that is a QP and those persons, if any, retained to advise such non-U.S. person or QIB that is also a QP, is prohibited.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) 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 Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Russian Federation**

Each Dealer has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

### **Ireland**

Each Dealer has represented, warranted and agreed that, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) including, without limitation, Regulations 7 and 152 thereof and any codes of conduct used therewith and the provisions of the Investor Compensation Act 1998;
- (b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Central Bank Acts 1942 - 1998 (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 in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Financial Regulator; and
- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005

and any rules issued under Section 34 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Financial Regulator.

## **General**

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws, regulations and directives in each jurisdiction in which it offers, sells or delivers Notes or distributes this Base Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or VEB.

Other than the approval of this Base Prospectus by the Financial Regulator in Ireland, no action has or will be taken in any jurisdiction by the Issuer, VEB or any of the Dealers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Dealer has undertaken to the Issuer and VEB that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any Base Prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

These selling restrictions may be modified by the agreement of the Issuer, VEB and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

The Arrangers, the Dealers and their respective affiliates have engaged in transactions with VEB and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business and the Arrangers and the Dealers performed various investment banking, financial advisory, and other services for VEB, for which they received customary fees, and the Arrangers, the Dealers and their respective affiliates may provide such services in the future.

## 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 every Series of Notes, whether in those countries referred to or elsewhere. Prospective purchasers of any Series of Notes are advised to consult their own tax advisors as to the consequences of the purchase, ownership and disposition of any Series of Notes in light of their particular circumstances, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of any Series of Notes. This summary is based upon the law as in effect on the date of this Base 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 FEDERATION

#### General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of any Series of Notes as well as the taxation of interest payments on any corresponding Loan. The summary is based on the laws of the Russian Federation in effect on the date of this Base Prospectus. 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 any Series of Notes. The summary does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-Federal level authorities of the Russian Federation, nor does the summary seek to address the availability of double tax treaty relief in respect of any Series of Notes, or practical difficulties involved in claiming such double tax treaty relief.

Prospective investors should consult their own tax advisors regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences pertinent to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack of interpretive guidance. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change (possibly with retroactive effect) and inconsistency than in jurisdictions with more developed capital markets and tax systems. In particular, the interpretation and application of such provisions will, in practice, rest substantially with local tax inspectorates and the meaning of the interpretations may constantly change.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Similarly, in the absence of binding precedent, court rulings on tax or other related matters adopted 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 who does not satisfy the criteria for being a Russian tax resident. This means an individual not actually present in the Russian Federation for an aggregate period of 183 days or more in any consecutive 12-month period (“**Non-Resident Noteholder-Individual**”); or
- a legal entity or an organisation in each case not organised under Russian law which holds and disposes of the Notes otherwise than through a permanent establishment in the Russian Federation (“**Non-Resident Noteholder-Legal Entity**”).

For the purposes of this summary, a “Resident Noteholder” means any Noteholder not qualifying as a Non-Resident Noteholder.

For the purposes of this summary, the definitions of “Resident Noteholder” and “Non-Resident Noteholder” in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice however the application of the above formal residency definition may differ based on the position of the tax

authorities. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, both the Ministry of Finance of the Russian Federation and the tax authorities have expressed the view that an individual should be either resident or non-resident in the Russian Federation for the full year and consequently even where the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to articles of the Tax Code dealing with taxation of individuals, a change in the position of the authorities or by judgments of tax controversies in the courts. Currently, the Tax Code is generally interpreted by both the tax authorities and taxpayers such that days of arrival should not be taken into account as opposed to days of departure when calculating the total number of days of presence in the Russian Federation, although there have been several incidents of the Ministry of Finance and the Federal Tax Service suggesting a different methodology.

Tax residency rules and the Russian Federation's rights with regard to taxation rules may be affected by an applicable double tax treaty.

The Russian tax treatment of interest payments made by VEB to the Issuer or to the Trustee under the Facility Agreement may affect the holders of the Notes. See "*—Taxation of Interest on the Loan*".

## **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 the following paragraph.

The acquisition of Notes by a Non-Resident Noteholder-Individual may constitute a taxable event pursuant to the provisions of the Tax Code concerning any material benefit (deemed income) received as a result of the acquisition of securities. If the Notes are acquired for a price that is below the "market price" subject to the amount of the maximum permissible fluctuation rate, the resulting amount may be subject to Russian tax. Although the Tax Code does not contain any provisions in relation to how the material benefit should be sourced, it may be inferred that such income should be considered as Russian source income if the Notes are purchased "in the Russian Federation". In the absence of any additional guidance as to what should be considered as a purchase "in the Russian Federation", the Russian tax authorities may use various criteria to determine the source of any such material benefit, including looking at the place of performance, the location of the Issuer, or other similar criteria. Legislation stipulates a specific procedure for the calculation of the market price of securities and its maximum permissible fluctuation rate for tax purposes. In addition, it is expected that effective 1 January 2011, a new piece of legislation will enter into force, potentially altering the method of determination of the market price of securities and the maximum permissible fluctuation rate.

A Non-Resident Noteholder also generally should not be subject to any Russian taxes in respect of any gain or other income realised on redemption, sale or other disposition of the Notes outside of the Russian Federation, provided that the proceeds of such disposition are not received from a source within the Russian Federation.

In the event that proceeds from a disposition of the Notes are received from a source within the Russian Federation, a Non-Resident Noteholder-Legal Entity should not be subject to Russian tax on any gain on sale or other disposition of the Notes, although there is some uncertainty regarding the treatment of the portion of the proceeds, if any, from disposition of the Notes that is attributable to accrued interest on the Notes. Subject to reduction or elimination under provisions of an applicable double tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 20%, even if the disposal results in a capital loss.

According to Russian tax legislation, taxation of income of Non-resident Noteholders-Individuals will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of securities should be sourced, other than that income from the sale of securities "in the Russian Federation" should be considered as Russian-source income. As there is no further definition of what should be considered as a sale "in the Russian Federation", the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside the Russian Federation, as discussed above.

In the event the proceeds from a disposal of the Notes by a Non-Resident Noteholder-Individual are classified as income from a source within the Russian Federation for personal income tax purposes, the gain, as such, will be subject to Russian personal income tax at a rate of 30% on the gross proceeds received less any available cost deduction (including the original purchase price of the Notes), unless such tax is reduced or eliminated under an applicable double tax treaty. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient, the deduction will be disallowed. In such a case, the tax rate will apply to the gross amount of the sales proceeds. There is also uncertainty regarding the treatment of the portion of the proceeds, if any, from a disposal of the Notes that is attributable to accrued interest income on the Notes. Subject to reduction or elimination of tax under provisions of an applicable tax treaty that are related to interest income, proceeds attributable to interest income, if received from a Russian source by a Non-Resident Noteholder that is an individual, may be subject to withholding tax at a rate of 30%, even if the disposal results in a capital loss.

If the disposal proceeds are paid by a Russian licensed broker, asset manager or management company which performs asset management of a unit investment fund property, or another person acting in a similar capacity, the payer may be required to withhold the tax at source. The amount of tax withheld would be calculated after taking into account documented deductions for the purchase value and related expenses to the extent such deductions and expenses can be determined by the entity making the payment of income.

When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the Non-Resident Noteholder-Individual would be liable to file a tax return, report his or her income realised and apply for a deduction of acquisition expenses, based on the provision of supporting documentation. The applicable tax would then have to be paid by the individual on the basis of the tax return. There is some uncertainty regarding the treatment of the portion of the proceeds, if any, from a disposition of the Notes that is attributable to accrued interest on the Notes.

There is also a risk that any gain derived from a disposition of the Notes 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 Roubles.

Non-Resident Noteholders should consult their own tax advisers with respect to the tax consequences on the disposal of the Notes and on the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a disposal of the Notes.

### **Tax Treaty Relief**

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that reduce or eliminate Russian tax due with respect to income received from a source within the Russian Federation by a Non-Resident Noteholder on a disposition of the Notes. To obtain the benefit of such tax treaty provisions, the Noteholder must comply with the certification, information, and reporting requirements in force in the Russian Federation.

For treaty relief from Russian withholding tax, preliminary approval from the Russian tax authorities is not required.

Currently, a Non-Resident Noteholder-Legal Entity should provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate may be required. There can be no assurance that advance treaty relief will be available.

A Non-Resident Noteholder-Individual, in order to use the benefits of the tax treaties, must provide to the tax authorities a tax residency certificate issued by the competent authorities in his or her country of residence for tax purposes and a confirmation from the relevant foreign tax authorities of income received and the tax payment made outside the Russian Federation on income with respect to which treaty benefits are claimed. Such requirements may be imposed even though they could directly contradict the provisions of the respective double tax treaty. Technically, such requirements mean that a Non-Resident Noteholder-Individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. Individuals in practice would not be able to obtain advance treaty relief on receipt of proceeds from a source within the Russian Federation, as

it is very unlikely that the supporting documentation for the treaty relief can be provided to the Russian tax authorities and approval from the latter can be obtained before the receipt of income occurs.

Non-resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received on a disposal of Notes.

### **Refund of Tax Withheld**

For a Non-Resident Noteholder-Legal Entity for which double tax treaty relief is available, if Russian withholding tax on income was withheld at source, a claim for a refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld.

For a Non-Resident Noteholder-Individual for whom double tax treaty relief is available, if Russian tax on income was withheld at source, a claim for a refund of such tax may be filed within one year after the end of the year in which the tax was withheld.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming a Noteholder's right to obtain relief under a double tax treaty. Such documentation may not be explicitly required by the Tax Code of the Russian Federation.

Obtaining a refund of Russian tax withheld at source is likely to be a time consuming process and no assurance can be given that such a refund will be granted in practice.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received on a disposition of the Notes.

### **Resident Noteholders**

A Resident Noteholder will be subject to all applicable Russian taxes in respect of gains from disposition or redemption of the Notes and interest received on the Notes. Resident Noteholders should consult their own tax advisers with respect to the effect that holding and disposal of the Notes may have on their tax position.

### **Taxation of Interest on the 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%, absent reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, VEB believes that payments of interest to the Issuer on each Loan should not be subject to withholding tax under the terms of the Agreement between the Government of Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation with respect to Taxes on Income signed on 29 April 1994 (the "**Convention**"). However, there can be no assurance that advance relief will be available in practice and/or such relief will continue to be available during the term of the Loan, particularly following the introduction of the concept of "actual recipient of income" in the Tax Code (see "*Risk Factors—Risks Relating to Taxation in the Russian Federation—VEB's payments under any Loan may be subject to Russian withholding tax*").

If interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the Convention will cease and payments of interest should be subject to Russian withholding tax at the rate of 20%, 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 or reduction under any double tax treaty under such circumstances. In such cases, Noteholders may seek the reduction or elimination of withholding tax or a refund of withholding tax under applicable double taxation treaties entered into between their countries of residence and the Russian Federation, where such treaties exist and to the extent they are applicable. There is no assurance that in such circumstances the treaty relief will be available for Noteholders in practice.

If payments under any Loan are subject to any withholding of Russian tax (as a result of which the Issuer would reduce payments under the corresponding Series of Notes in the amount of such withholding), VEB is obliged (subject to certain conditions) to increase payments as may be necessary so that the net payments received by the Noteholders will be equal to the amounts they would have received in the absence of such withholding. It



should be noted, however, that tax gross-up provisions may not be enforceable under Russian law. In the event that VEB fails to make increased payments, such failure would constitute an Event of Default pursuant to the Loan Agreement. If VEB is obliged to increase payments (without premium or penalty), it may, subject to certain conditions, prepay such Loan in full. In such a case, all outstanding Notes would be redeemable at par with accrued and unpaid interest and additional amounts, if any, to the date of redemption.

No value added tax will be payable in the Russian Federation in respect of interest and principal payments under each Loan.

## **IRISH TAXATION**

### **Introduction**

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 thereon as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities and trusts. 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.

### **Taxation of Noteholders**

#### ***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 certain exemptions apply, in particular, so long as the interest paid on the relevant Note falls within one of the following categories:

- (a) **Interest Paid on a Quoted Eurobond:** A quoted Eurobond is a security which is issued by a company (such as the Issuer), is listed on a recognised stock exchange (such as the Irish or Luxembourg Stock Exchanges) and carries a right to interest. Provided that the Notes are interest bearing and are listed on a recognised stock exchange (such as the Irish Stock Exchange), interest paid on them can be paid free of withholding tax provided:
  - (i) the person by or through whom the payment is made is not in Ireland; or
  - (ii) the payment is made by or through a person in Ireland and either:
    - (A) the Note is held in a clearing system recognised by the Irish Revenue Commissioners; (Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or
    - (B) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest 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.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange and are held in DTC, Euroclear and/or Clearstream, Luxembourg, 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.

(b) **Interest paid to a person resident in a relevant territory:** If, for any reason, the Quoted Eurobond exemption referred to above ceases to apply, interest payments may still be made free of withholding tax provided that:

- (i) the Issuer remains a “qualifying company” as defined in section 110 of the TCA and the Noteholder is a person which is resident in a relevant territory at the time of the payment. A relevant territory is a Member State of the European Union (other than Ireland) or a country with which Ireland has a double taxation agreement in force by virtue of section 826 (1) of the Taxes Consolidation Act, 1997 (“TCA”) or that is signed and which will come into force once all ratification procedures set out in section 826 (1) TCA have been completed (“**Relevant Territory**”), or
- (ii) the interest is paid in the ordinary course of the Issuer’s business and the Noteholder is a company which is either (A) 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 (B) in respect of the interest, exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed,

and the recipient is not a company which receives the interest in connection with a trade or business carried on by it through a branch or agency in Ireland.

The Issuer must be satisfied that the respective terms of the exemptions are satisfied. The test of residence in each case is determined by reference to the law of the Relevant Territory in which the Noteholder claims to be resident. For other holders of Notes, interest may be paid free of withholding tax if the Noteholder is resident in a double tax treaty country and under the provisions of the relevant treaty with Ireland such Noteholder is exempt from Irish tax on the interest and clearance in the prescribed form has been received by the Issuer before the interest is paid.

### ***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 and Levies***

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, the health levy and the income levy 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 health levy and the income levy 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 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 health levy and the income levy.

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, the charge to the health levy and the income levy. 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 holder of Notes 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 25% if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer 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) to the Irish Stamp Duties Consolidation Act, 1999 assuming 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 the Taxation of Savings Income***

The Council of the European Union has adopted a directive regarding the taxation of interest income known as the European Union Directive on the Taxation of Savings Income ("**Directive 2003/48/EC**"). Ireland has implemented the directive 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 will provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned.

The Issuer, or certain other persons 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.

## UNITED STATES OF AMERICA

**Notice Pursuant to U.S. Treasury Department Circular 230. The discussion below is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding tax penalties that may be imposed under U.S. tax laws. This discussion is provided in connection with the promotion and marketing of the Notes. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor concerning the potential tax consequences of an investment in the Notes.**

### **Certain U.S. Federal Income Tax Considerations**

The following is a summary of the material U.S. Federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). Except as otherwise indicated, this summary deals only with purchasers of Notes that purchase Notes at original issuance at their initial issue price and that will hold the Notes as capital assets and whose functional currency is the U.S. Dollar. The discussion does not cover all aspects of U.S. Federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, non-U.S. or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. Federal income tax laws (such as financial institutions, insurance companies, partners in a partnership that invests in Notes and such partnership, investors liable for the alternative minimum tax, individual retirement accounts and other tax deferred accounts, tax exempt organisations, dealers or traders in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. Federal income tax purposes). Moreover, the summary deals only with Notes with a term of 30 years or less.

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. Federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. Federal income tax purposes) created or organised in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. Federal income taxation regardless of its source; or
- a trust if such trust validly elects to be treated as a U.S. person for U.S. Federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

If a partnership (or any other transparent entity for U.S. Federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax adviser as to determine the U.S. Federal, state, local and other tax consequences involved in the acquisition, ownership and disposition of the Notes.

***The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.***

The summary of U.S. Federal income tax consequences set out below is for general information only. Prospective purchasers should consult their tax advisers as to the particular tax consequences to them of owning the Notes, including the applicability and effect of state, local, non-U.S. and other tax laws and possible changes in tax law.

## *Characterisation of the Notes*

There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S. Federal income tax purposes of securities issued under the same circumstances and with substantially the same terms as the Notes. The Issuer intends to take the position that the Notes constitute debt for U.S. Federal income tax purposes. However, no ruling will be obtained from the U.S. Internal Revenue Service (“IRS”) with respect to the characterisation of the Notes as debt, and there can be no assurance that the IRS or the courts would agree with this characterisation of the Notes.

If, due to the capital structure of the Issuer or otherwise, the Notes were treated as equity interests in the Issuer, U.S. Holders may be treated as owning interests in a “passive foreign investment company” (a “PFIC”). In that event, a U.S. Holder of Notes would be subject to additional tax on “excess distributions” received with respect to the Notes and gains realised on the disposition of such Notes. A U.S. Holder will have an excess distribution if distributions during any tax year exceed 125% of the average distributions received during the three preceding tax years (or, if shorter, the U.S. Holder’s holding period). To compute the tax on an excess distribution or any gain, (i) the excess distribution or gain is allocated ratably over the U.S. Holder’s holding period, (ii) the amount allocated to the current tax year is taxed as ordinary income, and (iii) the amount allocated to each previous tax year is taxed at the highest applicable marginal rate in effect for that year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax. These rules effectively prevent a U.S. Holder from treating the gain realised on the disposition of the Notes as capital gain. As a result, it may be beneficial for U.S. Holder treated as owning interests in a PFIC to make a qualified election fund (“QEF”) election, which generally means the U.S. Holder will accrue income on the Notes on a current basis regardless of amounts actually paid with respect to the Notes. The Issuer has not determined whether it will provide U.S. Holders with the information they may require to make a QEF election, accordingly it may not be possible for a U.S. Holder to make such an election in respect of the Notes. Prospective investors should consult their tax advisers regarding the characterisation of the Notes for U.S. Federal income tax purposes and the consequences of owning an equity interest in a PFIC and the feasibility and effects of making a QEF election. The discussion below assumes that the Notes will be treated as debt for U.S. Federal income tax purposes.

## *Interest*

The gross amount of interest and Additional Amounts (if any) on a Note (without reduction for withholding taxes, if any) will be includible in the U.S. Holder’s gross income as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes. Interest paid by the Issuer on the Notes and OID, if any, accrued with respect to the Notes (as described below under “—Original Issue Discount”) generally will constitute income from sources outside the United States. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute “passive category income”, or, in the case of certain U.S. Holders, “general category income” which are treated separately from other types of income in computing the foreign tax credit allowable to U.S. Holders under U.S. Federal income tax laws.

## **Original Issue Discount**

### *General*

The following is a summary of the principal U.S. Federal income tax consequences of the ownership of Notes issued with original issue discount (“OID”). The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. Federal income tax purposes. In the event the Issuer issues contingent payment debt instruments, the applicable Final Terms will describe the principal U.S. Federal income tax consequences thereof, as appropriate.

A Note, other than a Note with a term of one year or less (a “Short Term Note”), will be treated as issued with OID (a “Discount Note”) if the excess of the Note’s “stated redemption price at maturity” over its “issue price” is equal to or more than a *de minimis* amount (0.25% of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity (or the weighted average maturity in the case of instalment notes)). Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest.” The term “qualified stated interest” generally means stated interest that

is unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or, subject to certain conditions, at a variable rate based on one or more interest indices.

U.S. Holders of Discount Notes must include OID in income calculated on a constant yield method, which generally will be before the receipt of cash attributable to the income, and may have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note (“**accrued OID**”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note’s adjusted issue price at the beginning of the accrual period and the Discount Note’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The “adjusted issue price” of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments. In the case of a Note that pays a variable rate of interest using a single fixed formula and an interest rate index (a “**Variable Interest Rate Note**”) and that is a Discount Note, both the “yield to maturity” and “qualified stated interest” generally will be determined for these purposes as though the Discount Note will accrue interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Note on its date of issue or in the case of certain Variable Interest Rate Notes, the rate that reflects the yield that is reasonably expected for the Note. (Additional rules may apply if interest on a Note is based on more than one interest rate index.)

#### ***Acquisition Premium***

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “**acquisition premium**”) and that does not make the election described below under “—*Election to Treat All Interest as Original Issue Discount*” is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note’s adjusted issue price.

#### ***Market Discount***

A Note, other than a Short Term Note, purchased in the secondary market or upon a further issuance that is a qualified reopening for U.S. Federal income tax purposes generally will be treated as purchased at a market discount (a “**Market Discount Note**”) if the Note’s stated redemption price at maturity or, in the case of a Discount Note, the Note’s adjusted issue price, exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note’s stated redemption price at maturity, multiplied by the number of complete years to the Note’s maturity (or, in the case of a Note that is an instalment obligation, the Note’s weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes “*de minimis market discount.*”

Upon disposition or maturity of a Market Discount Note, or upon receipt of a partial principal payment on a Market Discount Note that is an instalment obligation, any gain will be treated as ordinary income to the extent that the gain does not exceed the market discount which has not been previously included in gross income and which accrued on the Note whilst held by such U.S. Holder. In general terms, market discount is accrued on a ratable basis, or, at the U.S. Holder’s election, on a constant yield basis. A constant yield election is irrevocable unless the IRS consents to a revocation. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently (on either a ratable or constant yield basis) over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred

to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

### ***Variable Interest Rate Notes***

Variable Interest Rate Notes generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A "qualified floating rate" is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A "qualified inverse floating rate" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "current value" of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than 1 year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" will generally not be

treated as having been issued with OID unless the Variable Interest Rate Note is issued at a “true” discount (i.e., at a price below the Note’s stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from “true” discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a “variable rate debt instrument” will be converted into an “equivalent” fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an “equivalent” fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note’s issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a “variable rate debt instrument” and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note’s issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an “equivalent” fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an “equivalent” fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the “equivalent” fixed rate debt instrument by applying the general OID rules to the “equivalent” fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the “equivalent” fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the “equivalent” fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a “variable rate debt instrument”, then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. The proper U.S. Federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Final Terms.

### ***Election to Treat All Interest as Original Issue Discount***

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant yield method described above under “Original Issue Discount—General” with certain modifications. For purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described below under “—Notes Purchased at a Premium”) or acquisition premium. This election, which must be made for the taxable year in which the Note was acquired, generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under “—Market Discount” to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the availability and advisability of this election.



### ***Short Term Notes***

In general, an individual or other cash basis U.S. Holder of a Short Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. Federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short Term Notes on a straight line basis or, if the U.S. Holder so elects, under the constant yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short Term Note will be ordinary income to the extent of the OID accrued on a straight line basis (unless an election is made to accrue the OID under the constant yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short Term Notes will be required to defer deductions for interest on borrowings allocable to Short Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short Term Note are included in the Short Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short Term Note as if the Short Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short Term Note. This election shall apply to all short-term Notes acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

### ***Additional Notes***

The Issuer may, without the consent of the Holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. Federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

### ***Notes Purchased at a Premium***

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as "amortisable bond premium," in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note's yield to maturity) to that year. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. Federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also "*—Original Issue Discount—Election to Treat All Interest as Original Issue Discount.*"

### ***Sale, Exchange or Retirement of Notes***

A U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realised on the sale, exchange or retirement (other than accrued but unpaid interest which will be taxable as such) and the tax basis of the Note. A U.S. Holder's tax basis in a Note generally will be its cost to the Holder increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Notes (whether or not de minimis) and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Notes. Except to the extent described above under "*—Original Issue Discount—Market Discount*" or "*—Original Issue Discount—Short Term Notes*" or attributable to accrued but unpaid interest or changes in exchange rates (as discussed below), gain or loss recognised on the sale, exchange or retirement of a Note generally will be capital gain or loss and will be long term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year. Gain or loss realised by a U.S. Holder on the sale, exchange or retirement of a Note generally will be U.S. source gain or loss. The deductibility of capital losses is subject to limitations.

## ***Non-U.S. Dollar Notes***

### ***Interest***

If an interest payment is denominated in, or determined by reference to, a currency other than the U.S. Dollar, the amount of income recognised by a cash basis U.S. Holder generally will be the U.S. Dollar value of the interest payment, based on the exchange rate in effect on the date of receipt or payment, regardless of whether the payment is in fact converted into U.S. Dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a currency other than the U.S. Dollar in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an interest accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the spot exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the spot exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is paid or received within five Business Days of the last day of the accrual period, an accrual basis U.S. Holder may elect to translate the accrued interest into U.S. Dollars at the spot exchange rate in effect on the day of receipt or payment. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale, exchange or retirement of a Note) denominated in, or determined by reference to, a currency other than the U.S. Dollar, the U.S. Holder may recognise exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. Dollars at the spot exchange rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars. If a payment received in a currency other than the U.S. Dollar is not immediately converted into U.S. Dollars, the later disposition of such currency may give rise to further exchange gain or loss.

### ***OID***

OID for each accrual period on a Discount Note denominated in, or determined by reference to, a currency other than the U.S. Dollar will be determined in such currency and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale of the Note), a U.S. Holder may recognise exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. Dollars at the spot exchange rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

### ***Bond Premium***

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a currency other than the U.S. Dollar, will be computed in units of such currency, and any such bond premium that is taken into account currently will reduce interest income in units of such currency. On the date bond premium offsets interest income, a U.S. Holder may recognise exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a market loss when the Note matures.

### ***Market Discount***

Market Discount on a Note that is denominated in, or determined by reference to, a currency other than the U.S. Dollar, will be accrued in such currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. Dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holders taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S.

Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. Dollar value of the amount accrued, calculated at the spot exchange rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

### ***Sale, Exchange or Retirement***

As discussed above under “—*Sale, Exchange or Retirement of Notes*”, a U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realised on the sale, exchange or retirement and its tax basis in the Note. A U.S. Holder’s tax basis in a Note that is denominated in a currency other than the U.S. Dollar will be determined by reference to the U.S. Dollar cost of the Note. The U.S. Dollar cost of a Note purchased with such non-U.S. currency will generally be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

The amount realised on a sale, exchange or retirement for an amount in non-U.S. currency will be the U.S. Dollar value of this amount on the date of sale, exchange or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise exchange rate gain or loss (taxable as ordinary income or loss) on the sale, exchange or retirement of a Note equal to the difference, if any, between the U.S. Dollar values of the U.S. Holder’s purchase price for the Note (or, if less, the principal amount of the Note) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale, exchange or retirement.

### ***Disposition of Non-U.S. Currency***

Non-U.S. currency received as interest on a Note or on the sale, exchange or retirement of a Note will have a tax basis equal to its U.S. Dollar value at the time the non-U.S. currency is received. Non-U.S. currency that is purchased will generally have a tax basis equal to the U.S. Dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a non-U.S. currency (including its use to purchase Notes or upon exchange for U.S. Dollars) will be ordinary income or loss.

### ***U.S. Information Reporting and Backup Withholding Tax***

A U.S. Holder may be subject to information reporting unless it establishes that payments to it made within the United States or by a U.S. payor or U.S. middleman are exempt from these rules (e.g., payments to corporations generally 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 U.S. taxpayer identification number and otherwise comply with the backup withholding rules. 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 provided to the IRS.

### ***Reportable Transactions***

U.S. Treasury regulations require a U.S. taxpayer that participates in a “reportable transaction” to disclose such participation to the IRS. The scope and application of these rules is not entirely clear. In the event the acquisition, holding or disposition of Notes constitutes participation in a “reportable transaction” for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS and the Issuer and its advisers may also be required to disclose the transaction to the IRS. In addition, the Issuer and its advisers may be required to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

***Recently Enacted Legislation Affecting Disclosure Obligations for U.S. Individuals***

Legislation was enacted on 18 March 2010 that generally imposes new U.S. return disclosure obligations (and related penalties for failure to disclose) on U.S. individuals that hold certain specified foreign financial assets. Investors are urged to consult with their own tax advisors regarding the possible implications of this recently enacted legislation on their investment in the Notes.

## CERTAIN ERISA CONSIDERATIONS

**To ensure compliance with United States Treasury Department Circular 230, prospective purchasers are hereby notified that (A) any discussion of United States Federal tax matters in this Base Prospectus is not intended or written to be relied upon, and cannot be relied upon, by prospective purchasers for the purpose of avoiding penalties that may be imposed on them under the United States tax laws; (B) such discussion is included herein in connection with the promotion or marketing (within the meaning of United States Treasury Department Circular 230) of the matters addressed herein; and (C) prospective purchasers should seek advice based on their particular circumstances from an independent tax advisor.**

The U.S. Employee Retirement Income Security Act of 1974, of amended (“**ERISA**”) and the Code impose fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, “**ERISA Plans**”), including individual retirement accounts and annuities, Keogh plans and certain collective investment funds, separate accounts or insurance company general or separate accounts in which such plans, accounts or arrangements are invested, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to ERISA and the U.S. Department of Labor “**plan assets**” regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (the “**Plan Assets Regulation**”), 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**” under ERISA or “**disqualified persons**” under the Code) having certain relationships to such Plans, unless a statutory or administrative exemption or other applicable 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. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes, penalties or other liabilities under ERISA and the Code.

The Issuer or the Trustee, directly or through affiliates, may be considered a party in interest or disqualified person with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Notes are acquired by a Plan with respect to which the Issuer or the Trustee or any of their respective affiliates is a party in interest or a disqualified person, unless the Notes are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which that decision is made. However, Notes may not be acquired by any Benefit Plan Investors as discussed below.

Under a “**look through rule**” set forth in Section 3(42) of ERISA and the Plan Assets Regulation, if a Plan invests in an “equity interest” of an entity and no other exception applies, the Plan’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets. This rule will not apply where less than 25 percent of the value of any class of equity interest in the entity is held by Benefit Plan Investors immediately after the most recent acquisition of any equity interest in the entity (disregarding equity interests held by certain persons, other than Benefit Plan Investors, with discretionary authority or control over the assets of the entity or who provide investment advice with respect to such assets, or any affiliates of such persons). An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. Under the Plan Assets Regulation a “**Benefit Plan Investor**” means (1) an employee benefit plan (as defined in Section 3(3) of ERISA) subject to the provisions of part 4 of subtitle B of Title I of ERISA, (2) a plan to which Section 4975 of the Code applies, or (3) any entity whose underlying assets include “**plan assets**” by reason of any such plan’s investment in the entity, (to the extent of the percentage of the equity interests in such entity that are held by Benefit Plan Investors). The Plan Assets Regulation provides that 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 Notes do not represent an interest in any property of the Issuer other than the relevant Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the relevant Loan. Further, neither the Issuer nor the Trustee will be able to monitor the Noteholders’ possible status as Benefit Plan Investors. Accordingly, the Notes may not be purchased or held by Benefit Plan Investors. The Notes may be purchased and held by governmental, non-electing church or non-U.S. plans which are not Benefit Plan Investors but which may be subject to any U.S. Federal, state, local or non-U.S. law that is substantially similar to the fiduciary responsibility and/or the prohibited transaction provisions of ERISA and/or Section 4975

of the Code and other restrictions (“**Similar Laws**”) if such purchase, holding or disposition does not and will not result in a non exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such Plan as a result of the purchase, holding or disposition of the Notes by such Plan. The fiduciary of a Plan governed by Similar Laws considering the purchase or holding of the Notes must make its own determination that such purchase or holding is permissible under Similar Laws.

It should be noted that an insurance company’s general account may be deemed to include assets of Plans under certain circumstances, e.g., where a Plan purchases an annuity contract issued by such insurance company, based on the reasoning of the United States Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), and in such circumstances such general account may be subject to ERISA’s fiduciary provisions.

EACH PURCHASER AND EACH TRANSFEREE OF THE NOTES OR ANY INTEREST THEREIN, AND EACH FIDUCIARY ACTING ON BEHALF OF THE PURCHASER OR TRANSFEREE (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY NOTE OR ANY INTEREST IN ANY NOTE: (1) EITHER (A) IT IS NOT, AND IS NOT ACTING ON BEHALF OF A BENEFIT PLAN INVESTOR OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY SIMILAR LAWS AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE “PLAN ASSETS” OF SUCH PLAN, AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH NOTES OR ANY INTEREST THEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, OR (B) IT IS, OR IS ACTING ON BEHALF OF, A GOVERNMENTAL, NON-ELECTING CHURCH OR NON-U.S. PLAN, AND SUCH PURCHASE OR THE HOLDING OR DISPOSITION OF THE NOTES DOES NOT AND WILL NOT RESULT IN A NON EXEMPT VIOLATION OF ANY SIMILAR LAWS, AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE PURCHASE, HOLDING OR DISPOSITION OF THE NOTES BY SUCH PLAN; AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER SUCH NOTES OR ANY INTEREST THEREIN OTHERWISE THAN TO A PERSON THAT IS DEEMED TO REPRESENT, WARRANT AND AGREE WITH RESPECT TO ITS PURCHASE, HOLDING OR DISPOSITION OF THE NOTES TO THE SAME EFFECT AS THE PURCHASER’S REPRESENTATIONS, WARRANTIES AND AGREEMENTS SET OUT IN THIS SENTENCE. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF ANY NOTE WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE SUCH PURCHASE OR TRANSFER OF SUCH NOTE. IN THE EVENT THAT THE ISSUER DETERMINES THAT ANY NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER OF SUCH NOTE. SUCH REPRESENTATION SHALL BE DEEMED TO BE MADE EACH DAY FROM THE DATE ON WHICH THE PURCHASER PURCHASES THE NOTE THROUGH AND INCLUDING THE DATE ON WHICH THE PURCHASER DISPOSES OF THE NOTE.

## 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 NOTES

Each purchaser of a beneficial interest in Rule 144A Notes, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) If it is a U.S. Person within the meaning of Regulation S, 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 U.S.\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such 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 Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.
- (2) It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.\$100,000 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 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) to a non-U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.
- (4) It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and also 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 Notes to a U.S. person who is not both a QIB and a QP.
- (5) It understands and acknowledges that its purchase and holding of such Notes or any interest therein constitutes a representation and agreement by it that that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) either (i) is not, and is not acting on behalf of (and for so long as it holds such Notes (or any interest therein) will not be, or be acting on behalf of), a Benefit Plan Investor or a governmental, church or non-U.S. plan which is subject to any Similar Laws and/or laws or regulations that provide that the assets of the Issuer could be deemed to include "plan assets" of such Plan, and no part of the assets used by it to purchase or hold such Note or any interest therein constitutes the assets of such Benefit Plan Investor or such Plan, or (ii) it is, or is acting on behalf of, a governmental, non-electing church or non-U.S. Plan, and such purchase, holding or disposition of such Note does not and will not result in a non exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such Plan solely as a result of the purchase, holding or disposition of the Notes by such Plan; 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.
- (6) It understands that the 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 LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR

OTHERWISE TRANSFERRED EXCEPT (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**”) AND 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 U.S.\$100,000 PRINCIPAL AMOUNT OF NOTES AND THAT CAN REPRESENT THAT IT MEETS CRITERIA (1) THROUGH (8) SET OUT BELOW OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”) IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. 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 REALES 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 U.S.\$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 UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (7) IT AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.\$100,000 IN PRINCIPAL AMOUNT OF NOTES; (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 WHILST 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 AND THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) OUTSIDE THE UNITED STATES AND 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 (A) EITHER (I) IT IS NOT, AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS SUCH NOTES (OR ANY INTEREST THEREIN) WILL NOT BE, OR BE ACTING ON BEHALF OF), A BENEFIT PLAN INVESTOR OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY SIMILAR LAWS AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE “PLAN ASSETS” OF SUCH PLAN, AND NO PART OF THE ASSETS USED BY IT TO PURCHASE OR HOLD SUCH NOTE OR ANY INTEREST THEREIN CONSTITUTES THE ASSETS OF



SUCH BENEFIT PLAN INVESTOR OR SUCH PLAN, OR (II) IT IS, OR IS ACTING ON BEHALF OF, A GOVERNMENTAL, NON-ELECTING CHURCH OR NON-U.S. PLAN, AND SUCH PURCHASE, HOLDING OR DISPOSITION OF SUCH NOTE DOES NOT AND WILL NOT RESULT IN A NON EXEMPT VIOLATION OF ANY SIMILAR LAWS, AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE PURCHASE, HOLDING OR DISPOSITION OF THE NOTES BY SUCH PLAN; AND (B) 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) It acknowledges that the Issuer, VEB, the Registrar, the Dealers and their respective 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 Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, VEB and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each 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 Rule 144A Notes of a Series will be evidenced by a Rule 144A Global Note. Before any interest in a 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 a 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 NOTES

Each purchaser of a beneficial interest in Regulation S Notes outside the United States, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S 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, VEB or a person acting on behalf of such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (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 Regulation S Notes of a Series will be evidenced by a Regulation S Global Note. Before any interest in a 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 a 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 Regulation S 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 Regulation S Notes or any interest therein (a) either (i) it is not, and

is not acting on behalf of (and for so long as it holds such Regulation S Notes (or any interest therein) will not be, or be acting on behalf of), a Benefit Plan Investor or a governmental, church or non-U.S. Plan which is subject to any Similar Laws and/or laws or regulations that provide that the assets of the Issuer could be deemed to include “plan assets” of such Plan, and no part of the assets used by it to purchase or hold such Note or any interest therein constitutes the assets of such Benefit Plan Investor or such Plan, or (ii) it is, or is acting on behalf of, a governmental, non-electing church or non-U.S. Plan, and such purchase, holding or disposition of such Regulation S Note does not and will not result in a non exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such Plan solely as a result of the purchase, holding or disposition of the Notes by such Plan; and (b) it will not sell or otherwise transfer any such Regulation S Note or interest therein to any person without first obtaining these same foregoing representations and warranties from that person.

- (5) It acknowledges that the Issuer, VEB, the Registrar, the Dealers and their respective 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 Regulation S Notes is no longer accurate, it shall promptly notify the Issuer, VEB, and the Dealers. If it is acquiring any Regulation S 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.

## FORM OF FINAL TERMS

Final Terms dated [●]

### STATE CORPORATION “BANK FOR DEVELOPMENT AND FOREIGN ECONOMIC AFFAIRS (VNESHECONOMBANK)”

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]  
by VEB Finance Limited  
for the purpose of financing a Loan to State Corporation “Bank for Development and Foreign Economic Affairs  
(Vnesheconombank)” (the “**Borrower**”)  
under a U.S.\$30,000,000,000 Programme for the Issuance of Loan Participation Notes

#### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 24 June 2010 [and the supplemental Base Prospectus dated [●]]<sup>1</sup> which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer, the Borrower and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at the specified offices of the Trustee and the Principal Paying Agent and the registered office of the Issuer and www.ise.ie and copies may be obtained from [address].]

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]*

*[When completing final terms or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

- |          |   |   |
|----------|---|---|
| <b>1</b> | (i) Issuer:   | VEB Finance Limited   |
|          | (ii) Borrower:  | State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” |
| <b>2</b> | Series Number:  | [●]   |
|          | [Tranche Number:  | [●]   |
|          | (if fungible with an existing Series, details of that Series, including the date the Notes become fungible).] |   |
| <b>3</b> | Specified Currency:   | [●]   |
| <b>4</b> | Aggregate Nominal Amount of Notes:  | [●]   |
|          | Series:   | [●]   |
|          | [Tranche:   | [●]]  |

<sup>1</sup> Only include details of a supplemental Prospectus in which the Conditions have been amended for the purposes of all future issues under the Programme.

5	Issue Price:	[●] per cent. of the aggregate principal amount of the Notes [plus accrued interest from <i>[insert date]</i> (if applicable)]
6	(i) Specified Denominations:	[U.S.\$100,000 plus higher integral multiples of U.S.\$1,000]/[[€50,000 plus higher integral multiples of €1,000]/●] <sup>2</sup>
	(ii) Calculation Amount:	[●]
7	(i) Trade Date	[●]
	(ii) Issue Date:	[●]
	(iii) Interest Commencement Date:	[●]
8	Maturity Date:	<i>[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]</i> <sup>3</sup>
9	Notes Interest Basis:	[the same interest basis as the Loan Interest Basis]
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/Payment Basis:	<i>[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]</i>
12	[Put/Call Options:	[Investor Put] [Issuer Call] (further particular specified below)]
13	(i) Status of the Notes:	Senior
	(ii) Status of the Loan	[Senior/Subordinated]
	[(iii) Date [Board] approval for issuance of Notes obtained	[●] [and [●] respectively]]  <i>[N.B. Only relevant where Board (or similar) authorisation is required for the particular Series of Notes]</i>
14	Method of distribution:	[Syndicated/Non-syndicated]
15	Financial Centres (Condition 7):	[●]

<sup>2</sup> Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

<sup>3</sup> Notes with a maturity of less than one year must comply with Clause 6.5 of the Dealer Agreement. Please note in particular the ratings requirement and minimum denominations of €300,000.

**PROVISIONS RELATING TO THE LOAN INTEREST BASIS**

<b>16</b>	<b>Fixed Rate Note Provisions:</b>	[Applicable/Not Applicable]
		<i>(if not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Rate [(s)] of Interest:	[[●] per cent. per annum payable [annually/semi-annually] in arrear (in the case of Senior Series)]
		[DETAILS OF INITIAL INTEREST RATE AND INTEREST RATE STEP-UP] (in the case of a Subordinated Series)
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with <i>[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]</i> /not adjusted]
	(iii) Fixed Coupon Amount [(s)]:	[●] per Calculation Amount
	(iv) Broken Amount:	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
	(v) Day Count Fraction (Condition 5):	[●]
		<i>[Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in U.S. Dollars]</i>
	(vi) Determination Date(s) (Condition 5):	[●] in each year <i>[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]</i> <sup>4</sup>
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
<b>17</b>	<b>Floating Rate Note Provisions:</b>	[Applicable/Not Applicable]
		<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Interest Period(s):	[●]
	(ii) Specified Interest Payment Dates:	[●]
	(iii) Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other ( <i>give details</i> )]
	(iv) Business Centre(s):	[●]

<sup>4</sup> Only to be completed for an issue where Day Count Fraction is Actual/Actual-ICMA.

- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
- (vi) Interest Period Date(s): [Not Applicable/*specify dates*]
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): [•]
- (viii) Screen Rate Determination: As set out in the attached Loan Supplement
- (ix) ISDA Determination: As set out in the attached Loan Supplement
- (x) Margin(s): [[+/-] [•] per cent. per annum (in the case of a Senior Series)]  
[DETAILS OF INITIAL MARGIN TO BE SPECIFIED] (in the case of a Subordinated Series)
- (xi) Minimum Rate of Interest: [•] per cent. per annum
- (xii) Maximum Rate of Interest: [•] per cent. per annum
- (xiii) Day Count Fraction (Condition 5): [•]
- (xiv) Rate Multiplier: [•]
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes and Floating Rate Loans, if different from those set out in the Conditions: [•]

**18 SWAPS**

[Applicable/Not Applicable]

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

- (i) Swap Agreement(s): Under the [TITLE OF CURRENCY SWAP AGREEMENT(S)]/[TITLE OF INTEREST RATE SWAP AGREEMENT(S)] [each] dated [•] [and [a confirmation]/[the confirmations] thereto] with an effective date of the Issue Date made between the Issuer and the [Swap Counterparty]/[Swap Counterparties] [the Issuer will exchange amounts due to and received by the Borrower in the Loan Currency for equivalent amounts in the Specified Currency]/[the Issuer will exchange amounts due to and received by the Borrower calculated on the Loan Interest Basis for equivalent amounts calculated on the Notes Interest Basis]
- (ii) Swap Counterpart[y][ies] [•] [and [•]] (*provide legal names and addresses of the relevant institution(s)*)
- (iii) [Loan Currency] [•]

- |      |  |   |
|------|--|---|
| (iv) | Early Termination of Swap Agreement(s)                 | <i>[Summarise Early Termination Provisions in applicable Swap Agreement(s)]</i>       |
| (v)  | Consequences of Early Termination of Swap Agreement(s) | <i>[Summarise consequences of Early Termination under relevant Swap Agreement(s)]</i> |

#### **PROVISIONS RELATING TO REDEMPTION**

- |           |  |   |
|-----------|--|---|
| <b>19</b> | Final Redemption Amount of each Note:  | [●] per Calculation Amount  |
| <b>20</b> | Early Redemption Amount(s) of each Note payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date: | [●] per Calculation Amount  |
| <b>21</b> | Call Option  | <i>[Applicable/Not Applicable] [if not applicable, delete the remaining sub-paragraphs of this paragraph]</i> |
|           | (i) Call Option Commencement Date:   | [●]   |
|           | (ii) Early Redemption Amount:  | As set out in the attached Loan Supplement  |
|           | (iii) If redeemable in part:   |   |
|           | (a) Minimum Redemption Amount:   | [●] per Calculation Amount  |
|           | (b) Maximum Redemption Amount:   | [●] per Calculation Amount  |
|           | (iv) Notice Period   | [●]   |
| <b>22</b> | Put Option   | <i>[Applicable/Not Applicable] [if not applicable, delete the remaining sub-paragraphs of this paragraph]</i> |
|           | (i) Put Settlement Date(s):  | [●]   |
|           | (ii) Put Redemption Amount(s) of each Note and method, if any, of calculation of such amounts(s):  | [●] per Calculation Amount  |
|           | (iii) Notice Period  | [●]   |

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

- |           |                    |                               |
|-----------|--------------------|-------------------------------|
| <b>23</b> | Form of the Notes: | Registered Notes              |
| <b>24</b> | Other final terms: | [Not Applicable/give details] |
- (When adding any other final terms, consideration should be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive)*

**DISTRIBUTION**

- 25 (i) If syndicated, names of Managers: [Not Applicable/*give names*]
- (ii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
- 26 If non-syndicated, name of Dealer: [Not Applicable/*give name*]
- 27 Additional selling restrictions: [Not Applicable/*give details*]

**GENERAL**

- 28 Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 10: [Not Applicable/*give details*]
- 29 The aggregate principal amount of Notes issued has been translated into U.S. Dollars at the rate of [●], producing a sum of (for Notes not denominated in U.S. Dollars): [Not Applicable/U.S.\$[●]]

**[PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.30,000,000,000 Programme for the Issuance of Loan Participation Notes of VEB Finance Limited for the purpose of financing loans to the Borrower.]

**RESPONSIBILITY**

Each of the Issuer and the Borrower accepts responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. Each of the Issuer and the Borrower confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed by a duly authorised attorney for and on behalf of the Issuer: Signed on behalf of the Borrower:

By: \_\_\_\_\_  
Duly authorised

By: \_\_\_\_\_  
Duly authorised

By: \_\_\_\_\_  
Duly authorised



## PART B – OTHER INFORMATION

### 1 LISTING

- (i) Listing: [Irish Stock Exchange/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [the regulated market of the Irish Stock Exchange]/[other] with effect from [●].] [Not Applicable]
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2 RATINGS

- Ratings: The Notes to be issued have been rated:
- [Moody's: [●]]
- [Fitch: [●]]
- [[Other]: [●]]
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating)*

### 3 [NOTIFICATION]

The Financial Regulator has provided the competent authority(ies) of [insert details of Host Member State(s)] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the provisions of the Prospectus Directive 2003/71/EC and Commission Regulation (EC) No 809/2004.

### 4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]]

If applicable, a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:

“Save as discussed in “Subscription and Sale”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”<sup>5</sup>

### 5 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES]

- [(i) Reasons for the offer [●]]
- (See “Use of Proceeds” wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks, will need to include those reasons here)*

<sup>5</sup> If there are material interests, but they are not discussed in “Subscription and Sale”, insert the section name where they are discussed instead. If there are no material interests, delete the whole of paragraph 4.

[(ii)] Estimated net proceeds: [•]  
*(If proceeds are intended for more than one use, will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding)*

[(iii)] Estimated total expenses: [•] *[Include breakdown of expenses]*  
*(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above)*

## 6 [Fixed Rate Notes only – YIELD

Indication of yield: [[•]  
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield (in the case of a Senior Series)]

[[•]  
The yield is calculated at the Issue Date on the basis of the Issue Price and in respect of the Initial Interest Term (as defined in the Subordinated Loan Agreement). Calculation of the yield beyond that period is subject to the interest rate step-up mechanism at the end of such period (*in the case of a Subordinated Series*)]

## 7 OPERATIONAL INFORMATION

ISIN Code [Regulation S Notes]: [•]

Common Code [Regulation S Notes]: [•]

[ISIN Code (Rule 144A Notes) [•]

Common Code (Rule 144A Notes) [•]]

[CUSIP Code [•]]

Any clearing system(s) other than Euroclear Bank SA/NV [,] [and] Clearstream Banking, société anonyme [and DTC] and the relevant identification number(s)/and/or any alternative Common Depository/Custodian: [Not Applicable/give name(s) and number(s) [and addresses]]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying [●]  
Agent(s) (if any):

\* [THE FINAL FORM OF LOAN SUPPLEMENT (IN THE CASE OF A SENIOR SERIES) OR THE SUBORDINATED LOAN AGREEMENT, INCLUDING THE CORRESPONDING SUBORDINATED LOAN SUPPLEMENT (IN THE CASE OF A SUBORDINATED SERIES) WILL BE ATTACHED]

## GENERAL INFORMATION

1. The establishment of the Programme was authorised by the Supervisory Board on 25 May 2010 and by the Board of Directors of the Issuer on 23 June 2010. VEB has received all required internal authorisations to establish the Programme and to receive the Loans from the Issuer. VEB and the Issuer have obtained or will obtain all necessary consents, approvals and authorisations in the Russian Federation and Ireland in connection with any Loan and the issue and performance of the corresponding Series of Notes.
2. Transactions will normally be effected for delivery on the third working day after the day of the transaction. However, Notes may be issued pursuant to the Programme which will not be listed on any stock exchange. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.
3. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of Ireland for the issue and performance of the corresponding Series of Notes.
4. There has been no significant change in the financial or trading position or prospects of VEB or the Group since 31 December 2009 (the date of the last published audited financial statements of VEB) and no material adverse change in the financial or trading position or prospects of VEB or the Group since 31 December 2009 other than as disclosed in this Base Prospectus. There has been no significant change and/or material adverse change in the financial or trading position or prospects of the Issuer since 1 March 2010 (the date of the Issuer's incorporation). The Issuer has no subsidiaries.
5. Other than as set out under "*Description of VEB's Business—Litigation*" with respect to the claims relating to VEB's share ownership in Prominvestbank, neither VEB 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 Base Prospectus, a significant effect on the financial position or profitability of the Group, nor, so far as VEB is aware, are any such proceedings pending or threatened.
6. 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 Base 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.
7. For so long as any Series of Notes is outstanding, copies (and English translations where the documents in question are not in English) of the following documents may be obtained free of charge in physical form at the specified offices of the Trustee and the Principal Paying Agent and the Irish Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
  - the latest audited consolidated financial statements of VEB;
  - the latest two years audited financial statements of VEB; andcopies of the following documents will be available for inspection in physical form at the specified offices of the Trustee and the Principal Paying Agent and the Irish Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
  - Development Bank Law, the 2007 Memorandum and the Memorandum and Articles of Association of the Issuer;
  - the Trust Deed in respect of the Notes (including the forms of the Global Notes and definitive Notes);
  - the Agency Agreement in respect of the Notes;

- each Loan Agreement;
  - each applicable Swap Agreement;
  - each Final Terms for Notes which are listed on the Irish Stock Exchange or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a Base Prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, VEB and the Paying Agent as to its holding of Notes and identity); and
  - a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.
8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (“**ISIN**”) and, where applicable, the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.
  9. As at the date of this Base Prospectus, VEB is in compliance with applicable Russian law corporate governance requirements in all material respects.
  10. Neither VEB nor the Issuer intends to provide any post-issuance transaction information regarding any Series of Notes or Loan.

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**Group of state corporation  
"Bank for Development and Foreign  
Economic Affairs (Vnesheconombank)"  
Consolidated Financial Statements**

*Year ended 31 December 2009  
Together with Report of Independent Auditors*

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## Independent Auditors' Report

To the Supervisory Board  
of state corporation "Bank for Development and Foreign Economic Affairs  
(Vnesheconombank)"

We have audited the accompanying consolidated financial statements of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (hereinafter, the "Bank") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



1 June 2010

**Consolidated statement of financial position**  
**As of 31 December 2009**  
*(in millions of Russian rubles)*

	<i>Notes</i>	<b>2009</b>	<b>2008</b>
<b>Assets</b>			
Cash and cash equivalents	9	168,916	281,673
Precious metals		248	1,163
Financial assets at fair value through profit or loss	10	51,507	52,089
Trading securities pledged under repurchase agreements	10	-	3,444
Amounts due from credit institutions	11	467,308	311,510
Loans to customers	13	843,538	725,640
Assets held for sale	14	1	342
Investment securities:	15		
- available-for-sale		332,739	228,607
- held-to-maturity		22,366	11,752
Investment securities pledged under repurchase agreements	15	13,328	-
Due from the Russian Government	16	207	194
Receivable from the Russian Government under London Club Arrangement	7	1,115	1,083
Investments in associates	17	5,462	5,708
Property and equipment	18	20,404	8,026
Income tax assets	19	856	1,573
Other assets	21	11,219	11,937
<b>Total assets</b>		<b><u>1,939,214</u></b>	<b><u>1,644,741</u></b>
<b>Liabilities</b>			
Amounts due to credit institutions	22	201,137	373,460
Derivative financial liabilities	12	2,599	13,451
Due to the Russian Government and the Bank of Russia	7	987,563	913,889
Due to London Club creditors	7	1,115	1,083
Amounts due to customers	23	202,223	111,341
Debt securities issued	24	78,896	8,225
Income tax liabilities	19	1,948	282
Provisions	20	2,467	1,362
Other liabilities	21	6,030	6,352
<b>Total liabilities</b>		<b><u>1,483,978</u></b>	<b><u>1,429,445</u></b>
<b>Equity</b>			
Charter capital	25	382,489	261,489
Accumulated deficit		(3,809)	(43,981)
Unrealized gains/(losses) on investment securities available for sale		73,940	(4,639)
Foreign currency translation reserve		382	856
<b>Equity</b>		<b><u>453,002</u></b>	<b><u>213,725</u></b>
<b>Minority interest</b>		<b><u>2,234</u></b>	<b><u>1,571</u></b>
<b>Total equity</b>		<b><u>455,236</u></b>	<b><u>215,296</u></b>
<b>Total equity and liabilities</b>		<b><u>1,939,214</u></b>	<b><u>1,644,741</u></b>

Signed and authorized for release on behalf of the Chairman of the Bank

Vladimir A. Dmitriev

Chairman of the Bank

Vladimir D. Shaprinsky

Chief Accountant

28 May 2010

*The accompanying notes 1 to 34 are an integral part of these consolidated financial statements.*

**Consolidated Statement of Income**  
**For the year ended 31 December 2009**  
*(in millions of Russian rubles)*

	Notes	2009	2008
<b>Interest income</b>			
Loans to customers		89,648	24,395
Amounts due from credit institutions and cash equivalents		34,742	13,614
Investment securities		12,298	3,721
		<b>136,688</b>	<b>41,730</b>
Trading securities		2,106	1,678
		<b>138,794</b>	<b>43,408</b>
<b>Interest expenses</b>			
Amounts due to credit institutions and the Bank of Russia		(39,575)	(12,843)
Amounts due to customers and the Russian Government		(45,920)	(7,598)
Debt securities issued		(1,363)	(617)
		<b>(86,858)</b>	<b>(21,058)</b>
<b>Net interest income</b>		<b>51,936</b>	<b>22,350</b>
Provision for impairment of interest-earning assets	11, 13	(114,837)	(8,601)
<b>Net interest income after provision for impairment of interest-earning assets</b>		<b>(62,901)</b>	<b>13,749</b>
Net fee and commission income	27	7,189	1,625
Gains less losses arising from financial instruments at fair value through profit or loss		27,524	(27,988)
Gains less losses from investment securities available-for-sale	28	42,940	(21,194)
Net gains/(losses) from foreign currencies:			
- dealing		12,603	(10,242)
- translation differences		(2,100)	16,644
Gains on initial recognition of financial instruments	7	9,087	-
Share in net income/(loss) of associates	17	56	(266)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	5	23,832	-
Dividends		2,620	386
Other operating income		1,715	948
<b>Non-interest income / (expenses)</b>		<b>125,466</b>	<b>(40,087)</b>
Payroll and other staff costs		(10,152)	(4,605)
Occupancy and equipment		(4,123)	(1,025)
Depreciation	18	(1,421)	(454)
Taxes other than income tax		(804)	(258)
Goodwill written off		-	(41,841)
Provision for other impairment and provisions	20	(1,327)	(1,995)
Other operating expenses	29	(6,006)	(3,806)
<b>Non-interest expenses</b>		<b>(23,833)</b>	<b>(53,984)</b>
<b>Income /(loss) before income tax</b>		<b>38,732</b>	<b>(80,322)</b>
Income tax expense	19	(417)	(947)
<b>Net income / (loss) for the year</b>		<b>38,315</b>	<b>(81,269)</b>
Attributable to:			
- Equity holder of the parent		41,443	(81,777)
- Minority interest		(3,128)	508
		<b>38,315</b>	<b>(81,269)</b>

The accompanying notes 1 to 34 are an integral part of these consolidated financial statements.

**Consolidated Statement of Comprehensive Income****For the year ended 31 December 2009***(in millions of Russian rubles)*

	<b>Notes</b>	<b>2009</b>	<b>2008</b>
<b>Net income / (loss) for the year</b>		<b>38,315</b>	<b>(81,269)</b>
<b>Other comprehensive income</b>			
Net gains/(losses) on investment securities available-for-sale	25	78,622	(1,587)
Income tax relating to unrealized gains/(losses) on investment securities available-for-sale	19	(43)	46
<b>Currency translation differences</b>		<b>(464)</b>	<b>765</b>
<b>Other comprehensive income / (expense) for the year, net of tax</b>		<b>78,115</b>	<b>(776)</b>
<b>Total comprehensive income / (expense) for the year</b>		<b>116,430</b>	<b>(82,045)</b>
Attributable to:			
- Equity holder of the parent		119,755	(82,604)
- Minority interest		(3,325)	559
		<b>116,430</b>	<b>(82,045)</b>

*The accompanying notes 1 to 34 are an integral part of these consolidated financial statements.*

**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2009**  
*(in millions of Russian rubles)*

	Attributable to the Russian Government				Total	Minority interest	Total equity
	Charter capital	Retained earnings / (accumulated deficit)	Unrealized gains/(losses) on investment securities available for sale	Foreign currency translation reserve			
<b>31 December 2007</b>	<b>186,390</b>	<b>38,616</b>	<b>(3,100)</b>	<b>144</b>	<b>222,050</b>	<b>657</b>	<b>222,707</b>
Total comprehensive income / (expense) for the year	–	(81,777)	(1,539)	712	(82,604)	559	(82,045)
Contribution of the Russian Government (Note 25)	75,000	–	–	–	75,000	–	75,000
Acquisition of subsidiary	–	–	–	–	–	868	868
Increase in interest in subsidiary	99	(730)	–	–	(631)	(554)	(1,185)
Contribution to the share capital of subsidiary from minority shareholders	–	–	–	–	–	83	83
Dividends paid to equity holders (Note 25)	–	(90)	–	–	(90)	–	(90)
Dividends of subsidiaries paid to minority shareholders	–	–	–	–	–	(42)	(42)
<b>31 December 2008</b>	<b>261,489</b>	<b>(43,981)</b>	<b>(4,639)</b>	<b>856</b>	<b>213,725</b>	<b>1,571</b>	<b>215,296</b>
Total comprehensive income for the year	–	41,443	78,582	(270)	119,755	(3,325)	116,430
Acquisition of subsidiaries	–	–	–	–	–	4,174	4,174
Increase in interest in subsidiaries	–	(1,271)	(3)	(204)	(1,478)	(186)	(1,664)
Contribution of the Russian Government (Note 25)	121,000	–	–	–	121,000	–	121,000
<b>31 December 2009</b>	<b>382,489</b>	<b>(3,809)</b>	<b>73,940</b>	<b>382</b>	<b>453,002</b>	<b>2,234</b>	<b>455,236</b>

*The accompanying notes 1 to 34 are an integral part of these consolidated financial statements.*

**Consolidated Statement of Cash Flows**  
**for the year ended 31 December 2009**  
*(in millions of Russian rubles)*

	Notes	2009	2008
<b>Cash flows from operating activities</b>			
Net income / (loss) for the year		38,315	(81,269)
Adjustments for:			
Depreciation and amortization		1,698	533
Deferred income tax		(277)	114
Change in interest expense accrued on special purpose financing from the Ministry of Finance and the Bank of Russia		2,041	–
Impairment allowance and other provisions		116,164	10,596
Changes in unrealized revaluation of trading securities and derivative financial instruments		(30,322)	69,052
Gains less losses from investment securities, net of impairment loss		(56,718)	(41,849)
Impairment loss on investment securities available-for-sale		13,778	20,655
Gains on initial recognition of financial instruments		(9,087)	–
Share in (income) / loss of associates		(56)	266
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets over cost		(23,832)	–
Goodwill written off		–	41,841
Other changes		(590)	(902)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>51,114</b>	<b>19,037</b>
<i>Net (increase)/decrease in operating assets</i>			
Precious metals		(22)	–
Financial assets at fair value through profit or loss		24,461	(25,966)
Amounts due from credit institutions		9,423	(29,357)
Loans to customers		(125,616)	(418,336)
Due from the Russian Government		607	918
Other assets		(1,544)	(3,537)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions, net of long-term interbank financing		(96,822)	75,710
Derivative financial liabilities		(4)	(194)
Due to the Russian Government and the Bank of Russia, net of long-term special purpose financing		(18,237)	450,520
Amounts due to customers		3,392	(9,765)
Promissory notes issued		6,420	(10,311)
Other liabilities		(1,549)	1,665
<b>Net cash from/ (used in) operating activities</b>		<b>(148,377)</b>	<b>50,384</b>

*The accompanying notes 1 to 34 are an integral part of these consolidated financial statements.*

**Consolidated Statement of Cash Flows**  
**For the year ended 31 December 2009 (continued)**  
*(In millions of Russian rubles)*

	<b>Notes</b>	<b>2009</b>	<b>2008</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	5	36,079	6,390
Increase in interest in subsidiaries		(1,742)	(1,185)
Proceeds from sale of assets held for sale		168	–
Investments in associates		–	(1,507)
Purchase of investment securities		(233,329)	(334,145)
Proceeds from sale and redemption of investment securities		227,731	139,707
Subordinated loans issued		(163,045)	(225,000)
Purchase of property and equipment		(2,088)	(2,038)
Proceeds from sale of property and equipment		642	86
<b>Net cash from /(used in) investing activities</b>		<b>(135,584)</b>	<b>(417,692)</b>
<b>Cash flows from financing activities</b>			
Contribution to charter capital from the Russian Government		121,000	75,000
Contribution to the share capital of subsidiary from minority shareholders		78	83
Long-term interbank financing raised		28,250	90,380
Long-term interbank financing repaid		(132,957)	(73,997)
Long-term special purpose financing raised from the Ministry of Finance		94,510	400,000
Placement of bonds		63,422	–
Redemption of bonds		(3,099)	–
Dividends paid to equity holders		–	(90)
Dividends of subsidiaries paid to minority shareholders		–	(42)
<b>Net cash from /(used in) financing activities</b>		<b>171,204</b>	<b>491,334</b>
Cash and cash equivalents reclassified to assets held for sale	14	–	12
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(112,757)</b>	<b>124,038</b>
<b>Cash and cash equivalents, beginning</b>		<b>281,673</b>	<b>157,635</b>
<b>Cash and cash equivalents, ending</b>	9	<b>168,916</b>	<b>281,673</b>
<b>Supplemental information:</b>			
Income tax recovered/ (paid)		442	(389)
Interest paid		(78,744)	(15,574)
Interest received		118,977	38,884
Dividends received		2,621	327

*The accompanying notes 1 to 34 are an integral part of these consolidated financial statements.*

*(in millions of Russian rubles)*

## 1. Principal activities

The Group of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" comprises state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" ("Vnesheconombank" or the "Bank"), four Russian banks, two CIS-based banks and one Russian leasing company and other Russian and foreign companies controlled by the Group.

Vnesheconombank was formed on 8 June 2007 pursuant to and in accordance with Federal Law No. 82-FZ dated 17 May 2007, "On Bank for Development", by means of reorganization of Bank of Foreign Economic Activity of the USSR ("Vnesheconombank of the USSR") and is its legal successor. Vnesheconombank of the USSR was a specialized state bank of the Russian Federation servicing, in an agency capacity, the foreign debt and assets of the former USSR and the Government of the Russian Federation and its authorized institutions (the "Russian Government").

In accordance with Federal Law No. 395-1, "On Banks and Banking Activity", dated 2 December 1990, Vnesheconombank performs banking operations as stipulated by Federal Law No. 82-FZ dated 17 May 2007, "On Bank for Development". The Bank has no right to attract deposits from individuals. The legislation on banks and banking activity shall apply to the Bank only to the extent that it does not contradict the above Federal Law and subject to certain specifics.

Main principles and areas of the Bank's activity are set out in Federal Law No. 82-FZ, "On Bank for Development"(the "Federal law"), and the Memorandum on the Bank's Financial Policies, approved by Resolution of the Russian Government No. 1007-r dated 27 July 2007. The Memorandum on the Bank's Financial Policies provides for main areas of the Bank's investing and financing activities, stipulates quantitative limitations, conditions and criteria of specific operations.

The management bodies of the Bank are the Supervisory Board chaired by the Prime Minister of the Russian Federation, the Management Board and the Chairman of the Bank. In accordance with the Federal Law, the Chairman of the Bank is appointed by the President of the Russian Federation for a term which cannot exceed 5 years.

Vnesheconombank activities are aimed at overcoming infrastructure growth constraints, upgrading and promoting non-raw materials economic sector, encouraging innovations and exports of high-technology products, carrying out projects in special economic zones, environment protection projects, supporting small and medium-sized businesses. The Bank actively participates in large investment projects contributing to the development of infrastructure and high-technology industries of the real sector of the economy.

As described in greater detail in Note 25, the Bank's charter capital has been formed by means of asset contributions from the Russian Federation made under decisions of the Russian Government, including contribution of state-owned shares of OJSC "Russian Bank for Development" and CJSC ROSEXIMBANK to the charter capital.



*(in millions of Russian rubles)*

## 1. Principal activities (continued)

On 25 December 2009, Vnesheconombank entered into an Agreement with the Russian Ministry of Finance for performing the functions of an agent of the Russian Government according to which the Bank shall carry out banking operations required to service and repay the foreign national debt and foreign national debt claims of the Russian Federation and the internal foreign currency-denominated debt of the former USSR, including debt securities issued to replace funds on frozen accounts of Russian legal entities with Vnesheconombank (OVGVZ). The terms of the Agreement shall apply to relations between the parties from 1 January 2009. The Agreement provides for agency fees payable to the Bank if the Russian Ministry of Finance considers the Bank's performance under the Agreement satisfactory. The amount of fees due to Vnesheconombank for performing the agency functions shall be established by a federal law concerning the federal budget for the respective fiscal year and the planned period, and by a resolution of the Russian Government concerning its implementation. The amount of fees for 2009 has been established by Federal Law No. 76-FZ dated 28 April 2009 which amended Federal Law No. 204-FZ dated 24 November 2008, "On the Federal Budget for 2009 and the Planned Period of 2010 and 2011". In addition, the above Agreement requires that the Russian Ministry of Finance provide in due time the full amount of requisite funds from the federal budget for the Bank to service and repay the foreign and internal foreign currency-denominated debt of the former USSR and to manage and use the assets of the former USSR. The Agreement was in effect through 31 December 2009 and can be extended, subject to mutual consent of the parties, for a term established by a federal law concerning the federal budget for the respective fiscal year and the planned period, and/or act of the Russian Government. The Bank expects the addendum to be signed in the first half of 2010.

All agreements authorizing Vnesheconombank to perform the functions of an agent of the Russian Government which have been previously concluded with the Russian Ministry of Finance and remain in effect, apply to the extent that they do not contradict the Agreement dated 25 December 2009. Thus, at 31 December 2009 and 31 December 2008, the Bank as the legal successor of the Vnesheconombank of the USSR was also a party to two separate agency agreements:

- ▶ The agreement dated 30 July 1992 (as amended on 17 March 1993) with the Russian Government requires the Bank to carry out banking operations necessary to service the centralized foreign economic activities of the Russian Federation.
- ▶ The agreement dated 30 September 1993 with the Russian Ministry of Finance requires the Bank to service bonds issued to replace funds on frozen accounts with Vnesheconombank held by Russian legal entities.

These agreements have an indefinite term and provide for certain commissions and fees to be paid to the Bank based upon the volume of transactions serviced and the value of bonds issued.

As described in greater detail in Note 7, at 31 December 2009 and 31 December 2008, the Russian Government owed Vnesheconombank RUB 1,115 million and RUB 1,083 million, respectively, relating to the London Club debt obligation of Vnesheconombank. These amounts have been presented in the Bank's statement of financial position and are not subject to offset. No allowance has been provided with respect to the Russian Government receivable under the London Club debt.

The Bank performs functions of the agent servicing the foreign debt and assets of the former USSR and of the Russian Federation, including maintenance of accounting records, settlements and reconciliation of above debt and assets until the date determined by the Russian Government.

In January 2003, the Bank was nominated as the State Trust Management Company for the trust management of pension savings funds accumulated by the State Pension Fund of the Russian Federation. Vnesheconombank performs trust management of accumulated pension savings of insured citizens who have not selected a private management company and who have selected Vnesheconombank as the management company.

*(in millions of Russian rubles)*

## 1. Principal activities (continued)

On 2 August 2009, Federal Law No. 182-FZ dated 18 July 2009, "On Amendments to Federal Law "On Non-state Pension Funds" and Federal Law "On Investment of Funds to Finance the Funded Part of Labor Pensions in the Russian Federation", came into effect which provide that from 1 November 2009 the Bank as the State Trust Management Company shall form two portfolios: an extended investment portfolio and an investment portfolio of government securities. The Bank shall form the portfolio in accordance with the Investment Declarations approved by Resolution of the Russian Government No. 842 dated 24 October 2009.

During 2009 the Bank as the State Trust Management Company mainly invested in state securities denominated in Russian Rubles. At 31 December 2009, total assets within the extended investment portfolio managed by the Bank and the portfolio of state securities were RUB 480,075 million and RUB 765 million, respectively. Thus, total funds of the State Pension Fund of the Russian Federation placed in management to state management company amounted to RUB 480,840 million at 31 December 2009. At 31 December 2008, total assets within the investment portfolio of the state management company were RUB 343,106 million.

In accordance with Resolution of the Russian Government No. 970 dated 22 December 2008, the Bank shall perform functions of the State Trust Management Company until 1 January 2014.

Since October 2008, Vnesheconombank has been taking measures aimed at supporting the financial system of the Russian Federation so as to implement Federal Law No. 173-FZ dated 13 October 2008, "On Additional Measures to Support the Financial System of the Russian Federation". As described in greater detail in Notes 11 and 13, the Bank extends loans to organizations for repaying and servicing loans received from foreign institutions and extends unsecured subordinated loans to Russian banks.

The Bank's head office is located in Moscow, Russia. The Bank has representative offices in St. Petersburg, Russia, Khabarovsk, Russia, the United States of America, India, Italy, China, the Republic of South Africa, Germany and the UK. The Bank's principal office is located at 9 Prospect Akademika Sakharova, Moscow.

At 31 December 2009 and 31 December 2008, the Group had 19,189 and 7,444 employees, respectively.

## 2. Basis of preparation

### General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank, its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These consolidated financial statements are based on those accounting books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between equity and net income / (loss) before adjustments and reclassifications and per IFRS is presented later in this note.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities, financial assets designated as at fair value through profit or loss, available-for-sale securities and derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in millions of Russian rubles ("RUB million"), unless otherwise indicated.

*(in millions of Russian rubles)*

## 2. Basis of preparation (continued)

### General (continued)

#### *Functional currency*

The Russian ruble is the functional currency of Vnesheconombank and the presentation currency of the Group. Transactions in other currencies are treated as transactions in foreign currencies. The Group's major foreign subsidiary OJSC "Belvnesheconombank" uses Belarusian ruble ("BYR") as its functional currency. PSC "Prominvestbank", another foreign subsidiary of the Group, uses the Ukrainian hryvnia ("UAH") as its functional currency.

London Club debt amounts denominated in foreign currencies are recorded at the official rates of the Bank of Russia at 31 December 2009 and 31 December 2008.

Clearing currencies are the settlement currencies for bilateral trade between the Russian Federation and designated countries. Clearing currencies are regularly traded on special auctions held by the Bank under the supervision of the Ministry of Finance. Clearing currencies-denominated assets and liabilities have been translated into RUB at the official rates of the Bank of Russia at 31 December 2009 and 31 December 2008.

#### *Segregation of operations*

Until the date determined by the Russian Government, the Bank, in its agency capacity, maintains and services certain assets and liabilities on behalf of the Russian Government. Such balances have not been included in the accompanying statements of financial position given the agency nature of the relationship and in accordance with the underlying Agency Agreements and specific guidelines (the "Guidelines") approved by the Board of Directors of Vnesheconombank of the USSR and the Ministry of Finance in 1997.

The Guidelines stipulated the following assets and liabilities are the responsibility of the Ministry of Finance and have, therefore, been excluded from the accompanying statements of financial position:

1. Liabilities to foreign creditors including all accrued interest which are serviced and redeemed at the expense of the Russian Government, except some remaining London Club obligations (Note 7);
2. Internal foreign currency debt to residents of the former USSR;
3. Claims to legal entities for foreign currency government and commercial loans granted to Russian Federation regions, former republics of the USSR, and other foreign countries representing both government external and internal foreign currency assets;
4. Clearing, barter, and mutual settlements, including corresponding settlements with clients, executed on the basis of intergovernmental agreements;
5. Participation claims and liabilities related to the reorganization of former USSR-owned foreign banks, which are subject to trilateral settlement by the CBR, the Ministry of Finance, and Vnesheconombank, and equity participations financed by borrowings, the responsibility for which was assumed by the Ministry of Finance;
6. Claims against Russian commercial banks and other commercial entities for guarantees in favor of the Ministry of Finance under centralized operations, as well as other claims and liabilities that resulted from, or arise as a result of, operations conducted at the expense of the Russian Government.

(in millions of Russian rubles)

## 2. Basis of preparation (continued)

### General (continued)

#### *Subsidiaries*

The main subsidiaries of the Group are OJSC "Russian Bank for Development", CJSC ROSEXIMBANK, OJSC "Belvnesheconombank" (Belarus), OJSC "VEB-Leasing", OJSC "Sviaz-Bank", Prominvestbank (Ukraine), CJSC "GLOBEXBANK" and LLC VEB Capital.

In August 2008, 100% of state-owned shares of OJSC "Russian Bank for Development" were contributed to the charter capital of Vnesheconombank pursuant to Federal Law No. 82-FZ, "On Bank for Development", dated 17 May 2007. In September 2009, Vnesheconombank paid a total of RUB 10 billion for an additional issue of 10,000 ordinary non-documentary shares of OJSC "Russian Bank for Development" (100% of the issue at nominal value) at RUB 1 million each. The Bank of Russia registered a report on the results of the additional issue on 14 September 2009. The core activity of OJSC "Russian Bank for Development" is to provide financial support to small and medium-sized businesses, and includes banking operations, transactions in securities, foreign currency and derivative financial instruments. Financial statements of OJSC "Russian Bank for Development" have been consolidated into the Group's financial statements since the third quarter of 2008 using the pooling of interest method since this transaction involved banks under common control of the Russian Government.

At 31 December 2009, the Group owned 100% of the equity of CJSC State Specialized Russian Export-Import Bank (CJSC ROSEXIMBANK). CJSC ROSEXIMBANK was created in 1994 to support and promote Russian machinery exports, import-substituting production and attraction of investments in the Russian economy. On 5 January 2003, Vnesheconombank of the USSR acquired 90,000 shares of ROSEXIMBANK with a par value of RUB 10,000 each by contributing RUB 1,582 million. In the third quarter of 2008, the Bank additionally acquired 130 shares of ROSEXIMBANK for RUB 4 million. In October 2008, 4,970 state-owned shares (5.23%) of ROSEXIMBANK were contributed to the charter capital of Vnesheconombank pursuant to Federal Law No. 82-FZ, "On Bank for Development", dated 17 May 2007.

At 31 December 2009, the Group owned 97.42% of OJSC "Belvnesheconombank"'s equity. The Group owns 5,894,290,315 ordinary shares of OJSC "Belvnesheconombank" with a par value of BYR 100 (about RUB 1.1). Out of these shares, 129,389,851 shares were acquired mainly during 2007 at BYR 403 per share (about RUB 4.5). In 2008, the Group purchased 3,054,980,370 ordinary shares of OJSC "Belvnesheconombank" at a price ranging from BYR 100 to BYR 1,139 per share for the total amount of RUB 4,592 million. In December 2009, as a result of placement of additional issue of shares, the Group purchased 2,709,920,094 ordinary shares of OJSC "Belvnesheconombank" at par value of BYR 100 per share for the total amount of RUB 2,864 million. At 31 December 2009, the aggregate cost of all purchased shares was RUB 8,081 million. OJSC "Belvnesheconombank" was established in 1991 as a result of the separation of the Belarus branch of the Vnesheconombank of the USSR; primary areas of its operations include granting loans to exporting and other industries, issuing and processing export and import letters of credits, transferring payments and exchanging foreign currencies upon demand of its customers and for currency trading purposes, attracting deposits and dealing in debt securities.

At 31 December 2009, the Group owned 78.07% of OJSC "VEB-Leasing"'s equity. The Group purchased 2,086,002 ordinary shares in April 2008. The cost of purchased shares was RUB 2,246 million. In November 2009 the Group also purchased in the secondary market 1,171,000 shares of OJSC "VEB-Leasing" for the total amount of RUB 1,742 million. OJSC "VEB-Leasing" is the legal successor of CJSC "Oboronpromleasing" whose establishment in 2003 was initiated by FGUP "Rosoboronexport" for the purpose of providing leasing services to civil and military production enterprises. The company is primarily engaged in finance lease of high-technology equipment produced by leading world manufacturers, helicopters and related equipment to lessees in the Russian Federation.

(in millions of Russian rubles)

## 2. Basis of preparation (continued)

### General (continued)

From October through December 2008, Vnesheconombank purchased 90% (461,804,619,018 shares) of ordinary share capital of Interregional Bank for Settlements of the Telecommunications and Postal Services, Open Joint Stock Company (Sviaz-Bank). The cost of acquisition was RUB 3,972. This transaction was approved by Vnesheconombank's Supervisory Board whose decision entitles the Bank to purchase up to 100% of the shares of Sviaz-Bank. During the period from April through May 2009, Vnesheconombank acquired additional 602,281,690 ordinary shares of the bank. The total cost of additionally purchased shares was RUB 5.18. In April and September 2009, Vnesheconombank also acquired 8,999,996,981,185 ordinary shares of Sviaz-Bank from two additional issues totaling 9,000,000,000,000 ordinary shares with a par value of RUB 0.01 each, thus increasing the Group's interest in Sviaz-Bank up to 99.47% as at 31 December 2009. All shares were acquired at nominal value. In December 2009, the subsidiary bank aligned the share capital with equity by reducing the share capital. As a result, the nominal value of the shares decreased by a factor of five from RUB 0.01 to RUB 0.002. The subsidiary bank accepts deposits from the public, extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to legal entities and individuals.

In January 2009, after purchasing additional shares issued by the Joint Stock Commercial Industrial Investment Bank of Ukraine (at the date of acquisition – Closed Joint Stock Company, in August 2009, it was reorganized into Open Joint Stock Company, hereinafter referred to as Prominvestbank (Ukraine), the Group became owner of 97,513,128 shares with a par value of UAH 10 each (around RUB 40.1). The cost of acquisition was RUB 6,904 million. In September 2009, Vnesheconombank paid the total of RUB 14,127 million (equivalent of USD 500 million) for 399,719,996 shares of Prominvestbank. Following the results of the additional issue, the Group's share in the charter capital of the Ukrainian bank rose to 93.84%. The total cost of all purchased shares of the bank was RUB 21,030 million. With its extensive branch network across Ukraine, the subsidiary bank provides financial services to its corporate and retail customers and conducts cash settlement operations.

At 31 December 2009, the Group owned 98.94% of the equity of CJSC "GLOBEXBANK". The Group owns 199,547,920 ordinary shares purchased in April through May 2009. At 31 December 2009, the aggregate cost of all purchased shares was RUB 4,929. CJSC "GLOBEXBANK" is an active participant of the lending market and extends credit to the real sector of the economy, provides services to individuals and engages in interbank market transactions. The subsidiary bank serves its customers via an extensive branch network in major Russian cities.

At 31 December 2009, the Group also included Macquarie Renaissance Infrastructure Fund, Closed-end Mutual Hedge Fund and Macquarie Renaissance Infrastructure Fund-II, Closed-end Mutual Fund. In November and December 2009, the Bank purchased 99.92% of units in each of Macquarie Renaissance Infrastructure Fund, Closed-end Mutual Hedge Fund ("Mutual Hedge Fund MRIF") and Macquarie Renaissance Infrastructure Fund-II, Closed-end Mutual Fund ("Mutual Equity Fund MRIF-II") managed by LLC "Management Company "Renaissance Capital". At 31 December 2009, the Bank invested RUB 25 million in each of the above funds. The Bank will gradually increase the resources of the mutual funds, which will be invested in cooperation with the foreign Macquarie Renaissance Infrastructure Fund, in infrastructure projects in the territory of Russia and other CIS countries, including projects in the field of motor roads and ports construction, railway transportation, utilities and telecommunication infrastructure.

In December 2009, a specialized subsidiary, LLC "VEB Capital", was established for the purpose of managing the Group's certain assets efficiently. The Bank contributed RUB 400 million to the charter capital of the subsidiary (100% interest). Primary areas of operation of the newly established subsidiary will include transactions in financial markets, management of the assets, including construction projects and production facilities, management of industrial & financial groups and holding companies.

(in millions of Russian rubles)

## 2. Basis of preparation (continued)

### General (continued)

Other subsidiaries of the Bank included in the consolidated financial statements at 31 December 2009 and 31 December 2008 are A.F.C. s.r.l. (100%), CJSC "Kraslesinvest" (before February 2008 – LLC "Kraslesinvest", 100%), LLC "Russian Leasing Company" (100%) and Bumofin KFT (98.8%) were also included in the consolidated financial statements as at 31 December 2008.

The list of associated companies and more details on their activities are provided in Note 17.

### Reconciliation of equity and net income for the year before adjustments and reclassifications and per IFRS

Equity and net income / (loss) for the year before adjustments and reclassifications are reconciled to IFRS as follows:

	2009		2008	
	Equity	Net income	Equity	Net income / (loss)
<b>Before adjustments and reclassifications</b>	<b>497,583</b>	<b>30,957</b>	<b>263,548</b>	<b>9,346</b>
Effect of consolidation of subsidiaries	(10,173)	(6,380)	(5,889)	(6,704)
Currency translation differences	(571)	35	(606)	(1,016)
Effect of accrued interest	(12,929)	(12,439)	(490)	(700)
Effect of recording financial assets at amortized cost	4,668	2,276	2,392	1,828
Gains on initial recognition of financial instruments	9,087	9,087	–	–
Impairment of financial assets	–	(13,762)	258	(20,670)
Provisions for losses	10,049	3,687	6,362	4,768
Fair value revaluation of trading securities	(34)	16,975	59	(18,232)
Fair value revaluation of investment securities available for sale	59	–	47	190
Derivative financial instruments	(1,069)	8,850	(9,919)	(9,145)
Taxation	–	–	–	(484)
Goodwill written off	(41,841)	–	(41,841)	(41,841)
Other	407	(971)	1,375	1,391
<b>International Financial Reporting Standards</b>	<b>455,236</b>	<b>38,315</b>	<b>215,296</b>	<b>(81,269)</b>

### Reclassification

The following reclassifications have been made to 2008 balances to conform to the 2009 presentation:

	As previously reported	Reclassification	As adjusted
Gains less losses arising from financial instruments at fair value through profit or loss	(26,068)	(1,920)	(27,988)
Net gains/(losses) from foreign currencies (dealing)	(12,162)	1,920	(10,242)

(in millions of Russian rubles)

### 3. Summary of significant accounting policies

#### Changes in accounting policies

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

##### *Improvements to IFRS*

In May 2008, the International Accounting Standards Board issued the first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying the wording. There are separate transitional provisions for each standard. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Group, except for the amendment to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", as described below.

IAS 20 has been amended to require that loans received from the government that have a below-market rate of interest be recognized and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the statement of financial position. This benefit is accounted for in accordance with IAS 20. The amendment is applied prospectively to government loans received on or after 1 January 2009.

##### *IAS 1 "Presentation of Financial Statements" (Revised)*

A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has retrospectively applied changes in accounting policies, makes a retrospective restatement, or reclassifies items in the financial statements.

The Group has elected to present comprehensive income in two separate statements: statement of operations and statement of comprehensive income. The Group has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the consolidated financial statements.

##### *IFRS 7 "Financial Instruments: Disclosures"*

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has not been provided by the Group as permitted by the transition provisions of the amendment.

##### *IAS 23 "Borrowing Costs" (Revised)*

A revised IAS 23 "Borrowing costs" was issued in March 2007 and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group adopted this as a prospective change. No changes will be made for borrowing costs incurred to this date that have been expensed.

(in millions of Russian rubles)

### 3. Summary of significant accounting policies (continued)

#### Changes in accounting policies (continued)

*Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – "Puttable Financial Instruments and Obligations Arising on Liquidation"*

The amendments to IAS 32 and IAS 1 were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments did not have any impact on the Group's consolidated financial statements.

*Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations*

These amendments were issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. These amendments clarify the definition of vesting conditions and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. These amendments did not have any impact on the Group's consolidated financial statements.

*IFRS 8 "Operating Segments"*

IFRS 8 became effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. In accordance with this Standard the Group discloses information on the operating segments in Note 6.

*IFRIC 13 "Customer Loyalty Programs"*

IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation did not have any impact on the Group's consolidated financial statements as no such schemes currently exist.

*IFRIC 15 "Agreements for the Construction of Real Estate"*

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. This Interpretation clarifies when and how revenue and respective expenses related to sale of real estate should be recognized, if the agreement between a developer and a buyer is reached before the construction is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. This interpretation did not have any impact on the Group's consolidated financial statements.

*IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"*

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Group's consolidated financial statements.

*Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"*

The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The amendments are applicable for annual periods ending on or after 30 June 2009. The application of the amendment did not have a significant impact on the Group's consolidated financial statements as no reclassifications were made for instruments that contained embedded derivatives.



### 3. Summary of significant accounting policies (continued)

#### Changes in accounting policies (continued)

##### *IFRIC 18 "Transfers of Assets from Customers"*

IFRIC 18 was issued in January 2009 and became effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This Interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This Interpretation did not have any impact on the financial position or performance of the Group as the Group has no transfers of assets from its customers.

#### Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

##### *Acquisition of subsidiaries*

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

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognized directly in the consolidated statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the reporting date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

##### *Increases in ownership interests in subsidiaries*

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

##### *Acquisition of subsidiaries from parties under common control*

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

*(in millions of Russian rubles)*

### 3. Summary of significant accounting policies (continued)

#### **Subsidiaries (continued)**

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

#### **Investments in associates**

Associates are entities in which the Group generally has between 20% and 50% of the voting rights or participation shares, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated statement of income, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### **Financial assets**

##### *Initial recognition*

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

##### *Date of recognition*

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *'Day 1' profit*

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable, or when the financial instrument is derecognized.

### 3. Summary of significant accounting policies (continued)

#### Financial assets (continued)

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

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin. Realized and unrealized gains and losses resulting from operations with financial assets at fair value through profit or loss are recognized in the consolidated statement of income within gains less losses from securities.

Derivatives are also classified as held for trading.

##### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in the consolidated statement of income when the investments are impaired, as well as through the amortization process.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Unrealized gains and losses from changes in fair value of investments securities available-for-sale are recognized in other comprehensive income until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of income as gains less losses from investment securities available-for-sale. However, interest calculated using the effective interest method is recognized in the consolidated statement of income.

##### *Determination of fair value*

The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

### 3. Summary of significant accounting policies (continued)

#### Financial assets (continued)

##### *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

##### *Reclassification of financial assets*

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- ▶ other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves of subsidiary banks, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

#### Precious metals

Gold and other precious metals are recorded at CBR bid prices, bid prices of National Bank of Belarus, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the above mentioned bid prices are recorded as translation differences from precious metals in other income.

#### Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method. Securities received under reverse repurchase agreements are not recorded in the consolidated financial statements, unless these are sold to third parties. The obligation to return them is recorded at fair value as a financial trade liability.

*(in millions of Russian rubles)*

### **3. Summary of significant accounting policies (continued)**

#### **Repurchase and reverse repurchase agreements and securities lending (continued)**

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from financial instruments at fair value through profit or loss in the consolidated statement of income. The obligation to return them is recorded at fair value as a financial trade liability.

#### **Derivative financial instruments**

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and securities markets. Such financial instruments are held for trading and are initially recognized at fair value. The fair values are estimated based on quoted market prices, official foreign exchange rates or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from financial instruments at fair value through profit or loss or net gains/ (losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated statement of income.

#### **Promissory notes**

Promissory notes purchased are included in trading or investment securities, or in amounts due from credit institutions or in loans to customers, depending on the aim and terms of their purchase, and are recorded in accordance with the accounting policies for these categories of assets.

#### **Borrowings**

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts to the Central bank and Government, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated statement of income.

For the purposes of the consolidated statement of cash flows, the Group recognizes amounts attracted from banks for a period of up to one year in "Cash flows from operating activities" category, for a period exceeding one year - in "Cash flows from financing activities" category.

### 3. Summary of significant accounting policies (continued)

#### Leases

##### 1. Finance - Group as lessee

The Group recognizes finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.

##### 2. Finance - Group as lessor

The Group recognizes lease receivables at value equal to the net investments in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

##### 3. Operating - Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

##### 4. Operating - Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

#### Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(in millions of Russian rubles)

### 3. Summary of significant accounting policies (continued)

#### Impairment of financial assets (continued)

Provisions for impairment of financial assets in these consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation, Ukraine and in the Republic of Belarus and what effect such changes might have on the adequacy of the provisions for impairment of financial assets.

#### *Amounts due from credit institutions and loans to customers*

For amounts due from credit institutions and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. When an asset is uncollectible and there is no realistic prospect of future recovery, it is written off against the related allowance for impairment. If, in subsequent years, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*(in millions of Russian rubles)*

### **3. Summary of significant accounting policies (continued)**

#### **Impairment of financial assets (continued)**

##### *Held-to-maturity financial investments*

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated statement of income.

##### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income – is reclassified from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

##### *Renegotiated loans*

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.



### 3. Summary of significant accounting policies (continued)

#### **Derecognition of financial assets and liabilities**

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

#### **Financial guarantees**

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income. The premium received is recognized in the consolidated statement of operations on a straight-line basis over the life of the guarantee.

(in millions of Russian rubles)

### 3. Summary of significant accounting policies (continued)

#### Taxation

Current income tax expense is calculated in accordance with the regulations currently in force in the respective territories that the Group operates. Income tax expense of the Group comprises current and deferred income tax. Current income tax is calculated by applying income tax rate effective at the reporting date to the taxable base.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

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

Income and expenses of Vnesheconombank are not taxable for income tax purposes.

Various operating taxes, which are assessed on the Group's activities, are included as a component of other operating expenses in the consolidated statement of income.

#### Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	15-60
Furniture and office supplies	2-10
Computers and equipment	2-8
Motor vehicles	2-10

The land has an indefinite useful life and is not depreciated.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortized over the lease term of property and equipment. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

### 3. Summary of significant accounting policies (continued)

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- ▶ represents the lowest level within the Group at which the goodwill is monitored for internal management purposes;
- ▶ is not larger than the operating segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### Intangible assets other than goodwill

Intangible assets other than goodwill include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

#### Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable.

### 3. Summary of significant accounting policies (continued)

#### Assets classified as held for sale (continued)

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

#### Provisions

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

#### Retirement and other benefit obligations

Current pension contributions of the Group are calculated as a percentage of current gross salary payments to employees; such expense is charged to the statement of income in the period the related contributions are paid and included into payroll and other staff costs.

In addition, the Bank operates two separately administered defined contribution pension schemes, where the Bank's obligation for each period is determined by the amounts to be contributed for that period. Contributions made by the Bank are recognized as expense in the respective period.

The Group has no other post-retirement benefits or significant other employee benefits requiring accrual.

#### Charter capital

##### *Charter capital*

Asset contributions of the Russian Federation made for formation of the Bank's charter capital are recorded in the equity. Vnesheconombank's charter capital is not divided into shares (interest).

##### *Dividend income*

The Bank neither accrues nor pays dividends.

Dividends of subsidiaries are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

#### Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Group.

*(in millions of Russian rubles)*

### 3. Summary of significant accounting policies (continued)

#### Segment reporting

The Group's segment reporting is based on five operating segments disclosed in Note 6.

#### Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is probable. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

#### Income and expense recognition

Income and expense are recognized to the extent that it is probable that the economic benefits will flow to the Group and they can be reliably measured. The following specific recognition criteria must also be met before income and expense are recognized:

##### *Interest and similar income and expense*

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Interest expense on loans and deposits from the Russian Ministry of Finance is included into interest expense on amounts due to customers recorded in the consolidated statement of income.

##### *Fees and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

▶ *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

▶ *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

*(in millions of Russian rubles)*

### **3. Summary of significant accounting policies (continued)**

#### **Income and expense recognition (continued)**

##### *Dividend income*

Revenue is recognized when the Group's right to receive the payment is established.

#### **Foreign currency translation**

The consolidated financial statements are presented in Russian Rubles, which is the Bank's functional currency and Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of income as net gains (losses) from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2009 and 2008 were 30.2442 Rubles and 29.3804 Rubles to 1 USD, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Russian Rubles at the rate of exchange ruling at the reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated statement of income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

#### **Future changes in accounting policies**

##### *Standards and interpretations issued but not yet effective*

##### *Amendments to IAS 39 "Financial Instruments: recognition and measurement"- "Eligible Hedged Items"*

Amendments to IAS 39 were issued in August 2008 and became effective for annual periods beginning on or after 1 July 2009. The amendments address the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendments clarify that an entity may designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group does not expect these amendments to affect its consolidated financial statements as the Group has not entered into any such hedges.

(in millions of Russian rubles)

### 3. Summary of significant accounting policies (continued)

#### Future changes in accounting policies (continued)

##### *IFRS 3 "Business Combinations" (Revised) and IAS 27 "Consolidated and Separate Financial Statements" (Revised)*

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

##### *Amendments to IFRS 2 "Share-based Payment" - Group Cash-settled Share-based Payment Transactions*

The amendments to IFRS 2 were issued in June 2009 and become effective for annual periods beginning on or after 1 January 2010. The amendments clarify the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The Group expects that these amendments will have no impact on the Group's consolidated financial statements.

##### *IAS 24 "Related party disclosures" (Revised)*

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Group has decided not to early adopt the revised IAS 24.

##### *IFRIC 17 "Distribution of Non-cash Assets to Owners"*

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. This Interpretation applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. IFRIC 17 also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Group expects that this interpretation will have no impact on the Group's consolidated financial statements.

##### *IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"*

IFRIC Interpretation 19 was issued on 26 November 2009 and is effective for annual periods beginning on or after 1 July 2010. The Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This Interpretation applies retrospectively from the beginning of the earliest reported comparative period since application to earlier periods will result only to reclassification of amounts in the equity. The Group expects that this interpretation will have no impact on the Group's consolidated financial statements.

(in millions of Russian rubles)

### 3. Summary of significant accounting policies (continued)

#### Future changes in accounting policies (continued)

##### *Improvements to IFRS*

In April 2009, the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in the April 2009 "Improvements to IFRS" will have no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- ▶ Amendment to IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*" clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.
- ▶ IFRS 8 "*Operating Segments*" clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's management does review segment assets and liabilities, the Group discloses this information.
- ▶ IAS 7 "*Statement of Cash Flows*" explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.
- ▶ Amendment to IAS 36 "*Impairment of Assets*" clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment will have no impact on the Group's financial statements as the annual impairment test is performed before aggregation.

In May 2010, the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in "Improvements to IFRS" published in May 2010 will have an impact on the accounting policies, financial position or performance of the Group as described below.

- ▶ IFRS 3 "*Business combinations*" limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. The Group expects that amendments to IFRS 3 may have an impact on the Group's consolidated financial statements.
- ▶ IFRS 7 "*Financial instruments: Disclosures*"; introduces the amendments to quantitative and credit risk disclosures. The Group expects that these changes will have an insignificant impact since the required information is readily available.
- ▶ IAS 34 "*Interim Financial Reporting*"; adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim consolidated financial statements of the Group.
- ▶ Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.



(in millions of Russian rubles)

### 3. Summary of significant accounting policies (continued)

#### Future changes in accounting policies (continued)

##### *Amendments to IAS 32 "Financial instruments: Presentation" - Classification of Rights Issues*

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that these amendments will have no impact on the Group's consolidated financial statements.

##### *IFRS 9 "Financial Instruments" (first phase)*

In November 2009, the IASB issued the first phase of IFRS 9 "Financial instruments". This Standard will eventually replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 becomes effective for annual periods beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements for the classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of adoption of new Standard and considers the initial application date.

### 4. Significant accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. The actual results may differ from these estimates and it is possible that these differences may have a material effect on the financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

#### *Allowance for impairment of loans and receivables*

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(in millions of Russian rubles)

#### 4. Significant accounting estimates (continued)

##### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. At 31 December 2009, the carrying value of goodwill amounted to RUB 1,381 million (at 31 December 2008, RUB 1,381 million). More details are provided in Note 21.

#### 5. Business combinations

##### *PSC Prominvestbank*

On 15 January 2009, the Group became owner of 75% plus three shares in the equity of Prominvestbank. Out of these shares, 1,966,799 shares were acquired in the fourth quarter of 2008. One share was received free of charge. In addition, 95,546,328 ordinary share of Prominvestbank were acquired during additional issue in January 2009. The cost of acquisition was RUB 6,904 million.

The fair value of the identifiable assets and liabilities acquired and the excess of net assets over the cost of acquisition were as follows:

	<b>Fair value recognized on acquisition 2009</b>	<b>Carrying value 2009</b>
Cash and cash equivalents	6,442	6,442
Amounts due from credit institutions	444	444
Investment securities available-for-sale	645	645
Loans to customers	83,631	83,631
Property and equipment (Note 18)	11,588	11,588
Other assets	833	737
	<b>103,583</b>	<b>103,487</b>
Amounts due to credit institutions	27,270	27,270
Amounts due to customers	57,211	57,211
Deferred tax liability (Note 19)	1,569	1,545
Provisions (Note 20)	533	533
Other liabilities	1,360	1,360
	<b>87,943</b>	<b>87,919</b>
Net assets	15,640	15,568
Less : minority interests	(3,910)	
<b>Net assets acquired</b>	<b>11,730</b>	
Less: excess of net assets over the cost of acquisition	(4,826)	
<b>Cost of acquisition</b>	<b>6,904</b>	

Cash outflow on acquisition of the subsidiary:

Net cash acquired with the subsidiary	6,442
Less: cash consideration transferred in 2009	(1,998)
<b>Net cash inflow</b>	<b>4,444</b>

From the date of acquisition of Prominvestbank, the Group's profit has been reduced by RUB 12,250 million.

(in millions of Russian rubles)

## 5. Business combinations (continued)

### CJSC "GLOBEXBANK"

During the period from April through May 2009, the Group acquired 98.94% or 199,547,920 ordinary shares of CJSC "GLOBEXBANK". Control was transferred to the Group on 30 April 2009. The cost of acquisition was RUB 4,929.

The fair value of the identifiable assets and liabilities acquired and the excess of net assets over the acquisition cost were as follows:

	Fair value recognized on acquisition 2009	Carrying value 2009
Cash and cash equivalents	31,635	31,635
Amounts due from credit institutions	3,355	3,355
Financial assets at fair value through profit or loss	1,068	1,068
Investment securities		
- available-for-sale	3	3
- held-to-maturity	1,211	1,211
Loans to customers	15,181	15,181
Property and equipment (Note 18)	1,930	1,930
Other assets	825	282
	<b>55,208</b>	<b>54,665</b>
Amounts due to credit institutions	1,225	1,225
Amounts due to customers	30,256	30,256
Debt securities issued	4,020	4,020
Deferred tax liability (Note 19)	355	246
Provisions (Note 20)	31	31
Other liabilities	111	111
	<b>35,998</b>	<b>35,889</b>
Net assets	19,210	18,776
Less : minority interests	(204)	
<b>Net assets acquired</b>	<b>19,006</b>	
Less: excess of net assets over the cost of acquisition	(19,006)	
<b>Cost of acquisition</b>	<b>0</b>	

Cash outflow on acquisition of the subsidiary:

Net cash acquired with the subsidiary	31,635
Less: cash paid on acquisition	(0)
<b>Net cash inflow</b>	<b>31,635</b>

From the date of acquisition of CJSC "GLOBEXBANK", the Group's profit has been increased by RUB 194 million. If the acquisition had taken place at the beginning of the year, interest and non-interest income and profit of the Group for the reporting year would have been RUB 257,256 million and RUB 34,312 million, respectively or increased by RUB 2,095 million and RUB 373 million, respectively.

(in millions of Russian rubles)

## 6. Segment information

For the management purpose the Group has five operating business segments:

Segment 1	Vnesheconombank, OJSC "Russian Bank for Development", CJSC ROSEXIMBANK
Segment 2	OJSC Sviaz-Bank, CJSC GLOBEXBANK
Segment 3	Prominvestbank (Ukraine)
Segment 4	OJSC "Belvnesheconombank" (Belarus)
Segment 5	Other subsidiaries

Management monitors the operating results of each unit separately to make decisions on allocation of resources and to access operating performance. Segments results are defined in a different way from that used for the purposes of the consolidated financial statements, as shown in the table below.

In 2009 and 2008, the Group received no income from transactions with one external client or counterparty, which amounted to 10% or more percent of the total income.

Information on income, profit, assets and liabilities by the Group's operating segments is presented below:

2009	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Total before intersegment (income)/ losses	Intersegment (income)/ losses and other adjustments	Total
<b>Income</b>								
<b>External clients</b>								
Interest income	102,356	15,191	16,619	2,363	2,265	138,794	–	138,794
Fee and commission income	5,067	1,306	1,756	733	–	8,862	–	8,862
Gains less losses arising from financial instruments at fair value through profit or loss	17,150	10,352	22	–	–	27,524	–	27,524
Gains less losses from investment securities available-for-sale	42,737	203	–	–	–	42,940	–	42,940
Net gains/(losses) from foreign currencies	10,638	(1,059)	143	260	521	10,503	–	10,503
Share in income of associates	44	–	8	4	–	56	–	56
Other income	12,004	660	162	421	175	13,422	–	13,422
<b>Total external income</b>	<b>189,996</b>	<b>26,653</b>	<b>18,710</b>	<b>3,781</b>	<b>2,961</b>	<b>242,101</b>	<b>–</b>	<b>242,101</b>
<b>Intersegment income</b>								
Interest income	4,579	24	–	–	–	4,603	(4,603)	–
Other intersegment income less expenses	491	44	–	11	–	546	(546)	–
<b>Total intersegment income</b>	<b>5,070</b>	<b>68</b>	<b>–</b>	<b>11</b>	<b>–</b>	<b>5,149</b>	<b>(5,149)</b>	<b>–</b>
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	–	–	–	–	–	–	23,832	23,832
<b>Total income</b>	<b>195,066</b>	<b>26,721</b>	<b>18,710</b>	<b>3,792</b>	<b>2,961</b>	<b>247,250</b>	<b>18,683</b>	<b>265,933</b>
<b>Total external expense</b>								
Interest expenses	(70,563)	(6,104)	(8,921)	(889)	(381)	(86,858)	–	(86,858)
Fee and commission expense	(958)	(496)	(129)	(84)	(6)	(1,673)	–	(1,673)
Allowance for loan impairment	(18,302)	(82,009)	(14,104)	(345)	(77)	(114,837)	–	(114,837)
Personnel expenses	(3,587)	(2,738)	(2,707)	(996)	(124)	(10,152)	–	(10,152)
Depreciation	(327)	(444)	(547)	(93)	(10)	(1,421)	–	(1,421)
Other impairment provision (charges)/ reversal	(333)	(425)	(570)	–	1	(1,327)	–	(1,327)
Other expenses	(3,583)	(3,042)	(2,501)	(557)	(1,250)	(10,933)	–	(10,933)
<b>Total external expense</b>	<b>(97,653)</b>	<b>(95,258)</b>	<b>(29,479)</b>	<b>(2,964)</b>	<b>(1,847)</b>	<b>(227,201)</b>	<b>–</b>	<b>(227,201)</b>
<b>Intersegment expenses</b>								
Interest expenses	(24)	(2,314)	(2,072)	(100)	(477)	(4,987)	4,987	–
Other intersegment expenses	(1,036)	(7)	(1)	–	(3)	(1,047)	1,047	–
<b>Total intersegment expenses</b>	<b>(1,060)</b>	<b>(2,321)</b>	<b>(2,073)</b>	<b>(100)</b>	<b>(480)</b>	<b>(6,034)</b>	<b>6,034</b>	<b>–</b>
<b>Total expenses</b>	<b>(98,713)</b>	<b>(97,579)</b>	<b>(31,552)</b>	<b>(3,064)</b>	<b>(2,327)</b>	<b>(233,235)</b>	<b>6,034</b>	<b>(227,201)</b>
<b>Segment results</b>	<b>96,353</b>	<b>(70,858)</b>	<b>(12,842)</b>	<b>728</b>	<b>634</b>	<b>14,015</b>	<b>24,717</b>	<b>38,732</b>
Income tax expense/ (benefit)	(145)	(192)	346	(267)	(159)	(417)	–	(417)
<b>Profit for the year</b>	<b>96,208</b>	<b>(71,050)</b>	<b>(12,496)</b>	<b>461</b>	<b>475</b>	<b>13,598</b>	<b>24,717</b>	<b>38,315</b>
Segment assets	1,668,005	186,259	106,136	21,645	19,394	2,001,439	(62,225)	1,939,214
Segment liabilities	1,282,157	145,843	88,195	13,848	16,715	1,546,758	(62,780)	1,483,978
<b>Other segment information</b>								
Capital expenditure	1,064	430	504	360	17	2,375	–	2,375
Investments in associates	5,436	–	–	26	–	5,462	–	5,462

(in millions of Russian rubles)

## 6. Segment information (continued)

2008	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Total before intersegment (income)/ losses	Intersegment (income)/ losses and other adjustments	Total
<b>Income</b>								
<b>External clients</b>								
Interest income	36,580	3,437	–	1,290	2,101	43,408	–	43,408
Fee and commission income	1,543	170	–	585	–	2,298	–	2,298
Gains less losses arising from financial instruments at fair value through profit or loss	(22,419)	(5,569)	–	–	–	(27,988)	–	(27,988)
Gains less losses from investment securities available-for-sale	(21,182)	(31)	–	19	–	(21,194)	–	(21,194)
Net gains/(losses) from foreign currencies	7,079	(298)	–	186	(565)	6,402	–	6,402
Share in income/(loss) of associates	(269)	–	–	3	–	(266)	–	(266)
Other income	640	228	–	396	70	1,334	–	1,334
<b>Total external income</b>	<b>1,972</b>	<b>(2,063)</b>	<b>–</b>	<b>2,479</b>	<b>1,606</b>	<b>3,994</b>	<b>–</b>	<b>3,994</b>
<b>Intersegment income</b>								
Interest income	2,350	–	–	–	–	2,350	(2,350)	–
Other intersegment income less expenses	10	–	–	–	–	10	(10)	–
<b>Total intersegment income</b>	<b>2,360</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,360</b>	<b>(2,360)</b>	<b>–</b>
<b>Total income</b>	<b>4,332</b>	<b>(2,063)</b>	<b>–</b>	<b>2,479</b>	<b>1,606</b>	<b>6,354</b>	<b>(2,360)</b>	<b>3,994</b>
<b>External expenses</b>								
Interest expenses	(17,774)	(2,311)	–	(525)	(448)	(21,058)	–	(21,058)
Fee and commission expense	(456)	(127)	–	(78)	(12)	(673)	–	(673)
Allowance for loan impairment	(8,252)	–	–	(237)	(112)	(8,601)	–	(8,601)
Personnel expenses	(3,373)	(484)	–	(704)	(44)	(4,605)	–	(4,605)
Depreciation	(321)	(48)	–	(70)	(15)	(454)	–	(454)
Other impairment provision (charges)/ reversal	(2,002)	–	–	7	–	(1,995)	–	(1,995)
Other expenses	(3,810)	(467)	–	(515)	(297)	(5,089)	–	(5,089)
<b>Total external expense</b>	<b>(35,988)</b>	<b>(3,437)</b>	<b>–</b>	<b>(2,122)</b>	<b>(928)</b>	<b>(42,475)</b>	<b>–</b>	<b>(42,475)</b>
<b>Intersegment expenses</b>								
Interest expenses	–	2,305	–	79	40	2,424	(2,424)	–
Other intersegment expenses	124	–	–	4	6	134	(134)	–
<b>Total intersegment expenses</b>	<b>124</b>	<b>2,305</b>	<b>–</b>	<b>83</b>	<b>46</b>	<b>2,558</b>	<b>(2,558)</b>	<b>–</b>
<b>Impairment of goodwill</b>								
<b>Total expenses</b>	<b>(35,864)</b>	<b>(1,132)</b>	<b>–</b>	<b>(2,039)</b>	<b>(882)</b>	<b>(39,917)</b>	<b>(41,841)</b>	<b>(84,316)</b>
<b>Segment results</b>	<b>(31,532)</b>	<b>(3,195)</b>	<b>–</b>	<b>440</b>	<b>724</b>	<b>(33,563)</b>	<b>(46,759)</b>	<b>(80,322)</b>
Income tax expense/ (benefit)	(690)	4	–	(121)	(140)	(947)	–	(947)
<b>Profit for the year</b>	<b>(32,222)</b>	<b>(3,191)</b>	<b>–</b>	<b>319</b>	<b>584</b>	<b>(34,510)</b>	<b>(46,759)</b>	<b>(81,269)</b>
Segment assets	1,534,764	103,347	–	18,683	12,720	1,669,514	(24,773)	1,644,741
Segment liabilities	1,329,600	101,149	–	13,157	10,517	1,454,423	(24,978)	1,429,445
<b>Other segment information</b>								
Capital expenditure	1,369	–	–	592	77	2,038	–	2,038
Investments in associates	5,678	–	–	30	–	5,708	–	5,708

### Geographical information

Allocation of the Group's revenue from transactions with external clients and non-current assets based on the location of these clients and assets as at 31 December 2009 and 2008 and for the years then ended is presented in the tables below:

	2009				2008		
	Russia	Ukraine	Other countries	Total	Russia	Other countries	Total
Interest income from external clients	119,812	16,619	2,363	138,794	42,118	1,290	43,408
Non-current assets	10,777	10,584	1,417	22,778	8,254	1,475	9,729

Non-current assets include property and equipment and intangible assets.

(in millions of Russian rubles)

## 7. Operations with the Russian Government, its authorized institutions and the Bank of Russia

Amounts due to the Russian Government and its authorized institutions and the Bank of Russia consisted of the following:

	<b>2009</b>	<b>2008</b>
Interest-bearing loans and deposits from the Ministry of Finance of the Russian Federation	501,455	404,187
Interest-bearing deposits from the Bank of Russia	446,151	482,140
Settlements related to redemption of Russian Government loans	38,005	25,245
Special purpose funds	771	302
External debt payment funds	696	780
Current accounts of the Russian Government	319	94
Current accounts in precious metals	166	1,141
<b>Due to the Russian Government, its institutions and the Bank of Russia</b>	<b>987,563</b>	<b>913,889</b>

At 31 December 2009 and 2008, interest-bearing loans and deposits from the Ministry of Finance included funds of the National Welfare Fund of the Russian Federation ("NWF") deposited with Vnesheconombank pursuant to Federal Law No. 173-FZ in the amount of RUB 410,554 million (31 December 2008: RUB 404,187 million). At 31 December 2009, these RUB-denominated deposits were raised at an annual rate of 7% and 8.5% and had maturity dates from December 2014 through December 2020. At 31 December 2008, those RUB-denominated deposits were raised at an annual rate of 7% and had maturity dates in October 2013 and December 2019. In December 2009, the Bank early repaid a deposit of RUB 175,000 million to the Ministry of Finance. The amount had been placed on deposit in accordance with Resolution No. 18 of the Russian Government of 19 January 2008 (Note 15).

In 2009, the Ministry of Finance provided the Group with funds to finance credit institutions and legal entities supporting small and medium enterprises. OJSC "Russian Bank for Development", a subsidiary bank, is responsible for implementing the government support. At 31 December 2009, the amount of financing was RUB 30,408 million. The funds are denominated in Russian rubles, bear interest at 8.5% and mature in December 2017.

In 2009, the Ministry of Finance also provided the Group with USD-denominated financing for investment projects. The financing bears interest at six-month LIBOR plus 2.8% and matures in July 2011. At 31 December 2009, the financing amounted to RUB 60,493 million.

At 31 December 2009, interest bearing deposits from the Bank of Russia included USD-denominated deposits totaling RUB 236,548 million (31 December 2008: RUB 289,069 million). The deposits are intended to support the financial system of the Russian Federation pursuant to Federal Law No. 173-FZ. The amount was placed on deposit with Vnesheconombank for one year and bears interest at one-year LIBOR plus 1%. Vnesheconombank used the funds to provide loans to organizations so that they can repay and service debt to foreign organizations. At the end of 2009, part of the deposits was extended for another year on similar terms as Vnesheconombank extended maturities of the back-to-back financing (Note 13).

At 31 December 2009, interest bearing deposits from the Bank of Russia also included:

- ▶ Special purpose RUB-denominated deposits in the amount of RUB 87,835 million (31 December 2008: RUB 87,358 million) bearing interest at 5% p.a. (31 December 2008: 5.5% - 6.5%) and intended for the program for financial support to CJSC GLOBEXBANK with the objective to stabilize the bank's operations and ensure unconditional compliance with all obligations to customers and counterparties. In 2009, the maturity of the deposits was extended for 1 year until October 2010.

(in millions of Russian rubles)

## 7. Operations with the Russian Government, its authorized institutions and the Bank of Russia (continued)

- ▶ Special purpose RUB-denominated deposits in the amount of RUB 121,383 million (31 December 2008: 0) bearing interest at 5.3%-5.8% p.a., maturing in September 2010 and intended for the program for financial support to OJSC Sviaz-Bank. A gain on initial recognition of those deposits amounted to RUB 9,087 million in the 2009 consolidated statement of income.
- ▶ Other RUB-denominated loans in the amount of RUB 385 million (31 December 2008: RUB 31,376 million), maturing in May 2010 and bearing interest at 9% p.a. (31 December 2008: June 2009, 9% - 13.7% p.a.).

At 31 December 2008, the interest bearing deposits from the Bank of Russia also included a special purpose USD-denominated deposit in the amount of RUB 74,337 million raised at one-year LIBOR plus 1% for a period of one year. The funds were used to provide financial support to Sviaz-Bank to ensure compliance of the bank with all obligations to lenders and counterparties. The special -purpose deposit was repaid in the first quarter of 2009 before maturity.

Settlements related to redemption of Russian Government loans represent amounts placed on deposit with the Bank by the Ministry of Finance to facilitate servicing and repaying external debt of the Russian Government and the former USSR. The Bank manages the funds on deposit and makes the relevant payments in accordance with the Agency Agreements. The balance also includes funds received from borrowers as repayment for loans granted by the Russian Government. At 31 December 2009 and 31 December 2008, the funds were classified in due to the Russian Government.

At 31 December 2009 and 31 December 2008, special purpose funds included proceeds from export sales and other funds subject to settlement between the Ministry of Finance and Vnesheconombank.

Current accounts in precious metals include funds of the Russian Government transferred to Vnesheconombank in the process of reorganization. Pursuant to an instruction issued by the Ministry of Finance in December 2009, precious metals have been transferred from the custody of Vnesheconombank to the Russian State Fund of Precious Metals and Precious Stones. A procedure is being negotiated for returning the rest of precious metals currently in custody in Zurich (Switzerland) to the Russian State Fund.

### London Club

As a legal successor of the Vnesheconombank of the USSR the Bank is a party to a number of rescheduling agreements with various foreign commercial bank creditors (the "London Club"). The London Club debt represents liabilities of the former USSR due to foreign banks and financial institutions. These liabilities were primarily reconciled and restructured under a series of agreements and other legal documentation between the Bank and foreign creditors dated 6 October 1997, which became effective on 2 December 1997. These agreements required the original debts and the accrued interest thereon, denominated in various currencies, to be converted into Restructured Loans ("PRINs") and Interest Arrears Notes ("IANs") in base currencies (Swiss Francs, Japanese Yens, Deutsche Marks, European Currency Units and US Dollars).

The London Club debt was issued as a legal obligation of the Vnesheconombank of the USSR. Based on Russian Government resolution No. 1167 "On the Settlement of the Indebtedness of the Former USSR to Foreign Commercial Banks and Financial Institutions (the London Club)" dated 15 September 1997 and the Declaration of Support dated 28 November 1997, the Russian Government expressed its willingness, without right of legal recourse from creditors or specific commitment, to provide financial resources to enable the Vnesheconombank of the USSR to honor its London Club obligations as they became due. The Declaration of Support remains in force as long as any debt under the London Club restructuring agreements remains outstanding.

(in millions of Russian rubles)

## 7. Operations with the Russian Government, its authorized institutions and the Bank of Russia (continued)

### London Club (continued)

On 11 February 2000, an agreement was reached between representatives of the London Club creditors and the Russian Government, under which the outstanding London Club debt of approximately USD 31.7 billion (at 31 March 2000) was exchanged for a new issue of Eurobonds issued by the Government of the Russian Federation and maturing in 2010 and 2030. As the exchange process substitutes obligations of the Bank with obligations of the Russian Government, receivables from the Russian Government under the London Club and amounts due to the London Club have been excluded from the Bank's statement of financial position to the extent that the bondholders have presented their PRINs and IANs for exchange.

At 31 December 2009 and 2008, most holders of PRINs and IANs have participated in the exchange, with 99.8% of the face value of PRINs and IANs being submitted for exchange to Eurobonds. The remaining 0.2% of the face value of the PRINs and IANs continues to be carried as a liability of the Bank, along with the corresponding receivable from the Russian Government.

The London Club debt comprises:

	<u>2009</u>	<u>2008</u>
IAN	1,012	983
PRIN	16	16
Interest accrued on the PRINs and IANs, including overdue and default interest	87	84
<b>Due to the London Club</b>	<b><u><u>1,115</u></u></b>	<b><u><u>1,083</u></u></b>

Pursuant to Resolution of the Russian Government No. 1047-r dated 30 July 2009 concerning final settlement of the external debt obligations of the Russian Government and former USSR to the London Club creditors, in December 2009, claims in the amount of RUB 30 million were settled.

Obligations settled and claims not presented to settlement by creditors shall be written off from the statement of financial position of Vnesheconombank based on the instructions of the Ministry of Finance. At 31 December 2009, no respective instructions were received by the Bank.

## 8. Agency operations

### Commercial indebtedness

The Russian Government has announced its intention to assume the legal responsibility for certain commercial indebtedness (also referred to as the "trade indebtedness") of the former USSR, identified as obligations of the Government of the former USSR and other bodies and entities acting on its behalf, within the Declaration of the Government of the Russian Federation dated 1 October 1994, "On the Restructuring of Commercial Indebtedness of the Former USSR to Foreign Creditors" (the "Declaration").

The Government of the Russian Federation has authorized the exchange of Russian Federation Eurobonds for eligible uninsured trade debt of the former USSR in accordance with Resolution No. 931 dated 29 December 2001, "On the Settlement of the Trade Indebtedness of the Former USSR to Foreign Trade Creditors". During 2002, 2006 and 2009, the Ministry of Finance conducted three stages of exchange of the Russian Federation Eurobonds for eligible uninsured trade debt of the former USSR, with Vnesheconombank of the USSR acting as a sub-agent under the exchange.

At 31 December 2009, the debt of the Russian Federation falling into this category was settled.



(in millions of Russian rubles)

## 8. Agency operations (continued)

### Other agency operations

At 31 December 2009 and 2008, other assets and liabilities maintained by the Bank under the applicable Agency Agreements represent predominantly claims against foreign governmental and corporate debtors, former USSR companies, Russian state companies, and non-club debt to foreign creditors.

Vnesheconombank is not a legal obligor or creditor under the above categories of external debt or government external assets and, therefore, the corresponding amounts were not included in the Bank's statement of financial position.

### Agency operations of OJSC "Belvnesheconombank"

OJSC "Belvnesheconombank" performs servicing functions in a number of loans received from foreign banks for investment projects in the Republic of Belarus under guarantees of the Government of the Republic of Belarus. According to the legal form of agreements with foreign banks, OJSC "Belvnesheconombank" is a borrower under these agreements. In respect of every such loan agreement OJSC "Belvnesheconombank" signs an agreement with the Government of the Republic of Belarus (represented by the Ministry of Finance of the Republic of Belarus) and a beneficiary Belarusian enterprise. These agreements establish functions of OJSC "Belvnesheconombank" in respect of loan servicing and generally define OJSC "Belvnesheconombank" as a loan servicing agent. The functions of OJSC "Belvnesheconombank" comprise the support of settlements for receipts and repayment of loans between foreign banks, authorized government bodies (in the first instance, the Ministry of Finance of the Republic of Belarus) and ultimate borrowers (Belarusian enterprises). Such operations by their economic substance do not expose OJSC "Belvnesheconombank" to credit and other risks. Therefore, respective assets and liabilities were not recognized in the consolidated financial statements. At 31 December 2009 and 2008, the loans received from foreign banks, according to the above terms and conditions, comprised RUB 1,593 million and RUB 1,913 million, respectively. These loans mature in 2010-2015. A possible change in the governmental bodies' position in respect of these operations may cause changes in the legislation setting forth the procedure of such operations. There is no certainty in respect of the potential impact of these future changes on the functions of OJSC "Belvnesheconombank" related to such operations and the procedure of recognizing them in the financial statements.

## 9. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2009</u>	<u>2008</u>
Cash on hand	11,037	5,124
Current accounts with the Bank of Russia	12,785	57,361
Correspondent nostro accounts with OECD-based credit institutions	21,297	53,029
Correspondent nostro accounts with Russian credit institutions and current stock broker accounts	13,549	22,235
Correspondent nostro accounts with other credit institutions	10,009	4,771
Interest-bearing loans and deposits with the Bank of Russia up to 90 days	8,127	–
Interest-bearing loans and deposits with OECD-based credit institutions up to 90 days	41,523	85,491
Interest-bearing loans and deposits with Russian credit institutions up to 90 days	35,781	42,891
Interest-bearing loans and deposits with non-OECD-based credit institutions up to 90 days	1,368	979
Reverse repurchase agreements with credit institutions for up to 90 days	13,440	9,792
<b>Cash and cash equivalents</b>	<b><u>168,916</u></b>	<b><u>281,673</u></b>

(in millions of Russian rubles)

## 9. Cash and cash equivalents (continued)

At 31 December 2009, interest-bearing loans and deposits with the Bank of Russia are represented by short-term RUB placements that bear annual interest rate of 4%.

Interest-bearing loans and deposits with OECD-based credit institutions, at 31 December 2009, are represented by short-term RUB, USD, EUR and CAD deposits that bear annual interest rates of 5.5% for RUB deposits (31 December 2008 – 25%), from 0.1% to 0.2% for USD deposits (31 December 2008 – from 0.5% to 2.2%), from 0.2% to 0.3% for EUR deposits (31 December 2008 – from 1.8% to 2.3%) and of 0.2% for CAD deposits (31 December 2008 – from 1.6% to 1.9%).

Interest-bearing loans and deposits with Russian credit institutions, at 31 December 2009, are represented by short-term RUB, USD and EUR placements that bear annual interest rates from 0.2% to 11.5% for RUB deposits (31 December 2008 – from 2% to 37%), from 0.2% to 6% for USD deposits (31 December 2008 – from 8% to 9%), from 0.2% to 8.8% for EUR deposits (31 December 2008 – 1.5%).

Interest-bearing loans and deposits with non-OECD-based credit institutions, at 31 December 2009, are represented by short-term BYR placements that bear the annual interest rates from 21% to 21.5% (31 December 2008 – from 9.7% to 13.5%). Interest-bearing loans and deposits with non-OECD-based credit institutions, at 31 December 2008, were also represented by short-term USD placements that bore annual interest rates from 8.8% to 10% and placements in other currencies that bore annual interest rate of 18%.

At 31 December 2009, reverse repurchase agreements were represented by RUB 12,945 million of corporate bonds with a fair value of RUB 14,143 million, and by RUB 495 million of corporate shares with a fair value of RUB 664 million. At 31 December 2008, such agreements were represented by RUB 6,499 million of corporate bonds with a fair value of RUB 7,622 million, RUB 1,104 million of Russian corporate shares with a fair value of RUB 1,967 million, and RUB 2,189 million of promissory notes issued by Russian banks.

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

Financial assets at fair value through profit or loss comprise:

	<u>2009</u>	<u>2008</u>
Trading securities	47,546	48,056
Trading securities pledged under repurchase agreements	–	3,444
Derivative financial assets (Note 12)	2,214	2,970
Financial assets designated as at fair value through profit or loss	<u>1,747</u>	<u>1,063</u>
<b>Financial assets at fair value through profit or loss</b>	<b><u>51,507</u></b>	<b><u>55,533</u></b>

(in millions of Russian rubles)

## 10. Financial assets at fair value through profit or loss (continued)

Trading securities owned by the Group comprise:

	2009	2008
<b>Debt securities:</b>		
Russian corporate bonds and bonds of regional and municipal authorities	11,228	1,453
Federal Loan Bonds (OFZ)	640	783
	<b>11,868</b>	<b>2,236</b>
Eurobonds issued by the Russian Federation	13,374	19,153
Eurobonds issued by Russian companies	2,960	2,679
Eurobonds and other debt obligations issued by OECD-based financial institutions	185	–
Eurobonds issued by governments of OECD countries	94	91
	<b>28,481</b>	<b>24,159</b>
Promissory notes	140	–
	<b>28,621</b>	<b>24,159</b>
<b>Equity securities:</b>		
Russian corporate shares	15,638	17,478
American and Global Depositary Receipts	2,044	911
Shares of Russian credit institutions	1,243	5,508
	<b>47,546</b>	<b>48,056</b>

At 31 December 2008, trading securities included OFZ with a fair value of RUB 773 million pledged as collateral under deposits received from the Bank of Russia.

At 31 December 2008, trading securities pledged under repurchase agreements included Russian corporate shares with a fair value of RUB 3,444 million.

Nominal interest rates and maturities of trading debt securities are as follows:

	2009		2008	
	%	Maturity	%	Maturity
Russian corporate bonds and bonds of regional and municipal authorities	7.4% – 18%	March 2010 – November 2019	7.4% – 22%	January 2009 – December 2013
OFZ	6.1% – 8.5%	July 2013 – February 2036	6.9% – 10%	July 2010 – September 2029
Eurobonds issued by the Russian Federation	7.5% – 12.8%	June 2028 – March 2030	7.5% – 12.8%	June 2028 – March 2030
Eurobonds issued by Russian companies	6.3% – 9.3%	February 2010 – July 2035	6.3% – 9.8%	September 2009 – July 2035
Eurobonds and other debt obligations issued by OECD-based financial institutions	6.7% – 8.6%	May 2010 – June 2014	–	–
Eurobonds issued by governments of OECD countries	3.8%	January 2017	3.8%	January 2017

(in millions of Russian rubles)

## 10. Financial assets at fair value through profit or loss (continued)

### Reclassification

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", in the second half of 2008, the Group reclassified certain financial assets out of the held-for-trading category. The information on the reclassified assets is presented in the table below:

	<b>Held-for-trading financial assets were reclassified to</b>	
	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity financial assets</b>
Carrying amount of the reclassified assets at 31 December 2009	373	165
Fair value of the reclassified assets at 31 December 2009	373	167
Fair value gain/(loss) that would have been recognized on the reclassified assets for the year ended 31 December 2009 if the reclassification had not been made	82	25
Gain/(loss) recognized in the consolidated statement of income for the year ended 31 December 2009	(5)	–
Carrying amount of the reclassified assets at 31 December 2008	781	212
Fair value of the reclassified assets at 31 December 2008	781	192
Fair value loss that would have been recognized on the reclassified assets for the year ended 31 December 2008 if the reclassification had not been made	(78)	(21)
Gain/(loss) recognized after reclassification in the consolidated statement of income for the year ended 31 December 2008	1	(0)

Financial assets were reclassified from financial assets held for trading to available-for-sale financial assets and to held-to-maturity financial assets due to the deterioration of Russian and international markets that occurred during the third quarter of 2008.

The Group acknowledged the occurrence of "rare circumstances" as of 1 September 2008 as a result of the crisis on the international financial markets. The decline in the market prices in the third quarter of 2008 represents a "rare event", since it significantly exceeded the limits of historical fluctuations recorded on the financial markets.

At 31 December 2009 and 31 December 2008, financial assets designated as at fair value through profit or loss include primarily shares of a Russian company, a related party to the Group. At 31 December 2009, financial assets designated as at fair value through profit or loss also include units in the closed-end mutual real estate fund held by a subsidiary bank. These securities meet the criteria to be classified as at fair value through profit or loss since the Group management measures the performance of these investments in terms of changes in their fair value based on quoted prices in an open market, valuation models, using both observable and non-observable market data.

(in millions of Russian rubles)

## 11. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<b>2009</b>	<b>2008</b>
Obligatory reserve with the central banks	1,826	473
Non-interest bearing deposits with other banks	37,020	22,329
Subordinated loans issued to Russian credit institutions	388,208	225,210
Term interest-bearing deposits with Russian credit institutions	36,295	56,538
Term interest-bearing deposits with OECD based credit institutions	3,460	5,832
Term interest-bearing deposits with non-OECD credit institutions	2,032	1,261
	<b>468,841</b>	<b>311,643</b>
Less allowance for impairment	(1,533)	(133)
<b>Amounts due from credit institutions</b>	<b>467,308</b>	<b>311,510</b>

Obligatory reserve with the central banks includes non-interest bearing cash deposits (obligatory reserve) maintained by the Group's subsidiary banks with the Central Bank of Russia, the National Bank of the Republic of Belarus and the National Bank of Ukraine. The amount of this reserve depends on the level of funds attracted by the credit institutions. The banks' ability to withdraw such deposits is significantly restricted by statutory legislation. Pursuant to applicable legislation, Vnesheconombank creates no obligatory reserve to be maintained with the CBR.

Use of non-interest bearing deposits in clearing currencies (RUB 36,978 million and RUB 22,225 million before allowance for impairment at 31 December 2009 and 2008, respectively) is subject to certain restrictions as stipulated in the agreements between governments of the respective countries. The funds can be used for purchase of goods and services by Russian importers who purchase clearing currencies in tenders organized by the Bank under the supervision of the Ministry of Finance.

At 31 December 2009, subordinated loans issued to Russian credit institutions include RUB 387,998 million in loans issued to sixteen Russian banks in accordance with Federal Law No. 173-FZ. Those are RUB-denominated loans bearing interest at 8-9,5% p.a. and maturing in the period from December 2014 to December 2020 (31 December 2008 – RUB 225,000 million in loans to two Russian banks maturing in December 2019). At 31 December 2009 and 2008, subordinated loans also include a RUB-denominated subordinated loan issued to a Russian bank. That loan bears interest at 9.5% and will mature in July 2012.

At 31 December 2009, interest-bearing deposits with Russian credit institutions are represented by RUB and USD placements which bear annual interest at rates from 0.7% to 15% for RUB-denominated deposits (31 December 2008 – from 5% to 17.4%) and 4% for USD-denominated deposits (31 December 2008 – from twelve-month LIBOR plus 5% to 9%).

At 31 December 2009, interest-bearing deposits with OECD based credit institutions are represented by USD and EUR-denominated placements bearing annual interest ranging from the overnight rate of the US Federal Fund minus 0.25% to 6% for USD-denominated deposits, and at 0.4% for EUR-denominated deposits. At 31 December 2008, interest-bearing deposits with OECD based credit institutions include RUB and USD-denominated placements bearing annual interest at rates from 5% to 17.4% for RUB-denominated deposits and from twelve-month LIBOR plus 5% to 9% for USD-denominated deposits.

At 31 December 2009, interest-bearing deposits with non-OECD credit institutions are denominated in Russian rubles, US dollars, Euros and other currencies and bear interest at 9% for the RUB-denominated deposit (31 December 2008 – from 11.5% to 11.8%), from 5.5% to 17% for USD-denominated deposits (31 December 2008 – from 5.5% to 10%), from 9% to 10% for EUR-denominated deposits (31 December 2008 – from 7.3% to 9%) and from 3% to 22% for deposits denominated in other currencies (31 December 2008 – from 10% to the refinancing rate of the National Bank of the Republic of Belarus plus 2.5%).

(in millions of Russian rubles)

## 11. Amounts due from credit institutions (continued)

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	<u>2009</u>	<u>2008</u>
<b>1 January</b>	<b>133</b>	<b>128</b>
Charge	1,400	16
Write-offs	–	(11)
<b>31 December</b>	<b><u>1,533</u></b>	<b><u>133</u></b>

## 12. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	<u>2009</u>			<u>2008</u>		
	<u>Notional principal</u>	<u>Fair value</u>		<u>Notional principal</u>	<u>Fair value</u>	
		<u>Asset</u>	<u>Liability</u>		<u>Asset</u>	<u>Liability</u>
<b>Foreign exchange contracts</b>						
Forwards and swaps – foreign	79,781	885	792	72,025	2,593	6,075
Forwards and swaps – domestic	31,057	471	120	58,163	280	5,054
<b>Securities forward contracts</b>						
Russian Eurobonds	865	1	0	6,173	–	187
Units	684	276	–	–	–	–
Shares	–	–	–	39	95	–
<b>Interest rate swaps</b>						
Foreign contracts	23,494	479	1,436	16,661	2	1,753
Domestic contracts	1,800	102	71	–	–	–
<b>Cross-currency interest rate swap</b>	739	–	180	739	–	382
<b>Total derivative assets/ liabilities</b>		<b><u>2,214</u></b>	<b><u>2,599</u></b>		<b><u>2,970</u></b>	<b><u>13,451</u></b>

Foreign and domestic contracts in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

Derivative financial assets are included in financial assets at fair value through profit or loss (Note 10).

At 31 December 2009, the Group has positions in the following types of derivatives:

### *Forwards*

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

(in millions of Russian rubles)

## 12. Derivative financial instruments (continued)

### Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

### *Derivative financial instruments held or issued for trading purposes*

Most of the Group's derivative trading activities relate to deals with credit institutions. The Group may take positions in derivative financial instruments with the expectation of profiting from favorable movements in prices, rates or indices. Positions in derivative financial instruments may be closed by taking an offsetting position. This item also includes derivatives that do not qualify for hedging in accordance with IAS 39.

## 13. Loans to customers

Loans to customers comprise:

	<u>2009</u>	<u>2008</u>
Project finance	313,250	199,450
Commercial loans	307,082	138,894
Back-to-back finance	237,497	269,668
Pre-export finance	80,712	110,520
Financing of operations with securities	8,286	1,668
Promissory notes	7,881	4,000
Reverse repurchase agreements	4,606	57
Other	5,385	13,229
<b>Gross loans to customers</b>	<b><u>964,699</u></b>	<b><u>737,486</u></b>
Less allowance for impairment	(121,161)	(11,846)
<b>Loans to customers</b>	<b><u><u>843,538</u></u></b>	<b><u><u>725,640</u></u></b>

Back-to-back finance represents loans issued to entities to repay and maintain loans raised from foreign entities against securities portfolios, using funds deposited by the Bank of Russia with Vnesheconombank, in accordance with Federal Law No. 173-FZ. In 2009 and 2008, the Bank issued loans for a period of one year. Part of the loans was extended for another year.

At 31 December 2009, the annual contractual interest rates charged by the Group on commercial loans ranged from 6.3% to 30% for RUB-denominated loans (31 December 2008 – from 1.5% to 25.9%), from one-month LIBOR plus 0.7% to 26% for USD-denominated loans (31 December 2008 – from one-month LIBOR plus 0.7% to 23%), from six-month EURIBOR plus 3.2% to 25% for EUR-denominated loans (31 December 2008 – from 4.3% to 16%), from 8.9% to 10.8% for GBP-denominated loans (31 December 2008 – from 8.9% to 10.8%) and from 3% to 52% for loans in other currencies (31 December 2008 – from 5% to 30%).

**13. Loans to customers (continued)***Allowance for impairment of loans to customers*

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	<b>Project finance 2009</b>	<b>Commercial loans 2009</b>	<b>Pre-export finance 2009</b>	<b>Financing of operations with securities 2009</b>	<b>Promissory notes 2009</b>	<b>Reverse repurchase agreements 2009</b>	<b>Other 2009</b>	<b>Total 2009</b>
1 January 2009	7,705	3,397	620	–	118	–	6	11,846
Charge	57,537	51,821	1,289	669	66	501	1,554	113,437
Write-offs	–	(652)	–	–	(1)	–	–	(653)
Interest accrued on impaired loans	(3,188)	(219)	(62)	–	–	–	–	(3,469)
<b>31 December 2009</b>	<b>62,054</b>	<b>54,347</b>	<b>1,847</b>	<b>669</b>	<b>183</b>	<b>501</b>	<b>1,560</b>	<b>121,161</b>
Individual impairment	56,111	39,339	786	540	23	478	1,414	98,691
Collective impairment	5,943	15,008	1,061	129	160	23	146	22,470
<b>Individually impaired loans before impairment allowance</b>	<b>62,054</b>	<b>54,347</b>	<b>1,847</b>	<b>669</b>	<b>183</b>	<b>501</b>	<b>1,560</b>	<b>121,161</b>
	<b>145,257</b>	<b>80,809</b>	<b>3,135</b>	<b>1,150</b>	<b>48</b>	<b>976</b>	<b>2,687</b>	<b>234,062</b>

At 31 December 2009, no allowance was made for back-to-back finance.



**3. Loans to customers (continued)**

	<b>Project finance 2008</b>	<b>Commercial loans 2008</b>	<b>Pre-export finance 2008</b>	<b>Promissory notes 2008</b>	<b>Other 2008</b>	<b>Total 2008</b>
1 January 2008	1,357	1,645	235	85	5	3,327
Charge	6,348	1,818	385	33	1	8,585
Write-offs	—	(66)	—	—	—	(66)
<b>31 December 2008</b>	<b>7,705</b>	<b>3,397</b>	<b>620</b>	<b>118</b>	<b>6</b>	<b>11,846</b>
Individual impairment	3,861	2,420	66	40	—	6,387
Collective impairment	3,844	977	554	78	6	5,459
<b>Individually impaired loans before impairment allowance</b>	<b>7,705</b>	<b>3,397</b>	<b>620</b>	<b>118</b>	<b>6</b>	<b>11,846</b>
	<b>8,606</b>	<b>6,978</b>	<b>1,465</b>	<b>40</b>	<b>—</b>	<b>17,089</b>

At 31 December 2008, no allowance was made for back-to-back finance, reverse repurchase agreements and financing of operations with securities.

*(in millions of Russian rubles)*

### **13. Loans to customers (continued)**

#### **Individually impaired loans**

Fair value of collateral that the Group holds with regard to loans individually determined to be impaired as at 31 December 2009 is RUB 119,063 million (31 December 2008 – RUB 2,983 million). Loans may only be written off with the approval of the authorized management bodies and, in certain cases, with the respective decision of the Court.

#### **Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ for back-to-back finance – pledges of securities;
- ▶ for pre-export finance - pledges of claims for revenues under export contracts;
- ▶ for financing operations with securities and reverse repurchase transactions - cash or securities;
- ▶ for project finance and commercial lending - charges over real estate properties, inventory, and trade receivables, securities and other claims to third parties;
- ▶ for retail lending - mortgages over residential properties and other subject matter of lending.

The Group also obtains guarantees from the Russian Government, parent companies for loans to their subsidiaries and other guarantees from third parties as collateral for loans issued.

The market value of collateral is monitored on a regular basis, additional collateral is requested in accordance with the underlying agreement, and the market value of collateral obtained is monitored during review of the adequacy of the allowance for loan impairment.

#### **Reverse repurchase agreements**

At 31 December 2009, reverse repurchase agreements were in respect of marketable corporate bonds and Federal Loan Bonds (OFZs), whose fair value was RUB 4,674 million. At 31 December 2008, the Group had a reverse repurchase in respect of marketable shares in a Russian credit institution. The fair value of the shares was RUB 56 million.

#### **Concentration of loans to customers**

At 31 December 2009, the total outstanding amount of loans to three major borrowers is RUB 311,696 million, equivalent to 32.3% of the Group's gross loan portfolio (31 December 2008 – RUB 314,772 million or 42.7%). At 31 December 2009, an allowance of RUB 37,583 million was made for these loans (31 December 2008 – RUB 1,747 million). At 31 December 2009, the loans above included loans to an associate of the Group that accounted for 12.6% of the gross loan portfolio. At 31 December 2008, the loans included a loan to an oil and gas company, a related party, loan accounted for 12.8% of the gross loan portfolio.

At 31 December 2009 and 2008, in addition to the three major borrowers mentioned above, loans were issued to ten major borrowers / groups of related borrowers in the amount of RUB 240,050 million and RUB 196,210 million or 24.9% and 26.6% of the gross loan portfolio, respectively. At 31 December 2009 and 2008, an allowance was made for those loans in a total amount of RUB 7,946 million and RUB 1,789 million, respectively.

(in millions of Russian rubles)

### 13. Loans to customers (continued)

#### Concentration of loans to customers (continued)

Amounts due to customers include accounts of the following types of customers:

	<u>2009</u>	<u>2008</u>
Private companies	710,045	497,798
State-controlled companies	214,072	225,343
Companies under foreign state control	16,280	5,194
Individuals	13,835	4,129
Regional authorities	6,562	3,773
Foreign state	2,723	798
Individual entrepreneurs	1,182	451
	<u><b>964,699</b></u>	<u><b>737,486</b></u>

Loans are made principally in the following industry sectors:

	<u>2009</u>	<u>%</u>	<u>2008</u>	<u>%</u>
Construction and reconstruction	196,561	20	140,606	19
Metallurgy	174,319	18	163,623	22
Manufacturing, heavy machinery and military	153,786	16	111,314	15
Oil and gas	89,129	9	129,257	18
Finance companies	77,047	8	37,535	5
Telecommunication	65,645	7	74,824	10
Trade	48,351	5	13,812	2
Agriculture	41,527	4	15,122	2
Energy	37,922	4	10,719	1
Transportation	23,978	2	15,477	2
Individuals	13,835	2	4,129	1
Regional authorities	6,562	1	3,773	1
Logistics	5,988	1	2,564	0
Foreign state	2,723	0	798	0
Mass media	105	0	2,295	0
Other	27,221	3	11,638	2
	<u><b>964,699</b></u>	<u><b>100</b></u>	<u><b>737,486</b></u>	<u><b>100</b></u>

At 31 December 2009, loans and similar debt include a total of RUB 854,068 million granted to companies operating in Russia, which is a significant concentration. At 31 December 2008, loans and similar debt include a total of RUB 715,274 million granted to companies operating in Russia, which is a significant concentration.

(in millions of Russian rubles)

### 13. Loans to customers (continued)

#### Finance lease receivables

Included in the corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2009 is as follows:

	Not later than 1 year	Later than 1 and not later than 5 years	Later than 5 years	Total
Finance lease receivables	4,707	11,469	2,570	18,746
Unearned future finance income on finance leases	(1,857)	(3,468)	(347)	(5,672)
<b>Net investment in finance leases</b>	<b>2,850</b>	<b>8,001</b>	<b>2,223</b>	<b>13,074</b>

The analysis of finance lease receivables at 31 December 2008 is as follows:

	Not later than 1 year	Later than 1 and not later than 5 years	Later than 5 years	Total
Finance lease receivables	2,577	6,724	2,093	11,394
Unearned future finance income on finance leases	(1,078)	(2,505)	(423)	(4,006)
<b>Net investment in finance leases</b>	<b>1,499</b>	<b>4,219</b>	<b>1,670</b>	<b>7,388</b>

### 14. Assets held for sale

At the end of 2008, the management of OJSC "VEB-Leasing", the Group's subsidiary, announced a plan to dispose of Aero-Kamov LLC, a company engaged in aviation equipment maintenance. At 31 December 2008, the agreement on sale of 100% interest in the share capital of Aero-Kamov LLC was signed. At 31 December 2008, Aero-Kamov LLC was classified as a disposal group held for sale.

The disposal of Aero-Kamov LLC to OJSC "Russkaya Vertoletnaya Company" was completed on 2 February 2009. The buyer acquired the above entity for RUB 3 million in cash. At the date of disposal, negative net assets of Aero-Kamov LLC were RUB 142 million. Profit from the disposal of Aero-Kamov LLC was recorded in the amount of RUB 145 million in other operating income in the 2009 consolidated statement of income.

Additionally at 31 December 2008 assets held for sale included 100% interest in a company specially established in 2008 by OJSC "Russian Bank for Development", a Group subsidiary, in the amount of RUB 157 million. In September 2008, the subsidiary's management announced a plan to sell the asset. The asset was sold for RUB 165 million in May 2009. Profit from the disposal recognized as other operating income in the 2009 consolidated statement of income amounted to RUB 8 million.

(in millions of Russian rubles)

## 15. Investment securities

### Available-for-sale securities

Available-for-sale securities comprise:

	<b>2009</b>	<b>2008</b>
<b>Debt securities</b>		
Russian corporate bonds and bonds of regional and municipal authorities	132,929	57,456
Eurobonds issued by Russian entities	13,993	8,714
Promissory notes	10,154	1,322
Credit linked notes	6,920	4,486
Bonds issued by companies of non-OECD countries	3,625	–
Eurobonds and other debt obligations issued by OECD-based financial institutions	2,880	567
Eurobonds issued by governments of OECD countries	1,273	919
Russian MinFin bonds (OVGVZ)	317	–
Federal Loan Bonds (OFZs)	200	229
Eurobonds issued by the Russian Federation	1	1
Debt obligations issued by governments of non-OECD countries	–	1,810
	<b>172,292</b>	<b>75,504</b>
<b>Equity securities</b>		
Shares of Russian companies	125,742	110,967
Shares of Russian credit institutions	22,378	21,568
Shares of foreign companies	12,441	20,570
	<b>160,561</b>	<b>153,105</b>
Less: Allowance for impairment (Note 20)	(114)	(2)
	<b>160,447</b>	<b>153,103</b>
<b>Securities pledged under repurchase agreements</b>		
Russian corporate bonds and bonds of regional and municipal authorities	951	–
Shares of foreign companies	12,377	–
	<b>13,328</b>	–
<b>Available-for-sale securities</b>	<b>346,067</b>	<b>228,607</b>

At 31 December 2009 investment securities available for sale included Eurobonds issued by governments of OECD countries with a fair value RUB 71 million pledged as additional collateral under currency swap agreement with a foreign counterparty. At 31 December 2008, investment securities available for sale included Eurobonds issued by governments of OECD countries with a fair value RUB 905 million pledged as additional collateral under a loan agreement with an OECD based bank.

To implement measures aimed at stabilizing the stock market, a total of RUB 175,000 million was allocated to Vnesheconombank from the Russian National Welfare Fund (the "Russian NWF"). Following the rules established by the Supervisory Board, these funds were invested in the instruments of the Russian stock market. At 31 December 2008, investment securities available for sale included securities with a fair value of RUB 159,741 million purchased with the funds of the Russian NWF. In December 2009, the Bank withdrew that deposit.

(in millions of Russian rubles)

## 15. Investment securities (continued)

*Available-for-sale securities (continued)*

Nominal interest rates and maturities of these debt securities are as follows:

	2009		2008	
	%	Maturity	%	Maturity
Russian corporate bonds and bonds of regional and municipal authorities	7% – 19%	February 2010 – September 2028	6.7% – 21%	January 2009 – March 2040
Eurobonds issued by Russian companies	2.6% – 10.8%	January 2010 – August 2037	3.9% – 10.9%	February 2009- August 2037
Promissory notes	8.2% – 18%	January 2010 – December 2010	8.9% – 18.6%	February 2009 – August 2009
Credit linked notes	2.3% – 11.2%	June 2010 – April 2030	5.5% – 11.7%	November 2009 – April 2030
Bonds issued by companies of non-OECD countries	9% – 25%	January 2010 – July 2015	–	–
Eurobonds and other debt obligations issued by OECD-based financial institutions	6.7%	June 2014	9.6%	October 2014
Eurobonds issued by governments of OECD countries	3.1% – 4%	January 2015 – November 2018	3.8% – 5%	January 2009 – January 2018
Russian MinFin bonds (OVGVZ)	3%	May 2011	–	–
Federal Loan Bonds (OFZs)	5.8% – 10.0%	January 2010 – August 2018	5.8% – 10.0%	January 2010 – August 2018
Eurobonds issued by the Russian Federation	7.5% – 8.3%	March 2010 – March 2030	7.5% – 8.3%	March 2010 – March 2030
Debt obligations issued by governments of non-OECD countries	–	–	–	January 2009

At 31 December 2009 and 2008, credit linked notes comprise marketable securities that are issued by OECD-based financial institutions and are linked to debt obligations of the Russian Federation, Russian credit institutions and Russian companies.

At 31 December 2008, debt obligations issued by governments of non-OECD countries were treasury bills denominated in clearing currencies. These securities were purchased at a discount to the nominal value and carried no interest.

For the year ended on 31 December 2009, the Group recognized a RUB 13,778 million loss from impairment of available-for-sale-securities (31 December 2008 – RUB 20,655 million) by transferring the negative revaluation earlier recorded in comprehensive income.

### *Reclassification*

In September 2009, the Group changed its plans with regard to certain debt securities available for sale and decided to hold them to maturity. Therefore, the Group reclassified these securities in the amount of RUB 16,037 million from securities available for sale to held-to-maturity securities. The decision was motivated by the change in the management plans with regard to above securities.

(in millions of Russian rubles)

## 15. Investment securities (continued)

### Reclassification (continued)

In 2008, the Group changed its plans with regard to certain debt securities available for sale and decided to hold them to maturity. The Group reclassified these securities in the amount of RUB 11,159 million from securities available for sale to held-to-maturity securities. The decision was motivated by the significant deterioration of the stock market.

### Held-to-maturity securities

Held to maturity securities comprise:

	<u>2009</u>	<u>2008</u>
Eurobonds and other debt obligations issued by OECD-based financial institutions	15,981	–
Credit linked notes	3,123	8,930
Debt obligations issued by governments of non-OECD countries	1,920	–
Russian corporate bonds and bonds of regional and municipal authorities	824	1,407
Eurobonds issued by Russian companies	402	1,156
Promissory notes	342	302
Federal Loan Bonds (OFZs)	51	52
	<u>22,643</u>	<u>11,847</u>
Less: Allowance for impairment (Note 20)	(277)	(95)
<b>Held-to-maturity securities</b>	<u><b>22,366</b></u>	<u><b>11,752</b></u>

Nominal interest rates and maturities of these debt securities are as follows:

	<u>2009</u>		<u>2008</u>	
	%	<i>Maturity</i>	%	<i>Maturity</i>
Eurobonds and other debt obligations issued by OECD-based financial institutions	8%	May 2010 - January 2013	–	–
Credit linked notes	2.6% – 9.5%	May 2010 - October 2011	5.3% – 10.4%	March 2009 – October 2011
Debt obligations issued by governments of non-OECD countries	–	January 2010	–	–
Russian corporate bonds and bonds of regional and municipal authorities	7.4% – 13%	February 2009 – June 2013	7.4% – 12.3%	February 2009 – June 2013
Eurobonds issued by Russian companies	4.3% – 9.6%	November 2010 – February 2016	4.6% – 10.9%	May 2009 – May 2012
Promissory notes	0% – 8.7%	January 2010 – December 2010	–	January 2010
Federal Loan Bonds (OFZs)	8%	August 2012	9%	August 2012

At 31 December 2009 and 2008, credit-linked notes comprise marketable securities that are issued by OECD-based financial institutions and are linked to debt obligations of Russian companies.

(in millions of Russian rubles)

## 16. Due from the Russian Government

At 31 December 2009, amounts due from the Russian Government include claims to the Russian Ministry of Finance of RUB 207 million (31 December 2008 – RUB 194 million) to unfreeze correspondent accounts.

## 17. Investments in associates

### Associates

The following associates are accounted for under the equity method:

#### 2009

Associates	Share/ Voting, %	Country	Industry	Date of acquisition
OJSC "Ilyushin Finance Co."	21.4	Russia	Leasing	August 2006
LLC "Interbank Trading House"	50	Russia	Trade and investment	June 2006
LLC "Interfax – Center of Economic Analysis"	49	Russia	Media	August 2005
OJSC "Corporation of development of Krasnoyarsk Territory"	25	Russia	Finance intermediary	December 2006
CJSC "Konsultbankir"	34	Russia	Publishing	October 1996
CJSC "CentrEnergStroyMontazh"	25	Russia	Construction	March 2007
LLC "PROMINVEST" (former LLC "OboronImpeks")	25	Russia	Foreign trade	November 2001
LLC "Managing Company "Bioprocess Capital Partners"	25.1	Russia	Finance intermediary	April 2008
CMIF "Bioprocess Capital Ventures"	Share of assets: 50	Russia	Investment	April 2008
LLC "VEB-Invest"	19	Russia	Investment	December 2008

#### 2008

Associates	Share/ Voting, %	Country	Industry	Date of acquisition
OJSC "National trade bank"	16.3/16.7	Russia	Banking	April 2007
OJSC "Ilyushin Finance Co."	21.4	Russia	Leasing	August 2006
LLC "Interbank Trading House"	50	Russia	Trade and investment	June 2006
LLC "Interfax – Center of Economic Analysis"	49	Russia	Media	August 2005
OJSC "Corporation of development of Krasnoyarsk Territory"	25	Russia	Finance intermediary	December 2006
CJSC "Konsultbankir"	34	Russia	Publishing	October 1996
CJSC "CentrEnergStroyMontazh"	25	Russia	Construction	March 2007
LLC "PROMINVEST" (former LLC "OboronImpeks")	25	Russia	Foreign trade	November 2001
LLC "Managing Company "Bioprocess Capital Partners"	25.1	Russia	Finance intermediary	April 2008
CMIF "Bioprocess Capital Ventures"	Share of assets: 50	Russia	Investment	April 2008
LLC "VEB-Invest"	19	Russia	Investment	December 2008



(in millions of Russian rubles)

## 17. Investments in associates (continued)

### Associates (continued)

Movement in investments in associates was as follows:

	<b>2009</b>	<b>2008</b>
Balance, beginning of the period	5,747	4,502
Purchase cost	–	1,507
Share of net income (loss)	56	(266)
Loss of significant control over the associate	(286)	–
Dividends received	(1)	–
Translation differences	(7)	4
Write-off	(1)	–
Disposals	(8)	–
	<b>5,500</b>	<b>5,747</b>
Less: Allowance for impairment (Note 20)	(38)	(39)
<b>Investments in associates, end of the period</b>	<b>5,462</b>	<b>5,708</b>

At 31 December 2009, unrecognized Group's share in loss of its associates amounted to RUB 392 million (31 December 2008 – RUB 49 million). At 31 December 2009, unrecognized Group's share in loss of the associates totaled RUB 441 million.

The following table illustrates summarized financial information of the associates:

<b>Aggregated assets and liabilities of associates</b>	<b>2009</b>	<b>2008</b>
Assets	178,529	146,699
Liabilities	161,886	129,170
<b>Net assets</b>	<b>16,643</b>	<b>17,529</b>
<b>Aggregated revenue and loss of associates</b>	<b>2009</b>	<b>2008</b>
Revenue	14,827	6,389
Losses	(1,965)	(918)

## 18. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	Furniture and office supplies	Computers and office equipment	Motor vehicles	Leasehold improvements	Assets under construction and warehoused property and equipment	Total
<b>Cost</b>							
<b>31 December 2008</b>	<b>4,869</b>	<b>1,670</b>	<b>1,447</b>	<b>560</b>	<b>327</b>	<b>2,658</b>	<b>11,531</b>
Additions	325	160	304	118	136	1,332	2,375
Acquisition through business combinations (Note 5)	11,374	352	727	147	383	535	13,518
Disposals	(373)	(317)	(108)	(143)	(343)	(489)	(1,773)
Reclassification from investment property	41	—	—	—	—	—	41
Transfers	—	33	69	—	(4)	(98)	—
<b>31 December 2009</b>	<b>16,236</b>	<b>1,898</b>	<b>2,439</b>	<b>682</b>	<b>499</b>	<b>3,938</b>	<b>25,692</b>
<b>Accumulated depreciation and impairment</b>							
<b>31 December 2008</b>	<b>1,747</b>	<b>558</b>	<b>875</b>	<b>302</b>	<b>23</b>	<b>—</b>	<b>3,505</b>
Depreciation charge	367	272	539	165	78	—	1,421
Disposals	(14)	(99)	(81)	(116)	(134)	—	(444)
Impairment	690	—	—	—	114	2	806
<b>31 December 2009</b>	<b>2,790</b>	<b>731</b>	<b>1,333</b>	<b>351</b>	<b>81</b>	<b>2</b>	<b>5,288</b>
<b>Net book value:</b>							
<b>31 December 2008</b>	<b>3,122</b>	<b>1,112</b>	<b>572</b>	<b>258</b>	<b>304</b>	<b>2,658</b>	<b>8,026</b>
<b>31 December 2009</b>	<b>13,446</b>	<b>1,167</b>	<b>1,106</b>	<b>331</b>	<b>418</b>	<b>3,936</b>	<b>20,404</b>

8. Property and equipment (continued)

Cost	Land and buildings	Furniture and office supplies	Computers and office equipment	Motor vehicles	Leasehold improvements	Assets under construction and warehoused property and equipment	Total
<b>31 December 2007</b>	<b>4,401</b>	<b>750</b>	<b>983</b>	<b>446</b>	<b>12</b>	<b>1,301</b>	<b>7,893</b>
Additions	257	254	209	125	–	1,193	2,038
Acquisition through business combinations	215	731	334	161	324	164	1,929
Disposals	(4)	(65)	(79)	(172)	(9)	–	(329)
<b>31 December 2008</b>	<b>4,869</b>	<b>1,670</b>	<b>1,447</b>	<b>560</b>	<b>327</b>	<b>2,658</b>	<b>11,531</b>
<b>Accumulated depreciation and impairment</b>							
<b>31 December 2007</b>	<b>1,639</b>	<b>493</b>	<b>756</b>	<b>257</b>	<b>9</b>	<b>–</b>	<b>3,154</b>
Depreciation charge	108	80	148	104	14	–	454
Disposals	0	(15)	(29)	(59)	0	–	(103)
<b>31 December 2008</b>	<b>1,747</b>	<b>558</b>	<b>875</b>	<b>302</b>	<b>23</b>	<b>–</b>	<b>3,505</b>
<b>Net book value:</b>							
<b>31 December 2007</b>	<b>2,762</b>	<b>257</b>	<b>227</b>	<b>189</b>	<b>3</b>	<b>1,301</b>	<b>4,739</b>
<b>31 December 2008</b>	<b>3,122</b>	<b>1,112</b>	<b>572</b>	<b>258</b>	<b>304</b>	<b>2,658</b>	<b>8,026</b>

In 2009, due to rapid and significant decline in real estate prices caused by the deteriorating economic environment in Ukraine, the Group recognized a RUB 690 million impairment of buildings owned by its subsidiary.

(in millions of Russian rubles)

## 19. Taxation

Income tax expense comprises:

	<u>2009</u>	<u>2008</u>
Current tax expense/(benefit)	694	302
Deferred tax (benefit)/expense – origination and reversal of temporary differences	(277)	160
Current income tax adjustment for prior periods	–	485
<b>Income tax expense</b>	<b><u>417</u></b>	<b><u>947</u></b>

Deferred tax recorded in other comprehensive income relates to unrealized gains (losses) from transactions with investment securities available for sale.

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2009 and 24% for 2008. The tax rate for companies other than banks was also 20% for 2009 and 24% for 2008. The tax rate for interest income on state securities was 15% for Federal taxes.

The aggregate income tax rate effective in the Republic of Belarus for 2009 and 2008 was 26.28%. The aggregate income tax rate effective in Ukraine for 2009 was 25%.

In accordance with federal legislation, effective from reorganization date income and expenses received and paid by Vnesheconombank are not accounted when determining taxable base for income tax purposes. Therefore, income and expenses of the Bank for 2009 and 2008 are not included into taxable base for income tax purposes, which had a significant impact on the Group's effective income tax rate for 2009 and 2008.

At 31 December, the Group's income tax assets and liabilities comprise:

	<u>2009</u>	<u>2008</u>
Current income tax assets	776	1,494
Deferred income tax assets	80	79
<b>Income tax assets</b>	<b><u>856</u></b>	<b><u>1,573</u></b>
Current income tax liabilities	13	22
Deferred income tax liabilities	1,935	260
<b>Income tax liabilities</b>	<b><u>1,948</u></b>	<b><u>282</u></b>

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2009</u>	<u>2008</u>
<b>Income/(loss) before tax</b>	<b>38,732</b>	<b>(80,322)</b>
Statutory tax rate	20%	24%
<b>Theoretical income tax expense/(benefit) at the statutory rate</b>	<b>7,746</b>	<b>(19,277)</b>
Non-taxable income on state securities /income taxed at different rates	(62)	(12)
Income taxed at different rate	(466)	(10)
Non-deductible expenses:		
- goodwill written off	–	10,041
- other	3,751	311
Currency translation differences	(132)	(5)
Vnesheconombank's income and expenses not included in tax base for income tax purposes	(8,943)	8,187
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	(4,766)	–
Change in deferred income tax resulting from change in tax rate	–	(31)
Change in unrecognized deferred tax assets	3,043	1,668
Other	246	75
<b>Income tax expense</b>	<b><u>417</u></b>	<b><u>947</u></b>

(in millions of Russian rubles)

## 19. Taxation (continued)

Deferred tax assets and liabilities at 31 December and their movements for the respective years comprise:

	2007		2008		2009	
	In the statement of income	In other comprehensive income	In the statement of income	In other comprehensive income	In the statement of income	In other comprehensive income
<b>Tax effect of deductible temporary differences:</b>						
Allowance for loan impairment	71	442	242	180	81	486
Change in fair value of securities	15	1,126	1,499	(1,437)	54	98
Tax losses carried forward	5	520	1,376	3,472	—	4,848
Accrued income and expense	6	9	15	(3)	—	12
Derivative financial instruments	52	(48)	4	8	—	11
Property and equipment	6	63	69	29	10	92
Other	50	7	68	(1,037)	2,574	1,663
	<b>205</b>	<b>2,119</b>	<b>3,273</b>	<b>1,212</b>	<b>2,719</b>	<b>7,210</b>
Unrecognized deferred tax assets	(70)	(1,668)	(2,547)	(3,043)	—	(5,563)
	<b>135</b>	<b>451</b>	<b>726</b>	<b>(1,831)</b>	<b>2,719</b>	<b>1,647</b>
<b>Tax effects of taxable temporary differences:</b>						
Securities	(8)	—	(8)	(294)	(60)	(142)
Loans to customers	—	(416)	(428)	(78)	—	(506)
Allowances for losses	(2)	(4)	(6)	(110)	(261)	(366)
Customers' accounts	—	(47)	(70)	70	—	—
Accrued income and expense	(47)	(13)	(60)	(33)	—	(79)
Derivative financial instruments	—	—	—	(110)	—	(170)
Property and equipment	(37)	(81)	(211)	375	(2,175)	(1,979)
Other	—	(50)	(124)	2,288	(2,360)	(260)
	<b>(94)</b>	<b>(611)</b>	<b>(907)</b>	<b>2,108</b>	<b>(4,643)</b>	<b>(3,502)</b>
<b>Gross deferred tax asset</b>	<b>43</b>	<b>(10)</b>	<b>79</b>	<b>42</b>	<b>—</b>	<b>80</b>
<b>Deferred tax liability</b>	<b>(2)</b>	<b>(150)</b>	<b>(260)</b>	<b>235</b>	<b>(1,924)</b>	<b>(1,935)</b>

(In millions of Russian rubles)

## 20. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Investment securities		Investments in associates	Other assets	Claims	Guarantees and commitments	Total
	available for sale	held to maturity					
<b>31 December 2007</b>	<b>8</b>	–	<b>42</b>	<b>8</b>	<b>18</b>	<b>13</b>	<b>89</b>
Charge (reversal)	(4)	95		586	–	1,318	1,995
Amounts arising on business combination	–	–	–	–	–	31	31
Write-off	(2)	–	(3)	(2)	(18)	–	(25)
<b>31 December 2008</b>	<b>2</b>	<b>95</b>	<b>39</b>	<b>592</b>	<b>–</b>	<b>1,362</b>	<b>2,090</b>
Charge	112	182	–	335	184	514	1,327
Amounts arising on business combination (Note 5)	–	–	–	–	–	564	564
Write-off	–	–	(1)	–	(157)	–	(158)
<b>31 December 2009</b>	<b>114</b>	<b>277</b>	<b>38</b>	<b>927</b>	<b>27</b>	<b>2,440</b>	<b>3,823</b>

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded within liabilities.

## 21. Other assets and liabilities

Other assets comprise:

	2009	2008
Settlements with suppliers and other debtors	5,332	2,807
Intangible assets	2,374	1,703
Accrued commissions	1,369	76
Equipment purchased for leasing purposes	934	1,044
Settlements on outstanding operations with securities	586	569
Prepaid expenses	409	454
Cash transactions	20	–
Prepaid securities	–	3,840
Other	1,122	2,036
	<b>12,146</b>	<b>12,529</b>
Less allowance for impairment of other assets (Note 20)	(927)	(592)
<b>Other assets</b>	<b>11,219</b>	<b>11,937</b>

Included in other assets are intangible assets in the amount of RUB 2,736 million (31 December 2008 – RUB 1,725 million), net of accumulated amortization of RUB 362 million (31 December 2008 – RUB 227 million). As a result of business combination, the Group received intangible assets in the amount of RUB 698 million. In 2009, the Group disposed of intangible assets in the amount of RUB 159 million, net of accumulated amortization of RUB 142 million. The respective amortization charges for 2009 and 2008 were RUB 277 million and RUB 79 million, respectively, which are included in other operating expenses.

(In millions of Russian rubles)

## 21. Other assets and liabilities (continued)

At 31 December 2009 and 2008, intangible assets include goodwill in the amount of RUB 1,381 million related to acquisition of OJSC "Belvnesheconombank" and OJSC "VEB-Leasing".

Other liabilities comprise:

	<u>2009</u>	<u>2008</u>
Future period income	1,763	570
Settlements with credit institutions	1,011	793
Advances received from lessees	840	579
Settlements with clients on export revenues	547	267
Obligations under finance lease agreements	148	283
Cash transactions	138	–
Settlements on operations with securities	35	2,677
Liabilities directly associated with assets held for sale (Note 14)	–	40
Other	1,548	1,143
<b>Other liabilities</b>	<b><u>6,030</u></b>	<b><u>6,352</u></b>

## 22. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2009</u>	<u>2008</u>
Correspondent loro accounts from other credit institutions	6,939	6,474
Correspondent loro accounts from Russian credit institutions	6,856	141,887
Loans and other placements from OECD-based credit institutions	76,666	108,629
Loans and other placements from other credit institutions	67,295	86,282
Loans and other placements from Russian credit institutions	42,391	27,523
Repurchase agreements	960	2,361
Deposits from Russian credit institutions – fiduciaries	30	304
<b>Amounts due to credit institutions</b>	<b><u>201,137</u></b>	<b><u>373,460</u></b>

At 31 December 2009, loans and other placements from OECD-based credit institutions include loans primarily denominated in RUB, USD, EUR and GBP with interest rates ranging from 7.1% to 8.5% for RUB placements (31 December 2008 – from 7% to 8%), from three-months LIBOR plus 0.2% to 7.6% for USD placements (31 December 2008 – from three-months LIBOR plus 0.2% to 6.4%), from 0.7% to 5.3% for EUR placements (31 December 2008 – from 3.4% to six-months EURIBOR plus 1.3%) and from 5.7% to 7.9% for GBP placements (31 December 2008 – from 5.8% to 7.9%).

At 31 December 2009, loans and other placements from non-OECD based credit institutions include loans denominated in RUB, USD, EUR, BYR and UAH with interest rates ranging from 7% to 7.5% for RUB loans, from one-month LIBOR plus 0.7% to 17% for USD loans (31 December 2008 – from one-month LIBOR plus 0.7% to one-month LIBOR plus 2.1%), from 0.3% to 17% for EUR loans, from 2% to 13% for BYR loans and 12% for UAH loans. At 31 December 2009, this item also includes minimum balances on correspondent loro accounts from non-OECD-based credit institutions.

At 31 December 2009, loans and other placements from Russian credit institutions include loans denominated in RUB, USD and EUR with interest rates ranging from 0.5% to 20% for RUB loans (31 December 2008 – from 9% to 15%), from 0.1% to 8.5% for USD loans (31 December 2008 – from 2.3% to 8.7%), from 0.1% to 4% for EUR loans (31 December 2008 – from 1.4% to 11%). At 31 December 2009 and 2008, this item also includes deposits held as security against letters of credit and minimum balances on correspondent loro accounts.

(In millions of Russian rubles)

## 22. Amounts due to credit institutions (continued)

At 31 December 2009, repurchase agreements with credit institutions comprise loans of RUB 960 million received from Russian banks and collateralized by available-for-sale bonds of Russian companies (Note 15). At 31 December 2008, repurchase agreements with credit institutions included loans of RUB 2,075 million received from Russian banks and collateralized by shares of Russian companies recorded in the trading portfolio (Note 10) and non-marketable bonds of Russian companies recognized within loans to customers (Note 13) in the amount of RUB 286 million.

## 23. Amounts due to customers

Amounts due to customers comprise:

	<u>2009</u>	<u>2008</u>
Customer current accounts	101,384	76,929
Term deposits	92,772	34,158
Repurchase agreements	8,067	254
<b>Amounts due to customers</b>	<b><u>202,223</u></b>	<b><u>111,341</u></b>
<b>Held as security against guarantees</b>	<b>1,682</b>	<b>556</b>
<b>Held as security against letters of credit</b>	<b>778</b>	<b>1,678</b>

At 31 December 2009, term deposits have annual interest rates from 1.5% to 17.5% for RUB-denominated deposits, from 0.5% to 19% for USD-denominated deposits, from 1% to 20% for EUR-denominated deposits, from 3% to 16.5% for BYR-denominated deposits and from 5% to 26.5% for UAH-denominated deposits. At 31 December 2008, term deposits have annual interest rates from 1% to 12.3% for USD-denominated deposits, from 1% to 10.3% for EUR-denominated deposits, from 2% to 25% for RUB-denominated deposits and from 2% to 18% for BYR-denominated deposits.

At 31 December 2009 and 2008, amounts due to the Bank's four largest customers amounted to RUB 62,070 million and RUB 55,446 million, respectively, representing 30.7% and 49.8% of the aggregate amount due to customers.

Amounts due to the ten largest customers include accounts with the following types of customers:

	<u>2009</u>	<u>2008</u>
Telecommunication	34,957	36,242
Infrastructure development	17,495	17,115
Financial organizations	8,067	6,019
Metallurgy	7,343	–
Trade	4,685	3,767
Manufacturers of heavy machinery and military related goods	3,773	7,305
Construction	2,937	–
Non-commercial organizations	2,716	4,407
	<b><u>81,973</u></b>	<b><u>74,855</u></b>

Included in term deposits are deposits of individuals in the amount of RUB 55,632 million (31 December 2008 – RUB 10,003 million). In accordance with the Russian Civil Code, the Bank and its Russian subsidiaries are obliged to repay term deposits of individuals upon demand of a depositor. In accordance with the Banking Code of the Republic of Belarus, the Belarusian subsidiary is obliged to repay term deposits of individuals in five days upon demand of a depositor. In accordance with the banking legislation of Ukraine, the Ukrainian subsidiary is obliged to repay term deposits of individuals in five days upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.



(In millions of Russian rubles)

### 23. Amounts due to customers (continued)

Amounts due to customers include accounts of the following types of customers:

	<u>2009</u>	<u>2008</u>
State and state controlled companies	69,486	61,715
Private companies	64,315	36,157
Employees and other individuals	65,738	11,336
Companies under foreign state control	2,684	2,133
<b>Amounts due to customers</b>	<b><u>202,223</u></b>	<b><u>111,341</u></b>

At 31 December 2009, repurchase agreements with customers comprise RUB 8,067 million received from a foreign company and collateralized by available-for-sale shares of foreign issuers (Note 15). At 31 December 2008, repurchase agreements with customers comprise RUB 254 million received from a Russian company and collateralized by available-for-sale shares of Russian companies recorded in the trading portfolio (Note 10).

### 24. Debt securities issued

Debt securities issued comprise the following:

	<u>2009</u>	<u>2008</u>
Bonds	60,425	2,023
Promissory notes	18,429	6,185
Certificates of deposit and saving certificates	42	17
<b>Debt securities issued</b>	<b><u>78,896</u></b>	<b><u>8,225</u></b>
<b>Promissory notes held as security against guarantees</b>	<b>1,401</b>	<b>1,042</b>

At 31 December 2009, the Group's bonds include bonds of Vnesheconombank in the amount of RUB 60,359 million. The bonds with a par value of USD 1,000 each for a total amount of USD 2 billion were placed on the Moscow Interbank Currency Exchange in June 2009 for 1 year. The coupon rate is six-month LIBOR plus 1%. At 31 December 2009 and 2008, the Group's bonds also include bonds issued by subsidiary banks.

The Group's debt securities issued at 31 December 2009 include interest-bearing promissory notes denominated in RUB, USD and EUR maturing in 2049 (31 December 2008 – maturing in 2032). Interest rate is 9.5% for RUB-denominated promissory notes (31 December 2008 – from 5% to 10%), from 0.2% to 7% for USD-denominated promissory notes (31 December 2008 – from 2.3% to 5.7%) and from 1% to 7% for EUR-denominated promissory notes (31 December 2008 – from 1.5% to 3.5%). At 31 December 2008, this caption also included interest-bearing promissory notes denominated in GBP with interest rates from 2.7% to 3.5%.

At 31 December 2009 and 2008, certificates of deposit and saving certificates issued by a subsidiary bank are denominated in BYR, bear interest rates from 12% to 13% and mature by December 2010 and January 2009, respectively.

*(In millions of Russian rubles)*

## 25. Equity

In accordance with Federal Law No. 82-FZ, the Bank's charter capital is formed from asset contributions of the Russian Federation made upon decision of the Russian Government.

In accordance with Resolution of the Russian Government No. 1687-r dated 27 November 2007, pursuant to Federal law No. 246-FZ dated 2 November 2007, "On Introducing Amendments to Federal Law "On the Federal Budget for 2007", the Russian Federation contributed RUB 180,000 million to the charter capital of Vnesheconombank in November 2007.

In accordance with Resolution of the Russian Government No. 1766-r dated 7 December 2007, the Russian Government decided to contribute 100% of state-owned shares of OJSC "Russian Bank for Development" and 5.2% of state-owned shares of CJSC State Specialized Russian Export-Import Bank (ROSEXIMBANK) to the charter capital of Vnesheconombank. The transfer of shares was completed in 2008.

In accordance with Resolution of the Russian Government No. 1665-r dated 19 November 2008, pursuant to Federal law No. 198-FZ dated 24 July 2007, "On Federal Budget for 2008 and for the 2009 and 2010 Budget Period", the Russian Federation contributed RUB 75,000 million to the charter capital of Vnesheconombank in November 2008.

In accordance with Resolution of the Russian Government No. 854-r dated 23 June 2009, pursuant to Federal law No. 204-FZ dated 31 October 2008, "On Federal Budget for 2009 and for the 2010 and 2011 Budget Period", the Russian Federation contributed RUB 100,000 million to the charter capital of Vnesheconombank in June 2009.

In accordance with Resolution of the Russian Government No. 1891-r dated 10 December 2009, the Russian Federation contributed RUB 21,000 million to the charter capital of Vnesheconombank for further acquisition by the Bank of shares additionally issued by JSC "United Aircraft Corporation".

At the Shareholders' Meeting of the Group's subsidiary OJSC "Russian Bank for Development" held in June 2008, the Bank declared dividends in respect of the reporting year ended 31 December 2007, totaling RUB 90 million on ordinary shares (RUB 19.32 thousand per share).

### Nature and purpose of other reserves

#### *Unrealized gains / (losses) on investment securities available for sale*

This reserve records fair value changes of available-for-sale investments.

The movements in unrealized gains / (losses) on investment securities available for sale were as follows:

	<b>2009</b>	<b>2008</b>
Unrealized gains / (losses) on investment securities available for sale	107,565	(21,494)
Realized (gains) / losses on investment securities available for sale, reclassified to the statement of income	(42,721)	(748)
Impairment loss on investment securities available for sale, reclassified to the statement of income	13,778	20,655
<b>Net gains / (losses) on investment securities available for sale</b>	<b>78,622</b>	<b>(1,587)</b>

#### *Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

*(In millions of Russian rubles)*

## 26. Commitments and contingencies

### Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

As emerging markets, the Republic of Belarus and Ukraine do not possess a well-developed business and regulatory infrastructure that would generally exist in more mature market economies. Belarusian and Ukrainian economies continue to display certain characteristics consistent with those of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of these countries. The future stability of the Belarusian and Ukrainian economies depends to a large extent on the efficiency and further development of the economic, financial and monetary measures taken by the Belarusian and Ukrainian governments.

The Russian, Belarusian and Ukrainian economies are vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within those countries. While the Russian, Belarusian and Ukrainian governments has introduced a range of stabilization measures aimed at providing liquidity to banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group financial position, results of operations and business prospects.

Also, factors including increased unemployment, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Group's borrowers' ability to repay the amounts due to the Group. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

### Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group. Movement in provisions for legal claims is shown in Note 20.

### Taxation

Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. In addition, certain provisions of Belarusian and Ukrainian tax legislation may give rise to varying interpretations and inconsistent applications. The Bank's management's and its subsidiaries' management's interpretation of such legislation as applied to the transactions and activity of the Group companies may be challenged by the relevant tax authorities. Trends within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be accrued.

(In millions of Russian rubles)

## 26. Commitments and contingencies (continued)

### Taxation (continued)

At 31 December 2009, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

### Commitments and contingencies

At 31 December the Group's commitments and contingencies comprised:

	<u>2009</u>	<u>2008</u>
<b>Credit related commitments</b>		
Undrawn loan commitments	231,321	156,733
Guarantees	131,577	61,741
Letters of credit	33,285	2,266
	<u><b>396,183</b></u>	<u><b>220,740</b></u>
<b>Operating lease commitments</b>		
Not later than 1 year	1,314	421
Later than 1 year but not later than 5 years	1,906	584
Later than 5 years	985	984
	<u><b>4,205</b></u>	<u><b>1,989</b></u>
Capital expenditure commitments	6,951	289
	<u><b>407,339</b></u>	<u><b>223,018</b></u>
Less provisions	(2,440)	(1,362)
<b>Commitments and contingencies (before deducting collateral)</b>	<u><b>404,899</b></u>	<u><b>221,656</b></u>
Less Group's cash and promissory notes held as security against guarantees	(3,083)	(1,598)
<b>Commitments and contingencies</b>	<u><u><b>401,816</b></u></u>	<u><u><b>220,058</b></u></u>

At 31 December 2009, credit related commitments include liabilities in favor of one counterparty, a state company, in the amount of RUB 47,482 million, which accounts for 12% (31 December 2008 - RUB 26,437 million, 12%) of all credit related commitments.

### Insurance

The Group's premises are insured for RUB 12,034 million (31 December 2008 - RUB 4,626 million). The Group has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia, Belarus and Ukraine at present.

## 27. Net fee and commission income

Net fee and commission income comprise:

	<u>2009</u>	<u>2008</u>
Cash and settlement operations	3,380	686
Guarantees and letters of credit	3,291	1,002
Agency fees	535	-
Trust management of pension funds	211	-
Operations with securities	154	52
Other operations	1,291	558
<b>Fee and commission income</b>	<u><b>8,862</b></u>	<u><b>2,298</b></u>
<b>Fee and commission expense</b>	<u><b>(1,673)</b></u>	<u><b>(673)</b></u>
<b>Net fee and commission income</b>	<u><u><b>7,189</b></u></u>	<u><u><b>1,625</b></u></u>

(In millions of Russian rubles)

## 28. Gains less losses from investment securities available for sale

Gains less losses from investment securities available for sale recognized in the statement of income comprise:

	<b>2009</b>	<b>2008</b>
Gains less losses on sale of investment securities available for sale, previously recognized in other comprehensive income	42,721	748
Losses on impairment of investment securities available for sale	(13,778)	(20,655)
Other gains from redemption of investment securities	13,997	(1,287)
<b>Total gains less losses from investment securities available for sale</b>	<b>42,940</b>	<b>(21,194)</b>

## 29. Other operating expenses

Other operating expenses comprise:

	<b>2009</b>	<b>2008</b>
Impairment charge for property and equipment (Note 18)	806	–
Administration expenses	615	574
Advertising expenses	579	668
Audit and consulting	403	286
Legal services	396	198
Deposit insurance	297	22
Amortization of intangibles	277	79
Marketing and research	262	275
Insurance	239	90
Loss on initial recognition of financial assets	224	–
Charity	219	245
Sponsorship	125	135
Penalties incurred	26	7
Contribution to non-state pension fund	2	400
Other	1,536	827
<b>Other operating expenses</b>	<b>6,006</b>	<b>3,806</b>

## 30. Risk management

### Introduction

The Group's operations expose it to financial risks, which it divides into credit risk, liquidity risk and market risk, the latter being subdivided into interest rate risk, currency risk and equity risk. Group members manage financial risks through a process of ongoing identification, measurement and monitoring, as well as by taking steps towards reducing the level of risk.

The Group is also subject to operational risk and strategic risk. Strategic risk is defined by the Group as a risk of a negative effect on the Group's operations arising from mistakes (deficiencies) made in decisions that determine strategy of the Group; this risk is managed by the Group in the course of its strategic planning process.

The process of risk management is critical to ensure that risks accepted by the Group would not affect its financial stability. Each business division within the Group involved in operations exposed to risk is accountable for controlling the level of risks inherent in its activities to the extent provided in the internal regulations.

*(In millions of Russian rubles)*

### **30. Risk management (continued)**

#### **Introduction (continued)**

Risk management structure in place at Group members

Typical organizational structure of risk management in place at Group members consists of the following elements:

- ▶ The supreme collegial management body (Supervisory Board, Board of Directors) takes strategic decisions aimed at organizing and supporting the operation of the risk management system.
- ▶ Collegial management bodies (Management Board, Banking Risk Management Committee, Financial Committee, Asset and Liability Management Committee, Credit Committee, Technology Committee) and single management bodies (Chairman of the Bank, Chairman of the Management Board) prepare/adopt management decisions within their established authority, over a particular type of activity or type of risk.
- ▶ Independent risk management business division (Risk Management Department, Risk Analysis and Control Department) coordinates activities carried out by independent business divisions to implement risk management decisions taken by management bodies, including development of a regulatory framework that underlies risk assessment and control, independent assessment and subsequent control of risk level, and prepares risk reports for Group member management on a regular basis.
- ▶ Business divisions engaging in/supporting operations exposed to risks perform initial risk identification and assessment, control compliance with established limits and generate risk reports subject to the requirements of the adopted/approved regulatory framework.
- ▶ The Internal Control Function controls compliance with requirements of internal regulations and evaluates the effectiveness of the risk management system. Following the completion of respective audits, the Internal Control Function reports its findings and recommendations to Group member management.

In 2009, the risk management coordination within the Group of Vnesheconombank was further developed. This included a wider range of data collected on a regular basis, as well as the development and introduction of new formats for analytical representation of information on risk level for subsidiary banks to the Bank's management. To that end a special division was set up within the Risk Management Department of Vnesheconombank. In 2009, also a package of measures aimed at harmonization of approaches to risk management was consistently implemented within the group of subsidiary banks in general, to include approaches to risk assessment and development of the limits policy.

#### *Vnesheconombank's risk management structure*

The Supervisory Board is the supreme management body of the Bank. Within the scope of powers delegated to that body by the Memorandum on Financial Policies and Federal Law "On Bank for Development", the Supervisory Board is responsible for establishing specific parameters of the Bank's investing and financing activities including those related to risk management. Along with the Supervisory Board, the Bank's management structure comprises other management and collegial bodies and business divisions that are responsible for controlling and managing risks.

#### *Supervisory Board*

Pursuant to the Regulation on the Supervisory Board, powers of the Bank's Supervisory Board in the area of risk management include: the approval of procedures governing the activities of internal control function, credit policy regulations, procedures for providing guarantees, sureties and loans to credit institutions and other legal entities, methods and procedures for measuring credit risk parameters and limits, methodology for calculating the Bank's equity (capital) amount and capital adequacy ratio, impairment and other losses provisioning procedures, regulations on the Bank's management bodies.

*(In millions of Russian rubles)*

### **30. Risk management (continued)**

#### **Introduction (continued)**

The Supervisory Board decides on approving transactions involving acquisition, disposal or potential disposal of assets whose carrying value accounts for at least 10% of the Bank's equity and establishes the maximum amount of funds allocated to manage the Bank's temporarily idle cash (liquidity).

Within the scope of powers delegated to it by the Memorandum on Financial Policies and Federal Law "On Bank for Development", the Supervisory Board establishes parameters of the Bank's investing and financing activities, sets limits and establishes limitations on the structure of the Bank's loan portfolio.

#### *Management Board*

The risk management-related authorities of the Management Board include making decisions to approve transactions or a number of interrelated transactions associated with acquisition, disposal or potential disposal of assets whose carrying value accounts for 2% to 10% of the Bank's equity.

The Management Board drafts proposals regarding Vnesheconombank's major lines of business and parameters of its investing and financing activities (including those related to risk management) and submits such proposals for approval by the Supervisory Board.

#### *Chairman of Vnesheconombank*

With regard to risk management-related aspects of the Bank's operations, the Chairman of Vnesheconombank issues orders and resolutions, approves policies and technical procedures governing banking transactions.

The Chairman of Vnesheconombank decides on other matters related to risk management except for those falling within the competence of the Supervisory Board and the Management Board.

#### *Credit Committee*

The Credit Committee is the Bank's standing collegial body whose primary objective is to develop conclusions as a result of considering suggestions for granting loans, guarantees, sureties and financing on a repayable basis, participation in share capital and/or purchase of bonds, setting limits by counterparty and issuer, as well as debt recovery and write-off.

#### *Internal Control Function*

The Internal Control Function is responsible for monitoring, on a continuous basis, the functioning of the banking risk management system as provided in the internal regulations. Following the completion of the respective audits, the Internal Control Function reports its findings and recommendations to the Bank's management.

#### *Risk Management Department*

The Risk Management Department is an independent business division designed to maintain the efficient functioning of the risk management system in compliance with the requirements of supervisory and regulatory bodies, international standards governing banking risk management practices in order to ensure the requisite reliability and financial stability of the Bank.

*(In millions of Russian rubles)*

### **30. Risk management (continued)**

#### **Introduction (continued)**

The Risk Management Department is responsible for developing methods and procedures for the assessment of various types of risks, draft proposals to limit the risk level, perform follow-up monitoring of compliance with the established risk limits and relevant risk decisions, and prepare reporting documents for each type of risks and each line of the Bank's business.

The Risk Management Department is responsible for monitoring compliance with risk policies and principles, and for assessing risks of new products and structured transactions. The Risk Management Department is composed of units that are responsible for control over the level of exposures by each type of risk and each line of the Bank's business, as well as a division responsible for monitoring risks of subsidiary banks.

#### *Directorate for Currency and Financial Transactions*

To control the Bank's day-to-day liquidity, the Directorate for Currency and Financial Transactions monitors compliance with the established minimum levels of liquidity and maturity mismatch in assets and liabilities. The Directorate prepares regular forecasts of the Bank's estimated leverage by source of funding, performs daily monitoring of open position limits by class of financial instruments and operations performed by the Directorate on money, equity and currency markets as well as counterparty limits.

The Directorate monitors the market value and liquidity of collateral provided by the Bank's counterparties.

Independently from other operating divisions, the Analytical Unit within the Directorate analyzes the current situation on money, equity and currency markets.

#### *Economic Planning Department*

The Economic Planning Department is involved in the development of methodological documents for managing the Bank's financial risks. The Department monitors the Bank's financial stability parameters, including capital adequacy ratio. The Department coordinates the activities across the Bank relating to the establishment of allowances for losses.

#### *Risk management*

##### *Risk measurement and reporting systems*

The Bank's risks are measured using the methodologies approved by the Bank's authorized bodies which allow assessing both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate possible loss at a given level of probability. Losses are measured on the basis of the analysis and processing of historical data relating to risk factors underlying such losses and the established patterns (models) used to determine the relationship between changes in risk factors and loss events. Statistical patterns derived from the analysis of historical data are adjusted, as appropriate, to account for the current operating environment of the Bank and situation on the markets.

The Bank also applies stress testing practices to run worse case scenarios that would arise in case extreme events which are unlikely to occur do, in fact, occur.

Monitoring and limiting risks is primarily performed based on limits established by the Bank. These limits reflect the level of risk which is acceptable for the Bank and set strategic priorities for each line of the Bank's business.



*(In millions of Russian rubles)*

### **30. Risk management (continued)**

#### **Introduction (continued)**

To assess and monitor the aggregate credit and market risk exposure, the Bank computes capital adequacy ratio in accordance with the methodology approved by the Bank's Supervisory Board and based on approaches set out in regulations issued by the CBR. The minimum capital adequacy ratio of 10% has been set.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. The above information and analytical comments thereon are communicated regularly to the Bank's management bodies, heads of business divisions and the Internal Control Function. The reporting frequency is established by the Bank's management body. The reports include the level of risk and risk profile changes by each type of risks and main business line, respective estimated values, updates on compliance with the existing risk limits, value at risk (VaR), results of sensitivity analysis for market risks, and the Bank's liquidity ratios.

To ensure timely response to changes in internal and external operating environment, heads of business divisions are obliged to notify the Bank's management of any factors contributing to banking risks. Information is to be communicated in accordance with the procedure set forth in the corresponding internal documents governing the activities of the business divisions.

The Risk Management Department, jointly with other responsible business divisions, regularly monitors compliance with the existing limits, analyzes risk factors associated with financial and non-financial counterparties, jurisdictions, countries, market instruments, and the Bank's position in a given market segment and reviews changes in the level of risk.

#### *Risk mitigation*

As part of its overall risk management, the Bank may use derivatives and other instruments to manage exposures arising from changes in interest rates, currency rates, equity prices, credit risk factors, and exposures arising from changes in positions under forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see above for more detail).

#### *Excessive risk concentration*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features, or when their ability to meet contractual obligations will be similarly affected by possible changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to control the level of risk concentrations, the Bank's policies and procedures include guidelines and restrictions designed to maintain a diversified portfolio.

*(In millions of Russian rubles)*

### **30. Risk management (continued)**

#### **Credit risk**

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations in full when they fall due. The Bank manages and controls credit risk by placing limits on the amount of risk it is willing to accept in relation to one counterparty, groups of counterparties and to industry segments and regions, and by monitoring exposures in relation to the existing limits.

Within the framework of risk management, the Bank ensures compliance with the following limits established in the Memorandum on Financial Policies:

- ▶ the maximum limit of exposure per individual borrower or a group of related borrowers shall not exceed 25% of the Bank's equity (capital);
- ▶ the aggregate volume of major exposures shall not exceed 800% of the Bank's equity (capital)

Vnesheconombank's Supervisory Board is entitled to set additional limits, including those related to the structure of the Vnesheconombank's loan portfolio.

When extending guarantees under export operations and arranging for export loan insurance against political and commercial risks, the Bank complies with the limitations set forth in the Memorandum on Financial Policies, whereby the maximum value of the Bank's commitments in respect of one borrower or a group of related borrowers should not exceed 25% of the Bank's equity (capital).

The Bank adopts a systemic approach to managing risks associated with the Bank's entire asset portfolio and those attributable to individual transactions entered into with borrowers / counterparties (a group of related borrowers / counterparties). Such approach consists of the following steps:

- ▶ risk identification;
- ▶ risk analysis and assessment,
- ▶ risk acceptance and/or risk reduction;
- ▶ risk level control.

Credit risk is managed throughout all the stages of the lending process: loan application review, execution of a lending / documentary transaction (establishment of a corresponding credit limit), loan administration (maintaining loan files, etc.), monitoring the loan (credit limit) drawdown status, monitoring the borrower's financial position and repayment performance until full settlement has been made (credit / documentary limit has been closed), monitoring the status of the current investment project. Since transactions that are bearing credit risk may not only involve credit risk as such, but give rise to other risks (e.g. market risk, project risk, collateral risk), the Bank performs a comprehensive assessment of risks attributable to such transactions.

The principle of methodological integrity provides for the use of a consistent methodology for identifying and measuring credit risk which is in line with the nature and scale of operations conducted by the Bank. It is planned to amend the credit risk assessment methodology applied by the other Group members to harmonize approaches to credit risk assessment used within the Group with the Bank's standards.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a credit rating. Credit ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Credit risk (continued)

##### *Credit-related commitments risks*

The Bank makes available to its customers documentary operations which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee / letter of credit given. They also expose the Bank to credit risks which are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements and including any allowance for impairment.

	Notes	Maximum exposure 2009	Maximum exposure 2008
Cash and cash equivalents (excluding cash on hand)	9	157,879	276,549
Trading securities	10	28,621	24,159
Amounts due from credit institutions	11	467,308	311,510
Derivative financial assets	12	2,214	2,970
Loans to customers	13	843,538	725,640
Investment securities	15		
- available-for-sale		173,243	75,504
- held-to-maturity		22,366	11,752
Other assets	21	6,685	2,883
		<b>1,701,854</b>	<b>1,430,967</b>
Financial commitments and contingencies	26	393,743	219,378
<b>Total credit risk exposure</b>		<b>2,095,597</b>	<b>1,650,345</b>

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 13.

##### *Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Bank using internal credit ratings. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the inputs for measuring the counterparty risk. Credit risk measurement methodology has been approved by the Bank's Supervisory Board. Group-wide guidelines for assessing the credit quality of assets have been developed for the purpose of preparing the Group's aggregate reports.

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Credit risk (continued)

The table below shows the credit quality by class of assets for credit risk-related lines of the consolidated statement of financial position, based on the Group's credit rating system. The information is based on carrying amounts and does not include allowance for impairment.

	Notes	Not past due				Past due 2009	Total 2009
		High grade 2009	Standard grade 2009	Sub-standard grade 2009	Individually impaired 2009		
<b>Amounts due from credit institutions</b>	11						
Back-to-back finance		383,039	4,959	–	–	–	387,998
Subordinated loans		210	–	–	–	–	210
Interbank loans under small and medium-sized business support program		22,589	3,091	84	24	24	25,812
Other amounts due from credit institutions		48,642	4,128	58	1,993	–	54,821
		<b>454,480</b>	<b>12,178</b>	<b>142</b>	<b>2,017</b>	<b>24</b>	<b>468,841</b>
<b>Loans to customers</b>	13						
Back-to-back finance		191,466	46,031	–	–	–	237,497
Commercial loans		88,991	101,780	27,735	22,102	66,474	307,082
Project finance		63,864	84,656	19,473	139,148	6,109	313,250
Pre-export finance		47,844	3,798	19,456	3,135	6,479	80,712
Financing of operations with securities		3,855	1,590	824	–	2,017	8,286
Promissory notes		3,884	565	3,383	–	49	7,881
Reverse repurchase agreements		1,565	2,065	–	–	976	4,606
Other		599	561	1,531	–	2,694	5,385
		<b>402,068</b>	<b>241,046</b>	<b>72,402</b>	<b>164,385</b>	<b>84,798</b>	<b>964,699</b>
<b>Debt investment securities</b>	15						
Available-for-sale		153,052	20,185	–	–	6	173,243
Held-to-maturity		21,223	1,143	82	–	195	22,643
		<b>174,275</b>	<b>21,328</b>	<b>82</b>	<b>–</b>	<b>201</b>	<b>195,886</b>
<b>Total</b>		<b>1,030,823</b>	<b>274,552</b>	<b>72,626</b>	<b>166,402</b>	<b>85,023</b>	<b>1,629,426</b>

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Credit risk (continued)

	Notes	Not past due					Total 2008
		High grade 2008	Standard grade 2008	Sub-standard grade 2008	Individually impaired 2008	Past due 2008	
<b>Amounts due from credit institutions</b>	11						
Back-to-back finance		246,002	–	–	–	–	246,002
Subordinated loans		420	–	–	–	–	420
Interbank loans under small and medium-sized business support program		21,498	370	45	–	48	21,961
Reverse repurchase agreements		705	102	–	–	–	807
Other amounts due from credit institutions		40,648	1,750	55	–	–	42,453
		<b>309,273</b>	<b>2,222</b>	<b>100</b>	<b>–</b>	<b>48</b>	<b>311,643</b>
<b>Loans to customers</b>	13						
Back-to-back finance		232,333	37,335	–	–	–	269,668
Pre-export finance		80,798	17,749	10,508	1,465	–	110,520
Project finance		11,554	179,196	94	6,279	2,327	199,450
Commercial loans		38,919	81,151	11,831	5,681	1,312	138,894
Reverse repurchase agreements		–	–	57	–	–	57
Financing of operations with securities		–	1,668	–	–	–	1,668
Promissory notes		153	510	3,297	–	40	4,000
Other		10,166	2,372	691	–	–	13,229
		<b>373,923</b>	<b>319,981</b>	<b>26,478</b>	<b>13,425</b>	<b>3,679</b>	<b>737,486</b>
<b>Debt investment securities</b>	15						
Available-for-sale		58,322	17,182	–	–	–	75,504
Held-to-maturity		10,171	1,486	190	–	–	11,847
		<b>68,493</b>	<b>18,668</b>	<b>190</b>	<b>–</b>	<b>–</b>	<b>87,351</b>
<b>Total</b>		<b>751,689</b>	<b>340,871</b>	<b>26,768</b>	<b>13,425</b>	<b>3,727</b>	<b>1,136,480</b>

*Aging analysis of past due but not individually impaired loans per class of financial assets*

The table below shows the carrying amounts of past due but not impaired loans by the number of days past due:

	Less than 7 days 2009	7 to 30 days 2009	More than 30 days 2009	Total 2009
Loans to customers				
Commercial loans	543	237	6,987	7,767
Pre-export finance	–	–	6,479	6,479
Financing of operations with securities	–	–	867	867
Promissory notes	–	–	1	1
Other	5	0	2	7
<b>Total</b>	<b>548</b>	<b>237</b>	<b>14,336</b>	<b>15,121</b>

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Credit risk (continued)

	Less than 7 days 2008	7 to 30 days 2008	More than 30 days 2008	Total 2008
Amounts due from credit institutions				
Interbank loans under small and medium-sized business support program	–	–	1	1
Loans to customers				
Commercial loans	–	8	7	15
<b>Total</b>	<b>–</b>	<b>8</b>	<b>8</b>	<b>16</b>

See Note 13 for more detailed information with respect to the allowance for impairment of loans to customers.

#### *Carrying amount per class of financial assets whose terms have been renegotiated*

The table below shows the carrying amounts of renegotiated loans, by class, which would otherwise be past due or impaired: At 31 December 2009 and 2008, the terms of other financial assets were not renegotiated.

	2009	2008
Loans to customers		
Project finance	32,631	56,577
Commercial loans	15,669	6,663
Pre-export finance	2,473	2,653
Financing of operations with securities	–	1,668
Other	394	–
<b>Total</b>	<b>51,167</b>	<b>67,561</b>

#### *Impairment assessment*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Impairment assessment is performed in two areas: individually assessed allowances and collectively assessed allowances.

#### *Individually assessed allowances*

The allowances appropriate for each individually significant loan are determined on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

#### *Collectively assessed allowances*

Allowances are assessed collectively for impairment of loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are assessed on each reporting date with each portfolio receiving a separate review.

*(In millions of Russian rubles)*

### **30. Risk management (continued)**

#### **Credit risk (continued)**

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are also assessed and provision is made in a similar manner as for loans.

#### **Liquidity risk and funding management**

Liquidity risk is the risk that the Group will be unable to meet its financial obligations when they fall due.

The Group manages its liquidity risk at the following levels:

- ▶ Each bank within the Group manages its liquidity on a standalone basis so that it can meet its obligations in full and comply with requirements of the national regulator; for this purpose relevant policies and procedures have been developed that detail the liquidity risk assessment and control process;
- ▶ The Bank manages the Group's liquidity through reallocating, where necessary, funds within the Group both in the form of lending and using other instruments.

Group members assess liquidity risk using analysis of the maturity structure of assets and liabilities, and a liquid asset cushion under various scenarios. To limit liquidity risk, Group members control liquidity gaps and the level of the liquid asset cushion. Subsidiary banks within the Group also forecast and control compliance with mandatory liquidity ratios established by national regulators.

As a part of the liquidity risk management process the Bank performs the following actions limiting the liquidity risk:

- ▶ Regularly monitors the Bank's liquidity situation, supervises the compliance with the established limits and reviews them;
- ▶ Maintains a well-balanced maturity and currency structure of assets and liabilities and an optimal liquid asset cushion;
- ▶ Maintains a diversified structure of funding sources and directions of investments by counterparty;
- ▶ Develops plans to raise debt funding;
- ▶ Assesses sustained balances on customers' accounts, monitors the level of concentration of balances on customers' accounts in order to prevent an abrupt outflow of funds from customers' accounts;
- ▶ Performs cash flow modeling and supervise liquidity ratios under various scenarios that reflect changes in the macroeconomic and market operating environment;
- ▶ Performs stress testing of the Bank's exposure to liquidity risk and financial market conditions on a regular basis and as and when significant changes in external and internal factors arise or are expected.

*(In millions of Russian rubles)*

### **30. Risk management (continued)**

#### **Liquidity risk and funding management (continued)**

Operational control over liquidity ratios, including liquidity gaps, is performed at the Bank by the Directorate for Currency and Financial Transactions. The subsequent control is performed by the Risk Management Department. Liquidity control results are reported to the Bank's management and used for making management decisions.

In addition, for the purposes of identifying available sources to cover an unexpected deficit of liquid assets, the Bank daily monitors and forecasts the liquidity reserve. The liquidity reserve comprises the following:

- ▶ Cash on the Bank's correspondent accounts, cash on hand, cash on accounts in stock exchange and clearing centers, and the net balance of the Bank's overnight placements.
- ▶ Short-term deposits placed with banks considered by the Bank as highly reliable;
- ▶ Liquid securities measured at fair value less any discount for unexpected losses due to market risk realization that can be promptly converted into cash or used as a collateralized funding.

In order to take into account any possible changes in projected cash flows, the Bank uses a procedure of stress testing liquidity ratios in accordance with scenarios covering both internal factors, specific to the Bank, and external factors:

- ▶ non-fulfillment by the Bank's counterparties of transaction, loan and debt obligations (credit risk realization);
- ▶ decrease in the market value of the securities portfolio (market risk realization);
- ▶ unexpected outflow of funds from customers' accounts;
- ▶ reduction in the expected inflow of funds to customers' accounts;
- ▶ reduced or closed access to financial market resources;
- ▶ reduction in the Bank's credit rating;
- ▶ early repayment of the attracted interbank loans due to the breaches of set financial covenants.

The Risk Management Department uses the procedure of liquidity ratios stress testing on a scheduled and unscheduled basis. Scheduled stress testing is carried out on a monthly basis. Unscheduled stress testing is carried out upon decision of an authorized body of the Bank, as well as in case of an indication of potential stress changes in internal and external risk factors, upon initiative of the Bank's functions involved in liquidity control activities. Findings of the analysis of the Bank's liquidity indicators calculated for various scenarios are communicated by the Risk Management Department to the Directorate for Currency and Financial Transactions and the Bank's management and are used in making decisions on measures required for regulating liquidity and planning the Bank's operations.

In case of an emergency the Bank uses the following liquidity support mechanisms:

- ▶ selling the portfolio of highly liquid assets (concluding repurchase agreements);
- ▶ limiting the volume of transactions with counterparties having a high credit risk level;
- ▶ suspending issuance of loans, guarantees and credit lines;
- ▶ taking measures to close positions in low liquid securities and to assign loan portfolio-related receivables;
- ▶ strengthening cooperation with Bank's customers for the purpose of short-term planning the Bank's liquidity situation and setting the funds withdrawal schedule;
- ▶ maintaining transparency of the Bank's operations.



(In millions of Russian rubles)

### 30. Risk management (continued)

#### Liquidity risk and funding management (continued)

At 31 December 2009 and 2008, monetary assets and liabilities of the Group, excluding receivables from the Russian Government under London Club arrangements and amounts due to London Club creditors, had the following maturities:

	Up to 1 month 2009	1 to 6 months 2009	6 to 12 months 2009	Over 1 year 2009	No stated maturity 2009	Total 2009
<b>Monetary assets:</b>						
Cash and cash equivalents	165,177	3,739	–	–	–	168,916
Precious metals	–	–	–	–	248	248
Financial assets at fair value through profit or loss	49,391	1,258	1	857	–	51,507
Amounts due from credit institutions	37,822	22,674	20,680	384,120	2,012	467,308
Loans to customers	24,368	88,636	285,608	444,841	85	843,538
Assets held for sale	–	1	–	–	–	1
Investment securities:						
- available-for-sale	172,182	35,266	–	–	125,291	332,739
- held-to-maturity	2,550	1,881	832	17,103	–	22,366
Investment securities pledged under repurchase agreements	951	–	–	–	12,377	13,328
Due from the Russian Government	–	–	–	–	207	207
Investments in associates	–	–	–	–	5,462	5,462
Income tax assets	–	776	–	80	–	856
Other assets	1,540	1,543	1,001	3,137	554	7,775
	<b>453,981</b>	<b>155,774</b>	<b>308,122</b>	<b>850,138</b>	<b>146,236</b>	<b>1,914,251</b>
<b>Monetary liabilities:</b>						
Amounts due to credit institutions	70,699	27,259	32,990	70,189	–	201,137
Derivative financial liabilities	200	348	364	1,687	–	2,599
Due to the Russian Government and the Bank of Russia	47,704	32,843	436,957	470,059	–	987,563
Amounts due to customers	100,716	57,905	16,481	27,121	–	202,223
Debt securities issued	871	74,931	1,699	1,395	–	78,896
Income tax liabilities	–	13	–	1,935	–	1,948
Other liabilities	1,725	725	266	461	1,090	4,267
	<b>221,915</b>	<b>194,024</b>	<b>488,757</b>	<b>572,847</b>	<b>1,090</b>	<b>1,478,633</b>
<b>Net position</b>	<b>232,066</b>	<b>(38,250)</b>	<b>(180,635)</b>	<b>277,291</b>	<b>145,146</b>	<b>435,618</b>
<i>Accumulated gap</i>	<i>232,066</i>	<i>193,816</i>	<i>13,181</i>	<i>290,472</i>	<i>435,618</i>	

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Liquidity risk and funding management (continued)

	Up to 1 month 2008	1 to 6 months 2008	6 to 12 months 2008	Over 1 year 2008	No stated maturity 2008	Total 2008
<b>Monetary assets:</b>						
Cash and cash equivalents	278,371	3,302	–	–	–	281,673
Precious metals	–	–	–	–	1,163	1,163
Financial assets at fair value through profit or loss	52,089	–	–	–	–	52,089
Trading securities pledged under repurchase agreements	3,444	–	–	–	–	3,444
Amounts due from credit institutions	22,959	28,397	23,526	236,614	14	311,510
Loans to customers	9,692	89,836	303,689	322,423	–	725,640
Assets held for sale	–	–	157	185	–	342
Investment securities:						
- available-for-sale	75,504	–	–	–	153,103	228,607
- held-to-maturity	3	6,576	1,272	3,901	–	11,752
Due from the Russian Government	–	–	–	–	194	194
Investments in associates	–	–	–	–	5,708	5,708
Income tax assets	–	1,494	–	–	79	1,573
Other assets	5,482	2,510	1,304	756	182	10,234
	<b>447,544</b>	<b>132,115</b>	<b>329,948</b>	<b>563,879</b>	<b>160,443</b>	<b>1,633,929</b>
<b>Monetary liabilities:</b>						
Amounts due to credit institutions	184,597	14,265	31,497	143,088	13	373,460
Derivative financial liabilities	5,921	4,573	2,957	–	–	13,451
Due to the Russian Government and the Bank of Russia	51,480	24,814	435,964	401,631	–	913,889
Amounts due to customers	79,700	12,320	7,669	11,547	105	111,341
Debt securities issued	765	2,150	2,060	3,250	–	8,225
Income tax liabilities	–	22	–	–	260	282
Other liabilities	3,483	86	84	953	1,746	6,352
	<b>325,946</b>	<b>58,230</b>	<b>480,231</b>	<b>560,469</b>	<b>2,124</b>	<b>1,427,000</b>
<b>Net position</b>	<b>121,598</b>	<b>73,885</b>	<b>(150,283)</b>	<b>3,410</b>	<b>158,319</b>	<b>206,929</b>
<b>Accumulated gap</b>	<b>121,598</b>	<b>195,483</b>	<b>45,200</b>	<b>48,610</b>	<b>206,929</b>	

Maturities represent remaining terms until repayment in accordance with underlying contractual arrangements at the reporting date.

While the majority of available-for-sale securities is shown as "up to 1 month", realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not always be liquidated in a short period of time without adverse price effects.

Amounts due to the Russian Government, other than deposits from the Bank of Russia, generally do not carry a specified maturity and are shown as having a maturity of up to one month. In practice, these amounts are maintained in the statement of financial position for longer periods.

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Liquidity risk and funding management (continued)

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2009 and 2008 based on contractual undiscounted repayment obligations. Exception is made for derivatives settled through delivery of their underlying asset which are shown by amounts payable and receivable and contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

<b>Financial liabilities At 31 December 2009</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Amounts due to credit institutions	85,187	46,527	62,133	21,137	214,984
Derivative financial instruments settled through delivery of underlying asset					
– Contractual amounts payable	52,846	82,814	5,183	1,020	141,863
– Contractual amounts receivable	(52,745)	(80,765)	(2,898)	(213)	(136,621)
Due to the Russian Government and the Bank of Russia	60,284	470,052	195,832	609,410	1,335,578
Amounts due to customers	117,549	62,239	29,353	417	209,558
Debt securities issued	8,297	70,575	1,471	9	80,352
Other liabilities	2,242	443	413	1,237	4,335
<b>Total undiscounted financial liabilities</b>	<b>273,660</b>	<b>651,885</b>	<b>291,487</b>	<b>633,017</b>	<b>1,850,049</b>

<b>Financial liabilities At 31 December 2008</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Amounts due to credit institutions	200,799	82,175	90,079	2,715	375,768
Derivative financial instruments settled through delivery of underlying asset					
– Contractual amounts payable	134,763	29,654	3,563	743	168,723
– Contractual amounts receivable	(129,271)	(26,145)	(2,266)	(196)	(157,878)
Due to the Russian Government and the Bank of Russia	59,892	481,242	298,469	323,515	1,163,118
Amounts due to customers	76,087	30,587	4,974	–	111,648
Debt securities issued	2,023	3,329	3,616	9	8,977
Other liabilities	3,337	128	2,408	920	6,793
<b>Total undiscounted financial liabilities</b>	<b>347,630</b>	<b>600,970</b>	<b>400,843</b>	<b>327,706</b>	<b>1,677,149</b>

The maturity analysis of liabilities does not reflect the historical stability of customers' current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in "less than 3 months" in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor. According to the legislation of the Republic of Belarus and Ukraine, the Group is obliged to repay the amount of these deposits at the first call of the depositor within five days. See Note 23.

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Liquidity risk and funding management (continued)

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies (letters of credit, guaranties, undrawn loan facilities, reimbursement obligations). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2009	62,083	143,127	177,098	11,435	<b>393,743</b>
2008	52,528	87,306	68,587	10,957	<b>219,378</b>

The Group expects that not all of the contingent liabilities or contractual commitments will be drawn before their expiry.

As at 31 December 2009, credit-related commitments presented in the "less than 3 months" category include liabilities in the amount of RUB 29,066 million (31 December 2008 – RUB 43,017 million) whose maturities are linked to settlements under export contracts.

#### Market risk

Market risk is the risk of adverse changes in the fair value or future cash flows of financial instruments due to changes in market variables such as interest rates, foreign exchange rates, prices for equities (equity risk) and commodities. The purpose of the Group's market risk management activities is providing a balance between the level of accepted risks and profitability of banking operations.

Group members monitor the market risk level on a daily basis. To control the market risk level and to set and control its limits the Group uses the sensitivity analysis, VaR calculation and stress testing. Consolidated risks of the Group are primarily assessed using the sensitivity analysis.

At the parent entity level interest rate, currency and equity risks are primarily assessed using the VaR methodology which enables assessing maximum potential losses from the portfolio of financial instruments that can be incurred during a certain period of time (projection horizon) with a given confidence level. The VaR methodology is a probabilistically statistical approach that takes into account market fluctuations and risks diversification under normal market conditions. For management and external reporting purposes the Bank uses VaR calculations with a 99% confidence level and a 10-day projection horizon to assess the price risk of the portfolio of market securities and a 1-day projection horizon to assess the risk of the open currency position of the Bank. The depth of retrospective data used for VaR calculation is 670 working days.

VaR calculation results are assessed by the Bank subject to limitations inherent in the VaR methodology, i.e. possible failure to comply with initial assumptions, namely:

- 1) historical observations used to calculate unexpected losses in the future period might not contain all possible future changes in risk factors, especially in case of any extreme market events;
- 2) usage of a given projection horizon assumes that the Bank's positions in financial instruments can be liquidated or hedged over this period. Should the Bank have large or concentrated positions and/or should the market lose its liquidity, the used period of time might be insufficient for closing or hedging positions but unexpected losses estimated with VaR would remain within set limits;

*(In millions of Russian rubles)*

### **30. Risk management (continued)**

#### **Market risk (continued)**

- 3) applying a 99% confidence level does not permit assessing losses that can be incurred beyond the selected confidence level;
- 4) the VaR methodology assesses the amount of unexpected losses from the portfolio of financial instruments under the assumptions that the volume of positions will remain constant over the projection horizon and the Bank will not perform transactions that change the volume of positions. Should the Bank be engaged in purchase and sale of financial instruments over the projection horizon, VaR estimates can differ from estimates of actual losses.

To control the adequacy of the VaR calculation model, the Bank regularly uses back-testing procedures that enable it to assess differences between estimated and actual losses.

In order to obtain more precise estimates, the Bank is making efforts to enhance inputs used in the current model which provides adequate estimates under normal market conditions. Also, the Bank is making efforts to improve approaches that take into account extraordinary (stress) changes in the market behavior in the process of risk management.

The Bank performs stress testing procedures on regular and unplanned basis that enables the Bank to assess stress losses from realization of unlikely extraordinary events on financial instruments' portfolios and open currency positions, i.e. losses that are out of predictive limits of probabilistically statistical methods. The above approach supplements the risk estimate obtained from the VaR methodology and sensitivity analysis. The Bank uses a wide range of historical and hypothetical (user) scenarios within stress testing procedures. Stress testing results are reported to the Bank's management and used for making management decisions.

#### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will adversely affect the fair values or future cash flows of financial instruments.

The interest rate policy of Group members refers to maintenance of a balanced structure of claims and obligations sensitive to change in interest rates (interest rate position) that provides limitation of possible unfavorable change in net interest income and/or equity of a Group member at an acceptable level.

The procedures of identification, assessment and control of the level of interest rate risk in Group members are formalized through developed internal regulations and rules and well as requirements of national regulators. Group members perform sensitivity analysis of net interest income and equity using different scenarios of market interest rate changes for the purpose of controlling financial losses arising from unfavorable changes in interest rates.

In addition, banks within the Group forecast and control the capital adequacy ratio subject to the effect of the interest rate risk.

Group members use a number of market instruments, including IRS, to manage its interest rate sensitivity and repricing gaps related to changes in interest rates of assets and liabilities.

In performing the sensitivity analysis of the net interest income and equity the interest rate gap method is used. The interest rate gap method is used to assess changes in the amount of net interest income and equity by using data on mismatch of claims and obligations sensitive to interest rate changes aggregated at given maturity intervals. A combination of negative scenarios that take into account the effect of internal and external risk factors related to the market situation is used as a part of the analysis. Scenarios are prepared either based on hypothetical events that can occur in the future or based on past events - historical stress scenarios.

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Market risk (continued)

Sensitivity analysis is performed on regular and unplanned basis. The basis for an unplanned sensitivity calculation is as follows:

- ▶ expected appearance of large or concentrated positions in financial instruments' portfolios or significant changes in their value, which can significantly affect the balance of the interest rate position;
- ▶ expectations of significant changes in the market situation as well as socio-political and/or economic events that can have a significant adverse impact on the amount of net interest income/equity.

The Bank uses two approaches in modeling risk factors. The statistical approach is based on the following assumptions:

- 1) the actual structure of volume and maturities of claims and obligations is kept constant in the whole projection horizon;
- 2) changes in the term structure of interest rates occur instantly as of the reporting date and once during the projection horizon.

In addition to the statistical approach to modeling risk factors, the Bank performs the sensitivity analysis by modeling dynamic changes in interest rates and the volume and maturity structure of claims and obligations using a more complex set of assumptions made by the Bank on a case-by-case basis.

The sensitivity of the statement of income is the estimate of the effect of the assumed changes in interest rates on the net interest income before tax for one year calculated for floating rate financial assets and financial liabilities held at 31 December 2009 and 2008, as well as the amount of revaluation of fixed rate trading financial assets and derivative financial instruments. The sensitivity of equity to changes in interest rates is calculated as the amount of revaluation of fixed rate available-for-sale financial assets in case of assumed change in interest rates. The effect of revaluation of financial assets was calculated based on the assumption that there are parallel shifts in the yield curve.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates by key reference rates, with all other variables held constant, of the Group's statement of income.

The sensitivity was calculated for instruments within the Group's portfolio, excluding bonds held within the Bank's portfolio. The interest rate risk for this bond portfolio was calculated using the VaR methodology.

Rate	Increase in basis points 2009	Sensitivity of the statement of income 2009	Sensitivity of equity 2009
3-m Libor USD	1.00%	(370)	2
3-m Libor EUR	1.00%	(176)	5
RGBEY	5.00%	(1,631)	(2,051)
3-m Mosprime	3.00%	(226)	–
3-m Ukrainian interbank	10.00%	(19)	–
3-m Libor JPY	1.00%	9	–
3-m Libor CHF	1.00%	(11)	–
YTM 5Y German Treasuries	0.60%	133	–
YTM 5Y US Treasuries	1.20%	922	(67)
YTM Ukrainian sovereign bonds	10.00%	–	(336)
Refinancing rate of CBR	1.00%	210	–
Refinancing rate of NB RB	1.00%	21	–

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Market risk (continued)

Rate	Decrease in basis points 2009	Sensitivity of the statement of income 2009	Sensitivity of equity 2009
<i>3-m Libor USD</i>	-0.25%	93	–
<i>3-m Libor EUR</i>	-0.25%	44	(1)
<i>RGBEY</i>	-5.00%	1,631	2,051
<i>3-m Mosprime</i>	-3.00%	226	–
<i>3-m Ukrainian interbank</i>	-5.00%	9	–
<i>3-m Libor JPY</i>	-0.25%	(2)	–
<i>3-m Libor CHF</i>	-0.25%	3	–
YTM 5Y German Treasuries	-0.60%	(133)	–
YTM 5Y US Treasuries	-1.20%	(922)	67
YTM Ukrainian sovereign bonds	-5.00%	–	168
Refinancing rate of CBR	-1.00%	(210)	–
Refinancing rate of NB RB	-1.00%	(21)	–

Rate	Increase in basis points 2008	Sensitivity of the statement of income 2008	Sensitivity of equity 2008
<i>3-m Libor USD</i>	0.29%	(14)	–
<i>3-m Libor EUR</i>	0.20%	(19)	–
<i>RGBEY</i>	4.42%	(415)	(92)
<i>3-m Mosprime</i>	9.55%	(1,622)	–
<i>3-m Libor GBP</i>	0.35%	(0)	–
<i>3-m Libor JPY</i>	0.28%	1	–
<i>3-m Libor CHF</i>	0.16%	0	–
<i>3-m Libor AUD</i>	0.50%	(0)	–
YTM 5Y German Treasuries	0.49%	160	–
YTM 5Y US Treasuries	0.58%	242	(0)
Refinancing rate of NB RB	1.46%	3	–

Rate	Decrease in basis points 2008	Sensitivity of the statement of income 2008	Sensitivity of equity 2008
<i>3-m Libor USD</i>	-0.29%	14	–
<i>3-m Libor EUR</i>	-0.20%	19	–
<i>RGBEY</i>	-4.42%	415	92
<i>3-m Mosprime</i>	-9.55%	1,622	–
<i>3-m Libor GBP</i>	-0.35%	0	–
<i>3-m Libor JPY</i>	-0.28%	(1)	–
<i>3-m Libor CHF</i>	-0.16%	(0)	–
<i>3-m Libor AUD</i>	-0.50%	0	–
YTM 5Y German Treasuries	-0.49%	(160)	–
YTM 5Y US Treasuries	-0.58%	(242)	0
Refinancing rate of NB RB	-1.46%	(3)	–

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Market risk (continued)

Below are VaR measures for the bond portfolio of the Bank at 31 December 2009 and 2008:

	<u>2009</u>	<u>2008</u>
VaR	10,339	15,637

#### Currency risk

Currency risk is the risk that the fair value of a financial instrument or future cash flows will change due to changes in foreign exchange rates.

Group members calculate on a daily basis open currency positions by assets and liabilities recorded in the statement of financial position, and claims and obligations not recorded in the statement of financial position, which are subject to changes in currency and precious metals rates. Banks of the Group set limits on the cumulative open position as well as limits on open positions in each currency and for precious metals based on the requirements of the national regulator.

The VaR estimate obtained using the historical modeling method with a 99% confidence level and a 1-day projection horizon is used by the Bank as a currency risk estimate. The aggregate currency risk in respect of the Bank's open currency positions is estimated subject to historical correlation of exchange rates of foreign currencies against the Ruble.

The table below shows open currency positions of the Bank at 31 December 2009 and 2008, which include items of the statement of financial position and currency positions in derivative financial instruments by currencies against the Russian Ruble (open positions).

	<u>2009</u>	<u>2008</u>
USD	(924)	7,258
UAH	22,186	7,254
BYR	7,702	6,074
GBP	(212)	1,409
EUR	3,231	1,374
CHF	(326)	(539)
JPY	(776)	(2,626)
Other currencies	31	789

Below is the Bank's VaR measure for open currency positions at 31 December 2009 and 2008:

	<u>2009</u>	<u>2008</u>
VaR	1,313	371

The increase in the Bank's VaR measure for open currency positions at 31 December 2009 as compared to 31 December 2008 is due to the increase in the open currency position in UAH that resulted from the Bank's growing investments in PSC "Prominvestbank".

Currency revaluation of the Bank's nominal investments in non-negotiable shares of subsidiaries may not reflect changes in the real economic value of these companies.

In order to assess this factor, the risk related to the adjusted aggregate open currency position was calculated with elimination of positions in UAH and BYR which were based mainly on investments in subsidiary banks.



(In millions of Russian rubles)

### 30. Risk management (continued)

#### Market risk (continued)

The Bank's VaR for open currency positions at 31 December 2009, except for investments in subsidiaries, was RUB 279 million.

The table below shows the sensitivity of open currency positions of the Group (excluding the Bank) at 31 December 2009 and 2008. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Ruble on the statement of income (due to the fair value of currency sensitive financial assets and liabilities). All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of income or equity, while a positive amount reflects a net potential increase.

Currency	Change in currency rate in % 2009	Effect on profit before tax, 2009	Change in currency rate in % 2008	Effect on profit before tax, 2008
UAH	24.46%	884		
	-24.46%	(884)	–	–
USD	9.61%	(493)	5.35%	(137)
	-9.61%	493	- 5.35%	137
EUR	9.12%	(2)	6.27%	(2)
	-9.12%	2	- 6.27%	2
JPY	14.96%	24	11.43%	(11)
	-14.96%	(24)	- 11.43%	11
BYR	12.89%	(52)	5.61%	(8)
	-12.89%	52	- 5.61%	8
SEK	12.62%	1	9.25%	3
	-12.62%	(1)	-9.25%	(3)
GBP	18.44%	4		
	-18.44%	(4)	–	–
CHF	13.77%	1		
	-13.77%	(1)	–	–
CAD	11.87%	1		
	-11.87%	(1)	–	–
AUD	15.93%	1		
	-15.93%	(1)	–	–

Operational control over open currency positions is performed by the Directorate for Currency and Financial Transactions. The subsequent control is performed by the Risk Management Department. Results of control over open currency positions are reported to the Bank's management and used for making management decisions.

#### Equity price risk

Equity price risk is the risk of adverse changes in the fair values or future cash flows of a financial instrument as a result of changes in the levels of equity indices and the value of individual equities.

Group members use the VaR methodology and/or portfolio sensitivity analysis to assess the equity price risk.

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Market risk (continued)

Below are VaR measures for the equity portfolio of the Bank at 31 December 2009 and 2008:

	2009	2008
VaR	63,762	60,484

The Bank sets aggregate exposure limits for each portfolio by class of securities in order to limit equity price risk. Within a portfolio "risk borrowing" is permitted, i.e. changing the volume of open positions under individual financial instruments subject to compliance with the set limit of the aggregate market risk for the portfolio and with credit risk limits by issuer.

The limits are approved by the Management Board of Vnesheconombank at the suggestion of the Risk Management Department as agreed with Bank's business units. The set limits are reviewed on a regular basis.

The effect on profit before tax and equity of other Group members of reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market index	Change in index, 2009	Change in equity price, 2009	Effect on profit before tax, 2009	Change in equity price, 2009	Effect on equity, 2009
RTS index	39%	47%	2,391	47%	17
	-39%	-47%	(2,391)	-47%	(17)
Ukrainian Stock	47%	—	—	38%	7
Exchange index	-47%	—	—	-38%	(7)

Market index	Change in index, 2008	Change in equity price, 2008	Effect on profit before tax, 2008	Change in equity price, 2008	Effect on equity, 2008
RTS index	39%	51%	4,291	59%	45
	-39%	-51%	(4,291)	-59%	(45)

#### Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. Management believes that the Group's exposure to prepayment risk is insignificant.

#### Operational risk

Operational risk is defined as a risk of losses arising from inadequate internal procedures, failures of equipment and information systems (technology risk), human errors or misconduct, and external factors. Legal risk is one of the types of operational risk.

Operational risks are managed in banks of the Group by addressing clearly all of the bank's business processes in the corresponding internal documents and applying internal controls to monitor the compliance with the established procedures as well as by obtaining external insurance.

The Bank has developed procedures of collecting information on risk events resulting in operational losses. The Bank's departments send information on risk events recorded in special forms to the Risk Management Department. The said information is classified, losses are evaluated and reasons for risk events are analyzed. If needed, the risk audit of departments, where risk events have occurred, is performed, and changes are made to the Bank's regulations.

(In millions of Russian rubles)

### 30. Risk management (continued)

#### Operational risk (continued)

The Bank's Technology Committee is responsible for managing and controlling technology risks. The Banking Infrastructure Protection Department is responsible for providing information and engineering support to all the business divisions in implementing action plans designated to ensure business continuity in the event of IT failures.

The Legal Department is responsible for legal risks and legal support of the Bank's operations. The Bank relies on templates drafted by the Legal Department when preparing transaction documents for transactions executed with counterparties. Any non-standard agreements are to be approved by the Legal Department. The Legal Department is also responsible for the review of the corresponding documents supplied by counterparties that deal with the main lines of the Bank's business. The Bank engages international law firms to assist in executing transactions with foreign partners.

When performing banking transactions and conducting other activities in the event of disaster, the Bank applies emergency procedures and action plans which are governed by internal documents providing guidance to ensure business continuity and / or disaster recovery. The above documents describe principles used to design infrastructure risk protection framework, define a set of measures designated to support the operability of the Bank's protection system, principles, rules and action plans to be implemented by personnel in the event of disaster. Within the framework of activities aimed at providing for business continuity a reserve facility is being developed which would ensure the recovery of Bank's operations in emergency situations that prevent from using the Bank's main building.

### 31. Fair value of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2009	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Trading securities	47,387	159	–	47,546
Derivative financial instruments	0	1,938	276	2,214
Financial assets designated as at fair value through profit or loss	–	–	1,747	1,747
Investment securities available for sale	327,079	18,582	406	346,067
	<b>374,466</b>	<b>20,679</b>	<b>2,429</b>	<b>397,574</b>
<b>Financial liabilities</b>				
Derivative financial instruments	2	2,597	–	2,599
	<b>2</b>	<b>2,597</b>	<b>–</b>	<b>2,599</b>

(In millions of Russian rubles)

### 31. Fair value of financial instruments (continued)

#### *Financial instruments recorded at fair value*

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

#### *Derivatives*

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

#### *Trading securities and available-for-sale investment securities*

Trading securities and available-for-sale investment securities valued using a valuation technique are represented mainly by non-traded equity and debt securities. Such assets are valued using valuation models which incorporate either only observable data or both observable and non-observable data. The non-observable inputs include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

#### *Movements in Level 3 financial instruments measured at fair value*

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	<b>At 1 January 2009</b>	<b>Gains/ (losses) recorded in profit or loss</b>	<b>Gains/ (losses) recorded in other comprehensive income</b>	<b>Purchases</b>	<b>At 31 December 2009</b>
<b>Financial assets</b>					
Derivative financial instruments	–	276	–	–	276
Financial assets designated as at fair value through profit or loss	1,063	(162)	–	846	1,747
Investment securities available for sale	–	–	(266)	672	406
<b>Total Level 3</b>	<b>1,063</b>	<b>114</b>	<b>(266)</b>	<b>1,518</b>	<b>2,429</b>

Gains or losses on Level 3 financial instruments included in profit or loss for the reporting period, were RUB 114 million of unrealized gains.

(In millions of Russian rubles)

### 31. Fair value of financial instruments (continued)

#### Transfers between Level 1 and Level 2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value, during the reporting year:

	<b>Transfers from Level 1 to Level 2 2009</b>
<b>Financial assets</b>	
Investment securities available for sale	5,667

The above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the year and their fair values were consequently obtained through valuation techniques using observable market inputs. There were no transfers from Level 2 to Level 1 in 2009.

#### Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	<b>At 31 December 2009</b>	
	<b>Carrying amount</b>	<b>Effect of reasonably possible alternative assumptions</b>
<b>Financial assets</b>		
Derivative financial instruments	276	18
Financial assets designated as at fair value through profit or loss	1,747	0
Investment securities available for sale	406	(19)

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows:

- ▶ For shares, the Group adjusted the tight liquidity allowance based on the price/earnings multiple which compares price to earnings ratios of publicly traded and private companies involved in transactions. A 4.2% adjustment was made by applying the average value of the allowance for a similar period compared with the median value used.

#### Financial instruments not recorded at fair value in the statement of financial position

Set out below is a comparison, by class, of the carrying values and fair values of the Group's financial instruments that are not recorded at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	<b>Carrying value 2009</b>	<b>Fair value 2009</b>	<b>Unrecognized gain/ (loss) 2009</b>	<b>Carrying value 2008</b>	<b>Fair value 2008</b>	<b>Unrecognized gain/ (loss) 2008</b>
<b>Financial assets</b>						
Cash and cash equivalents	168,916	168,916	–	281,673	281,673	–
Amounts due from credit institutions	467,308	467,312	4	311,510	311,510	–
Loans to customers	843,538	839,394	(4,144)	725,640	718,910	(6,730)
Investment securities held to maturity	22,366	22,382	16	11,752	9,733	(2,019)
<b>Financial liabilities</b>						
Amounts due to credit institutions	201,137	205,538	(4,401)	373,460	373,460	–
Due to the Russian Government and the Bank of Russia	987,563	987,563	–	913,889	913,917	–
Amounts due to customers	202,223	202,262	(39)	111,341	109,447	1,894
Debt securities issued	78,896	79,452	(568)	8,225	8,225	–
<b>Total unrecognized change in unrealized fair value</b>			<b>(9,132)</b>			<b>(6,855)</b>

(In millions of Russian rubles)

### 31. Fair value of financial instruments (continued)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

#### *Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that their carrying value approximates their fair value. This assumption also applies to demand deposits, assets without a specific maturity and variable rate financial instruments.

#### *Fixed rate financial instruments*

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments.

### 32. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties include the state, key management of the Group and associated companies. Since Vnesheconombank is a state corporation, all state-controlled entities are considered to be related parties of the Group and all transactions and outstanding balances with such entities should be disclosed.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2009			
	State	State controlled entities	Associates	Key management personnel
<b>Cash and cash equivalents</b>	<b>20,912</b>	<b>25,095</b>	<b>1,416</b>	–
<b>Precious metals</b>	–	<b>166</b>	–	–
<b>Financial assets at fair value through profit or loss</b>	<b>16,704</b>	<b>20,083</b>	–	–
Amounts due from credit institutions at 1 January	13	269,314	2,580	–
Amounts placed during the year	12,173	141,297	2,896	–
Changes in the Group and related parties	74	(1,929)	(151)	–
Amounts repaid during the year	(14,195)	(64,011)	(4,363)	–
Other changes	2,344	(3,680)	9	–
Amounts due from credit institutions at 31 December	409	340,991	971	–
Less allowance for impairment	–	(5)	(2)	–
<b>Amounts due from credit institutions at 31 December, net</b>	<b>409</b>	<b>340,986</b>	<b>969</b>	–
<b>Interest income on amounts due from credit institutions and cash equivalents</b>	<b>759</b>	<b>25,761</b>	<b>548</b>	–
<b>Investment securities available for sale</b>	<b>5,699</b>	<b>245,736</b>	–	–
<b>Investment securities held to maturity</b>	<b>122</b>	<b>3,401</b>	–	–
<b>Interest income on trading securities</b>	<b>1,290</b>	<b>415</b>	–	–
<b>Interest income on investment securities</b>	<b>173</b>	<b>8,812</b>	<b>7</b>	–

(In millions of Russian rubles)

### 32. Related party transactions (continued)

	2009			
	State	State controlled entities	Associates	Key management personnel
Loans to customers at 1 January	33	221,321	89,899	22
Loans granted during the year	3,746	88,571	32,272	11
Increase related to changes in the Group	–	77	1,203	0
Loans repaid during the year	(1,316)	(117,891)	(190)	(9)
Write-offs	–	–	(166)	–
Other changes	4,099	21,994	2,914	(2)
Loans to customers at 31 December	6,562	214,072	125,932	22
Less allowance for impairment	(351)	(12,833)	(38,174)	(0)
<b>Loans to customers at 31 December, net</b>	<b>6,211</b>	<b>201,239</b>	<b>87,758</b>	<b>22</b>
<b>Interest income on loans to customers</b>	<b>527</b>	<b>17,985</b>	<b>6,108</b>	<b>2</b>
<b>Charge of allowance for impairment of loans to customers</b>	<b>(318)</b>	<b>(10,859)</b>	<b>(35,481)</b>	<b>(0)</b>
<b>Due from the Russian Government</b>	<b>207</b>	–	–	–
<b>Receivable from the Russian Government under London Club Arrangement</b>	<b>1,115</b>	–	–	–
<b>Other assets</b>	<b>484</b>	<b>569</b>	<b>31</b>	–
<b>Correspondent Loro accounts</b>	–	<b>7,890</b>	<b>11</b>	–
Loans and deposits received from credit institutions at 1 January	–	9,452	1	–
Loans and deposits received during the year	–	1,541,161	5,818	–
Changes in the Group and related parties	–	(1,608)	–	–
Loans and deposits repaid during the year	–	(1,514,160)	(4,749)	–
Other changes	–	(1,575)	1	–
<b>Loans and deposits received from credit institutions at 31 December</b>	–	<b>33,270</b>	<b>1,071</b>	–
<b>Interest expense on amounts due to credit institutions and the Bank of Russia</b>	<b>(24,386)</b>	<b>(1,403)</b>	<b>(85)</b>	–
<b>Derivative financial liabilities</b>	–	<b>25</b>	–	–
<b>Due to the Russian Government and the Bank of Russia</b>	<b>987,563</b>	–	–	–
<b>Due to London Club creditors</b>	<b>1,115</b>	–	–	–
<b>Current customer accounts</b>	<b>324</b>	<b>60,832</b>	<b>1,134</b>	<b>33</b>
Customer deposits at 1 January	119	5,654	700	49
Deposits received during the year	235	18,717	7,229	2,060
Proceeds related to changes in the Group	–	–	–	1,889
Deposits repaid during the year	(308)	(15,987)	(3,897)	(3,358)
Other changes	7	(154)	20	7
<b>Customer deposits at 31 December</b>	<b>53</b>	<b>8,230</b>	<b>4,052</b>	<b>647</b>
<b>Interest expense on amounts due to customers and the Russian Government</b>	<b>(31,894)</b>	<b>(3,450)</b>	<b>(284)</b>	<b>(40)</b>
Debt securities issued at 1 January	–	3,187	–	–
Debt securities issued during the year	–	33,965	–	–
Debt securities repaid during the year	–	(4,663)	–	–
Other changes	21,126	(21,455)	–	–
<b>Debt securities issued at 31 December</b>	<b>21,126</b>	<b>11,034</b>	–	–
<b>Interest expense on debt securities issued</b>	<b>(29)</b>	<b>(566)</b>	–	–
<b>Other liabilities</b>	<b>45</b>	<b>1,062</b>	–	<b>8</b>
<b>Guarantees issued and undrawn loan commitments</b>	<b>1,635</b>	<b>149,061</b>	<b>25,139</b>	<b>10</b>
<b>Fee and commission income, net</b>	<b>743</b>	<b>1,680</b>	<b>2</b>	–
<b>Dividends</b>	–	<b>793</b>	–	–
<b>Other operating income</b>	<b>28</b>	<b>37</b>	<b>1</b>	<b>0</b>
<b>Other operating expenses</b>	<b>(108)</b>	<b>(304)</b>	<b>(180)</b>	<b>0</b>

(In millions of Russian rubles)

### 32. Related party transactions (continued)

	2008			
	State	State controlled entities	Associates	Key management personnel
<b>Cash and cash equivalents</b>	<b>57,396</b>	<b>7,626</b>	<b>3,067</b>	–
<b>Precious metals</b>	<b>1,140</b>	–	–	–
<b>Financial assets at fair value through profit or loss</b>	<b>19,936</b>	<b>24,055</b>	–	–
Amounts due from credit institutions at 1 January	209	2,485	1,686	–
Amounts placed during the year	200	274,819	3,008	–
Proceeds related to changes in the Group	–	3,989	–	–
Amounts repaid during the year	(396)	(13,794)	(1,478)	–
Other changes	0	1,815	(636)	–
Amounts due from credit institutions at 31 December	13	269,314	2,580	–
Less allowance for impairment	–	(2)	(1)	–
<b>Amounts due from credit institutions at 31 December, net</b>	<b>13</b>	<b>269,312</b>	<b>2,579</b>	–
<b>Interest income on amounts due from credit institutions and cash equivalents</b>	<b>130</b>	<b>7,006</b>	<b>357</b>	–
<b>Investment securities available for sale</b>	<b>2,307</b>	<b>136,531</b>	<b>2,250</b>	–
<b>Interest income on trading securities</b>	<b>1,089</b>	<b>153</b>	–	–
<b>Interest income on investment securities</b>	<b>208</b>	<b>2,115</b>	–	–
Loans to customers at 1 January	42	150,527	2,266	9
Loans granted during the year	97	90,092	87,039	17
Proceeds related to changes in the Group	–	392	–	–
Loans repaid during the year	(111)	(50,031)	11	(7)
Other changes	5	30,341	583	3
Loans to customers at 31 December	33	221,321	89,899	22
Less allowance for impairment	(33)	(1,974)	(2,693)	0
<b>Loans to customers at 31 December, net</b>	<b>–</b>	<b>219,347</b>	<b>87,206</b>	<b>22</b>
<b>Interest income on loans</b>	<b>1</b>	<b>9,435</b>	<b>205</b>	<b>2</b>
<b>Charge (reversal) of allowance for impairment of loans to customers</b>	<b>9</b>	<b>(902)</b>	<b>(1,879)</b>	<b>0</b>
<b>Due from the Russian Government</b>	<b>194</b>	–	–	–
<b>Receivable from the Russian Government under London Club Arrangement</b>	<b>1,083</b>	–	–	–
<b>Other assets</b>	<b>69</b>	<b>310</b>	<b>2</b>	–
<b>Correspondent Loro accounts</b>	<b>0</b>	<b>74,313</b>	<b>249</b>	–
Loans and deposits received from credit institutions at 1 January	–	113	–	–
Loans and deposits received during the year	–	1,070,370	275	–
Proceeds related to changes in the Group	–	1,232	–	–
Loans and deposits repaid during the year	–	(1,062,895)	(277)	–
Other changes	–	632	3	–
<b>Loans and deposits received from credit institutions at 31 December</b>	<b>–</b>	<b>9,452</b>	<b>1</b>	–



(In millions of Russian rubles)

### 32. Related party transactions (continued)

	2008			
	State	State controlled entities	Associates	Key management personnel
<b>Interest expense on amounts due to credit institutions and the Bank of Russia</b>	<b>(3,164)</b>	<b>(594)</b>	<b>(0)</b>	<b>–</b>
<b>Derivative financial liabilities</b>	<b>–</b>	<b>1,258</b>	<b>–</b>	<b>–</b>
<b>Due to the Russian Government and the Bank of Russia</b>	<b>913,889</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Due to London Club creditors</b>	<b>1,083</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Current customer accounts</b>	<b>43</b>	<b>55,147</b>	<b>53</b>	<b>14</b>
Customer deposits at 1 January	272	255	82	86
Deposits received during the year	10	4,082	1,210	56
Proceeds related to changes in the Group	–	4,329	–	564
Deposits repaid during the year	(241)	(3,152)	(605)	(660)
Other changes	78	140	13	3
<b>Customer deposits at 31 December</b>	<b>119</b>	<b>5,654</b>	<b>700</b>	<b>49</b>
<b>Interest expense on amounts due to customers</b>	<b>(6)</b>	<b>(1,603)</b>	<b>(38)</b>	<b>(14)</b>
Debt securities issued at 1 January	–	1,169	31	–
Debt securities issued during the year	–	2,205	–	–
Proceeds related to changes in the Group	–	1,846	–	–
Debt securities repaid during the year	–	(2,340)	(31)	–
Other changes	–	307	–	–
<b>Debt securities issued at 31 December</b>	<b>–</b>	<b>3,187</b>	<b>–</b>	<b>–</b>
<b>Interest expense on debt securities issued</b>	<b>–</b>	<b>(78)</b>	<b>–</b>	<b>–</b>
<b>Other liabilities</b>	<b>–</b>	<b>724</b>	<b>–</b>	<b>–</b>
<b>Guarantees issued and undrawn loan commitments</b>	<b>19</b>	<b>95,405</b>	<b>3,977</b>	<b>3</b>
<b>Fee and commission income / (expense), net</b>	<b>11</b>	<b>1,217</b>	<b>(3)</b>	<b>–</b>
<b>Dividends</b>	<b>–</b>	<b>102</b>	<b>36</b>	<b>–</b>
<b>Other operating income</b>	<b>14</b>	<b>44</b>	<b>1</b>	<b>–</b>
<b>Other operating expenses</b>	<b>(1)</b>	<b>(9)</b>	<b>(6)</b>	<b>–</b>

Compensation to key management personnel comprises the following:

	2009	2008
Salaries and other short-term benefits	579	318
Social security costs	27	20
<b>Total key management compensation</b>	<b>606</b>	<b>338</b>

### 33. Capital adequacy

The capital adequacy ratio is one of the most important indicators characterizing the level of risks accepted by the Bank and, therefore, determining its financial stability. To comply with a minimum level of 10% set out in the Memorandum on Financial Policies and to maintain a high credit rating, the Bank monitors its capital adequacy ratio on an ongoing basis.

The methods of computing the capital adequacy ratio are elaborated on the basis of regulations issued by the CBR and with regard to the generally acceptable international practices of computing capital adequacy ratios, and approved by the Supervisory Board of the Bank.

In 2009 and 2008, the Bank complied with capital adequacy ratio requirements.

(In millions of Russian rubles)

### 33. Capital adequacy (continued)

At 31 December, the Bank's capital adequacy ratio calculated in accordance with the above methods was as follows:

	<u>2009</u>	<u>2008</u>
Main capital	424,614	294,265
Additional capital	64,616	22
Less: deductions from capital	(157,344)	(49,936)
<b>Total capital</b>	<b><u>331,886</u></b>	<b><u>244,351</u></b>
<b>Risk-weighted assets</b>	<b><u>1,738,509</u></b>	<b><u>1,666,992</u></b>
Capital adequacy ratio	19.1%	14.7%

In order to maintain or adjust the capital structure and in accordance with Federal law No. 82-FZ, "On Bank for Development", the charter capital of the Bank may be increased pursuant to a resolution of the Russian Government on the account of additional monetary contribution of the Russian Federation or income of Vnesheconombank. Proposals regarding income distribution are drafted by the Management Board of the Bank and further approved by the Supervisory Board.

### 34. Events after the reporting period

In February and March 2010, the Group additionally purchased 830,229 ordinary registered shares of its subsidiary, OJSC "VEB-Leasing", which amounted to 19.99% of this company's charter capital. The cost of purchased shares was RUB 1,240 million. As a result of this purchase, the Group's interest in its subsidiary OJSC "VEB-Leasing" amounted to 98.06%.

In March 2010, the Bank purchased 11.45% of shares additionally issued by JSC "United Aircraft Corporation" for RUB 21,000 million. For the purpose of purchasing these shares, the Russian Government made an additional contribution to the charter capital of Vnesheconombank in December 2009 pursuant to Resolution of the Russian Government No. 1891-r dated 10 December 2009 (Note 25).

VEB Engineering LLC, an engineering company, was registered in March 2010, and VEB is among the founders of the company. The Bank's interest in VEB Engineering LLC is 51% and amounts to RUB 100 million. One of the core areas of the company's business will be the performance of work and services relating to implementation of investment projects.

On the basis of Resolution of the Russian Government No. 603-r dated 21 April 2010, the Russian Federation will transfer 100% of the state-owned shares in Open Joint-Stock Company "Federal Center for Project Finance" as an additional asset contribution to the charter capital of Vnesheconombank.

In April 2010, State Corporation "Agency for Deposit Insurance" transferred 218,600,000 ordinary shares of OJSC "Rostelecom" to the Bank under a fiduciary management agreement for a period of five years.

In April 2010, following the decision of its Supervisory Board, the Bank purchased, at nominal value, 100% of shares in AMURMETAL HOLDING LIMITED (2,000 shares with a nominal value of USD 1 each).

In accordance with Order No. 283 of the Federal Financial Markets Service dated 13 May 2010, the report on the issue of 2,000,000 documentary interest-bearing non-convertible bearer bonds was registered. The bonds, series 02, with a nominal value of USD 1,000 each, were placed via a private subscription and mature on the 365<sup>th</sup> day after the first day of placement. The total of 1,000,000 bonds were placed.

Consolidated Financial Statements

**Group of state corporation "Bank for Development  
and Foreign Economic Affairs (Vnesheconombank)"**

*Years ended 31 December 2008 and 2007*

*Together with Report of Independent Auditors*

Group of state corporation "Bank for Development and Foreign Economic Affairs  
(Vnesheconombank)"

Consolidated Financial Statements

31 December 2008

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## ***INDEPENDENT AUDITORS' REPORT***

To the Supervisory Board  
of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"

We have audited the accompanying consolidated financial statements of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (hereinafter, the "Bank") and its subsidiaries (collectively, the "Group"), which comprise the consolidated balance sheets as at 31 December 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008 and 2007, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

25 May 2009



Group of state corporation “Bank for development and  
foreign economic affairs (“Vnesheconombank”)

**Consolidated Balance Sheet**  
(in millions of Russian rubles)

	Notes	31 December 2008	2007 (restated)
<b>Assets</b>			
Cash and cash equivalents	8	281,673	157,635
Precious metals		1,163	1,485
Financial assets at fair value through profit and loss	9	55,533	40,723
Due from other banks	10	311,510	44,879
Loans to customers	12	725,640	228,018
Investment securities:	13		
- available-for-sale		228,607	67,542
- held to maturity		11,752	-
Due from the Russian Government	14	194	1,290
Receivable from the Russian Government under London Club arrangements	6	1,083	905
Income tax assets	15	1,573	541
Investments in associates	16	5,708	4,463
Property and equipment	17	8,026	4,739
Assets held for sale	18	342	165
Other assets	19	11,937	2,238
<b>Total assets</b>		<b>1,644,741</b>	<b>554,623</b>
<b>Liabilities and equity</b>			
Due to other banks	21	373,460	218,225
Derivative financial liabilities	11	13,451	1,292
Due to the Russian Government and the Bank of Russia	6	913,889	59,682
Due to London Club creditors	6	1,083	905
Amounts due to customers	22	111,341	39,304
Debt securities issued	23	8,225	9,538
Income tax liabilities	15	282	13
Provisions	20	1,362	31
Other liabilities	19	6,352	2,926
<b>Total liabilities</b>		<b>1,429,445</b>	<b>331,916</b>
Charter capital	24	261,489	186,390
Retained earnings / (Accumulated deficit)		(43,981)	38,616
Unrealized gains/(losses) on investment securities available-for-sale	25	(4,639)	(3,100)
Foreign currency translation reserve		856	144
<b>Equity</b>		<b>213,725</b>	<b>222,050</b>
<b>Minority interest</b>		<b>1,571</b>	<b>657</b>
<b>Total equity</b>		<b>215,296</b>	<b>222,707</b>
<b>Total liabilities and equity</b>		<b>1,644,741</b>	<b>554,623</b>

Signed and authorized for release on behalf of the Chairman of the Bank

Vladimir A. Dmitriev

Chairman of the Bank

Vladimir D. Shaprinsky

Chief Accountant

25 May 2009

The accompanying notes are an integral part of these consolidated financial statements:-

Group of state corporation "Bank for Development and  
Foreign Economic Affairs (Vnesheconombank)"

Consolidated Statement of Income  
(in millions of Russian rubles)

	Notes	Year ended 31 December	
		2008	2007 (restated)
<b>Interest income:</b>			
Loans to customers		24,395	17,284
Due from other banks		13,614	3,200
Securities		5,399	3,038
		<u>43,408</u>	<u>23,522</u>
<b>Interest expenses:</b>			
Due to other banks		(12,843)	(13,865)
Amounts due to customers		(7,598)	(1,655)
Debt securities issued		(617)	(672)
		<u>(21,058)</u>	<u>(16,192)</u>
<b>Net interest income</b>		<b>22,350</b>	<b>7,330</b>
(Provision for) / reversal of impairment of interest earning assets	10,12	(8,601)	35
<b>Net interest income after (provision for) / reversal of impairment of interest earning assets</b>		<b>13,749</b>	<b>7,365</b>
Net fee and commission income	27	1,625	1,878
Gains less losses from securities	13	(47,262)	2,651
Gains less losses from foreign currencies:			
- dealing		(12,162)	(582)
- translation differences		16,644	781
Share in net income / (loss) of associates	16	(266)	346
Dividend income		386	337
Other operating income	28	948	3,184
<b>Non-interest income / (expenses)</b>		<b>(40,087)</b>	<b>8,595</b>
Payroll and other staff costs		(4,605)	(3,275)
Occupancy and equipment		(1,025)	(938)
Depreciation	17	(454)	(260)
Taxes other than income taxes		(258)	(293)
Goodwill written off	5	(41,841)	-
Reversal of (provision for) other impairment and provisions	20	(1,995)	110
Other operating expenses	29	(3,806)	(4,746)
<b>Non-interest expenses</b>		<b>(53,984)</b>	<b>(9,402)</b>
<b>Income / (loss) before income tax</b>		<b>(80,322)</b>	<b>6,558</b>
Income tax benefit (expense)	15	(947)	2,903
<b>Net income / (loss) for the year</b>		<b>(81,269)</b>	<b>9,461</b>
Attributable to:			
- Equity holder of the parent		(81,777)	9,420
- Minority interest		508	41
		<u>(81,269)</u>	<u>9,461</u>

*The accompanying accounting policy and notes are an integral part of these consolidated financial statements.*

Group of state corporation "Bank for Development and  
Foreign Economic Affairs (Vnesheconombank)"

Consolidated Statement of Changes in Equity

(in millions of Russian rubles)

	Attributable to the Russian Government						Total equity
	Charter capital	Retained earnings	Unrealized revaluation of investment securities available for sale	Translation differences	Total	Minority interest	
<b>31 December 2006 (restated)</b>	<b>6,390</b>	<b>32,314</b>	<b>765</b>	<b>(2,313)</b>	<b>37,156</b>	<b>97</b>	<b>37,253</b>
Net gains / (losses) on investment securities available-for-sale, net of tax (Note 25)	-	-	(3,865)	-	(3,865)	1	(3,864)
Effect of translation into reporting currency	-	-	-	(594)	(594)	(28)	(622)
Total income and expense recognized directly in equity	-	-	(3,865)	(594)	(4,459)	(27)	(4,486)
Net income	-	9,420	-	-	9,420	41	9,461
Total income and expense for the year	-	9,420	(3,865)	(594)	4,961	14	4,975
Effect of change in functional currency	-	(3,051)	-	3,051	-	-	-
Contribution of the Russian Government (Note 24)	180,000	-	-	-	180,000	-	180,000
Acquisition of a subsidiary	-	-	-	-	-	539	539
Contribution to the share capital of subsidiary from minority shareholders	-	-	-	-	-	4	4
Dividends paid to equity holders (Note 24)	-	(70)	-	-	(70)	-	(70)
Increase in the share capital of subsidiary	-	3	-	-	3	3	6
<b>31 December 2007 (restated)</b>	<b>186,390</b>	<b>38,616</b>	<b>(3,100)</b>	<b>144</b>	<b>222,050</b>	<b>657</b>	<b>222,707</b>

The accompanying accounting policy and notes are an integral part of these consolidated financial statements.



Group of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"

Consolidated Statement of Changes in Equity

(in millions of Russian rubles)

	Attributable to the Russian Government						Total equity
	Charter capital	Retained earnings / (Accumulated deficit)	Unrealized revaluation of investment securities available for sale	Translation differences	Total	Minority interest	
<b>31 December 2007 (restated)</b>	<b>186,390</b>	<b>38,616</b>	<b>(3,100)</b>	<b>144</b>	<b>222,050</b>	<b>657</b>	<b>222,707</b>
Net gains / (losses) on investment securities available-for-sale, net of tax (Note 25)	-	-	(1,539)	-	(1,539)	(2)	(1,541)
Effect of translation into reporting currency	-	-	-	712	712	53	765
Total income and expense recognized directly in equity	-	-	(1,539)	712	(827)	51	(776)
Net income / (loss)	-	(81,777)	-	-	(81,777)	508	(81,269)
Total income and expense for the year	-	(81,777)	(1,539)	712	(82,604)	559	(82,045)
Contribution of the Russian Government (Note 24)	75,000	-	-	-	75,000	-	75,000
Acquisition of a subsidiary	-	-	-	-	-	868	868
Increase in interest in subsidiary	99	(730)	-	-	(631)	(554)	(1,185)
Contribution to the share capital of subsidiary from minority shareholders	-	-	-	-	-	83	83
Dividends paid to equity holders (Note 24)	-	(90)	-	-	(90)	-	(90)
Dividends paid to minority shareholders	-	-	-	-	-	(42)	(42)
<b>31 December 2008</b>	<b>261,489</b>	<b>(43,981)</b>	<b>(4,639)</b>	<b>856</b>	<b>213,725</b>	<b>1,571</b>	<b>215,296</b>

The accompanying accounting policy and notes are an integral part of these consolidated financial statements.

Group of state corporation "Bank for Development and  
Foreign Economic Affairs (Vnesheconombank)"

Consolidated Statement of Cash Flows

*(in millions of Russian rubles)*

	Year ended 31 December	
	2008	2007 (restated)
<b>Cash flows from operating activities:</b>		
Net income	(81,269)	9,461
Adjustments for:		
Depreciation and amortization	533	290
Deferred income taxes	114	(4,120)
Impairment and provisions (reversal)	10,596	(145)
Goodwill written off	41,841	-
Share in net income / (loss) of associates	266	(346)
Changes in unrealized revaluation of securities and derivatives	27,203	663
Impairment of investment securities available for sale	20,655	-
Other changes	(902)	(1,219)
<b>Operating income before changes in net operating assets</b>	<b>19,037</b>	<b>4,584</b>
<i>(Increase) decrease in operating assets:</i>		
Due from other banks	(29,357)	(10,523)
Precious metals	-	(7)
Financial assets at fair value through profit or loss	(25,966)	5,081
Loans to customers	(418,336)	(43,680)
Due from the Russian Government	918	5
Other assets	(3,537)	340
<i>Increase (decrease) in operating liabilities:</i>		
Due to other banks, net of long-term interbank financing	75,710	3,881
Derivative financial liabilities	(194)	(15)
Due to the Russian Government and the Bank of Russia, net of long-term special purpose financing	450,520	263
Amounts due to customers	(9,765)	4,353
Debt securities issued	(10,311)	(2,770)
Other liabilities	1,665	1,214
<b>Net cash flows from operating activities</b>	<b>50,384</b>	<b>(37,274)</b>
<b>Cash flows from investing activities</b>		
Purchases of premises and equipment	(1,952)	(592)
Purchase of investment securities	(194,438)	(34,678)
Investments in subsidiaries less cash acquired with subsidiaries	6,390	968
Investments in associates	(1,507)	(1,604)
Increase in interest in subsidiary	(1,185)	-
Subordinated loans issued	(225,000)	-
<b>Net cash used in investing activities</b>	<b>(417,692)</b>	<b>(35,906)</b>

*The accompanying accounting policy and notes are an integral part of these consolidated financial statements.*

Group of state corporation "Bank for Development and  
Foreign Economic Affairs (Vnesheconombank)"

	Year ended 31 December	
	2008	2007 (restated)
<b>Cash flows from financing activities</b>		
Contribution to charter capital from the Russian Government	75,000	180,000
Contribution to the share capital of subsidiary from minority shareholders	83	4
Dividends paid to equity holders	(90)	(70)
Dividends paid to minority shareholders	(42)	-
Long-term interbank financing raised	16,383	8,658
Long-term special purpose financing raised from the Russian Ministry of Finance	400,000	-
<b>Net cash flows from financing activities</b>	<b>491,334</b>	<b>188,592</b>
Cash classified as a disposal group	12	-
<b>Net change in cash and cash equivalents</b>	<b>124,038</b>	<b>115,412</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>157,635</b>	<b>42,223</b>
<b>Cash and cash equivalents at end of period (Note 8)</b>	<b>281,673</b>	<b>157,635</b>
<b>Supplemental information:</b>		
Income taxes paid	389	900
Interest paid	15,574	20,351
Interest received	38,884	26,177
Dividends received	327	337

*The accompanying accounting policy and notes are an integral part of these consolidated financial statements.*

*(In millions of Russian rubles, unless otherwise stated)*

## **1. Principal activities**

The Group of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" comprises state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" ("Vnesheconombank" or the "Bank"), three Russian banks, one CIS-based bank, one Russian leasing company and other Russian and foreign companies controlled by the Group.

Vnesheconombank was formed on 8 June 2007 on the grounds and in the order of Federal Law No. 82-FZ dated 17 May 2007, "On Bank for Development", by means of reorganization of Bank of Foreign Economic Activity of the USSR ("Vnesheconombank of the USSR") and is its legal successor. Vnesheconombank of the USSR was a specialized state bank of the Russian Federation servicing, in an agency capacity, the foreign debt and assets of the former USSR and the Government of the Russian Federation and its authorized institutions (the "Russian Government")

In accordance with Federal Law No. 395-1, "On Banks and Banking Activity", dated 2 December 1990, Vnesheconombank performs banking operations as stipulated by Federal Law No. 82-FZ dated 17 May 2007, "On Bank for Development". The Bank has no right to attract deposits from individuals. The legislation on banks and banking activity shall apply to the Bank only to the extent that it does not contradict the mentioned Federal Law and with certain specifics.

Main principles and areas of the Bank's activity are set out in Federal Law No. 82-FZ, "On Bank for Development", and the Memorandum on the Bank's Financial Policies, approved by Resolution of the Russian Government No. 1007-p dated 27 July 2007. The Memorandum on the Bank's Financial Policies provides for main areas of the Bank's investing and financing activities, stipulates quantitative limitations, conditions and criteria of specific operations.

The management bodies of the Bank are the Supervisory Board chaired by the Prime Minister of the Russian Federation, the Management Board and the Chairman of the Bank. In accordance with Federal Law, the Chairman of the Bank is appointed by the President of the Russian Federation for a term which can not exceed 5 years.

Vnesheconombank activities are aimed at overcoming infrastructure growth constraints, upgrading and promoting non-raw materials economic sector, encouraging innovations and exports of high-technology products, carrying out projects in special economic zones, environment protection projects, supporting small and medium-sized business. The Bank also participates in large investment projects contributing to the development of infrastructure and high-technology industries of the Russian real sector of the economy.

As more fully described in Note 24, the Bank's charter capital has been formed by means of asset contributions of the Russian Government, including contribution of state owned shares of OJSC "Russian Bank for Development" and CJSC ROSEXIMBANK.

At 31 December 2008, the Bank as the legal successor of the Vnesheconombank of the USSR was party to two separate agency agreements (collectively, the "Agency Agreements"), as follows:

- The agreement dated 30 July 1992 (amended 17 March 1993) with the Russian Government requires the Bank to carry out banking operations necessary to service the centralized foreign economic activities of the Russian Federation. The agreement has an indefinite term, and provides for certain commissions and fees to be paid to the Bank based upon the volume of transactions serviced. Additionally, the mentioned amendment stipulates that the Russian Government will provide

*(In millions of Russian rubles, unless otherwise stated)*

resources in rubles and foreign currencies as necessary for servicing the external debt of the former USSR, and for managing and using the assets of the former USSR.

- The agreement dated 30 September 1993 with the Ministry of Finance requires the Bank to service bonds issued to replace funds on frozen accounts with Vnesheconombank held by Russian legal entities. The agreement has an indefinite term, and provides for certain servicing fees to be paid to the Bank based upon the nominal value of bonds issued.

As more fully described in Note 6, at 31 December 2008 and 31 December 2007, the Russian Government owed Vnesheconombank RUB 1,083 million and RUB 905 million, respectively, relating to the London Club debt obligation of Vnesheconombank. These amounts have been presented in the Bank's balance sheet and are not subject to offset. No allowance has been provided with respect to the Russian Government receivable under the London Club debt.

The Bank performs functions of the agent servicing the foreign debt and assets of the former USSR and of the Russian Federation, including maintenance of accounting records, settlements and reconciliation of mentioned debt and assets until the date determined by the Russian Government.

In January 2003, the Bank was nominated as the State Trust Management Company for the trust management of pension savings funds accumulated by the State Pension Fund of the Russian Federation. As the State Trust Management Company, the Bank is entitled to invest the accumulated pension savings received for trust management in accordance with the Investment Declaration approved by Resolution of the Russian Government No. 540 dated 1 September 2003. During 2008 the Bank mainly invested in Federal Loan Bonds (OFZs) nominated in Russian Rubles. Since 2006, the Bank has also been investing funds in State Saving Bonds nominated in Russian Rubles. At 31 December 2008 total trust assets managed by the Bank were RUB 343,106 million (2007 – RUB 363,107 million).

In accordance with Resolution of the Russian Government No. 970 dated 22 December 2008, the Bank shall perform functions of the State Trust Management Company until 1 January 2014.

Since October 2008, Vnesheconombank has been taking measures aimed at supporting the financial system of the Russian Federation so as to implement Federal Law No. 173-FZ dated 13 October 2008, "On Additional Measures to Support the Financial System of the Russian Federation". As described in greater detail in Notes 10 and 12, the Bank extends loans to organizations for repaying and servicing loans received from foreign institutions and extends unsecured subordinated loans to Russian banks.

The Bank's head office is located in Moscow, Russia. The Bank has representative offices in St. Petersburg, Russia, the United States of America, India, Italy, China, Republic of South Africa, Germany and the UK. The Bank's principal office is located at 9 prospect Akademika Sakharova, Moscow.

At 31 December 2008 and 31 December 2007, the Group had 7,444 and 3,758 employees, respectively.

## **2. Basis of preparation**

### ***General***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank, its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These consolidated financial

*(In millions of Russian rubles, unless otherwise stated)*

statements are based on those accounting books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between equity and net income before adjustments and reclassifications and IFRS is presented later in this note.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, and derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in millions of Russian rubles ("RUB million"), unless otherwise indicated.

### ***Functional currency***

Historically, management used US dollar ("USD") as functional currency for the purpose of preparation of IFRS financial statements. In the course of reorganization the Bank performed a re-assessment of the functional currency in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", due to the following reasons:

- the activity of the Bank after reorganization is mainly focused on financing investment projects within Russia, which is the Bank's primary economic environment;
- increased volume of operations in Russian Rubles;
- the Bank's customer base is expanding to include more Russian corporate customers whose revenue is mainly generated in Russian Rubles.

As a result the Bank concluded to change the functional currency from US dollar to Russian rubles ("RUB") effective from the reorganization date and, accordingly, to apply it when preparing financial statements at 31 December 2007 and for the year then ended, and in subsequent periods.

In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", the effect of change in functional currency is accounted for prospectively. All items were translated into RUB using exchange rate at 8 June 2007. The resulting translated amounts for non-monetary items were recognized at historical cost. Exchange differences previously appeared from the translation of a subsidiary's financial statements into USD and recognized in equity are not recognized in profit or loss until the disposal of subsidiary.

Transactions in other currencies are presented as transactions in foreign currencies. The Group's major foreign subsidiary OJSC "Belvnesheconombank" uses Belarusian ruble as its functional currency.

London Club debt amounts denominated in foreign currencies are recorded at the official rates of the Bank of Russia at 31 December 2008 and 2007.

Clearing currencies are the settlement currencies for bilateral trade between the Russian Federation and designated countries. Clearing currencies are regularly traded on special auctions held by the Bank under the supervision of the Ministry of Finance. Clearing currencies-denominated assets and liabilities have been translated into RUB at the official rates of the Bank of Russia at 31 December 2008 and 2007.

### ***Segregation of operations***

Until the date determined by the Russian Government the Bank, in its agency capacity, maintains and services certain assets and liabilities on behalf of the Russian Government. Such balances have not been included in the accompanying balance sheets given the agency nature of the relationship and in accordance

*(In millions of Russian rubles, unless otherwise stated)*

with the underlying Agency Agreements and specific guidelines (the "Guidelines") approved by the Board of Directors of Vnesheconombank of the USSR and the Ministry of Finance in 1997.

The Guidelines stipulated the following assets and liabilities are the responsibility of the Ministry of Finance and have, therefore, been excluded from the accompanying balance sheets:

1. Liabilities to foreign creditors including all accrued interest which are serviced and redeemed at the expense of the Russian Government, except some remaining London Club obligations (Note 6);
2. Internal foreign currency debt to residents of the former USSR;
3. Claims to legal entities for foreign currency government and commercial loans granted to Russian Federation regions, former republics of the USSR, and other foreign countries representing both government external and internal foreign currency assets;
4. Clearing, barter, and mutual settlements, including corresponding settlements with clients, executed on the basis of intergovernmental agreements;
5. Participation claims and liabilities related to the reorganization of former USSR-owned foreign banks, which are subject to trilateral settlement by the CBR, the Ministry of Finance, and Vnesheconombank, and equity participations financed by borrowings, the responsibility for which was assumed by the Ministry of Finance;
6. Claims against Russian commercial banks and other commercial entities for guarantees in favor of the Ministry of Finance under centralized operations, as well as other claims and liabilities that resulted from, or arise as a result of, operations conducted at the expense of the Russian Government.

### ***Subsidiaries***

The main subsidiaries of the Group are OJSC "Russian Bank for Development", CJSC State Specialized Russian Export-Import Bank (CJSC ROSEXIMBANK), OJSC "Belvnesheconombank", OJSC "VEB-Leasing" and OJSC Sviaz-Bank.

In August 2008, the Russian Government contributed 100% of shares of OJSC "Russian Bank for Development" into the charter capital of Vnesheconombank pursuant to Federal Law No. 82-FZ, "On Bank for Development", dated 17 May 2007. The core activity of OJSC "Russian Bank for Development" is to provide financial support to the policy of the Russian Government with respect to lending to commercial entities and small and medium-sized businesses, and includes banking operations, transactions with securities, foreign currency, and derivative financial instruments, and provision of loans and guarantees. Financial statements of OJSC "Russian Bank for Development" have been consolidated into the Bank's financial statements since Q3 2008 using the pooling of interest method since this transaction involved Banks under common control of the Russian Government. The comparative information presented in the Bank's consolidated financial statements at 31 December 2008 was restated to ensure data comparability.

At 31 December 2008 the Group owned 100% of ROSEXIMBANK's equity. ROSEXIMBANK was created in 1994 to support and promote Russian machinery exporters, import-substituting production and attraction of investments in the Russian economy. ROSEXIMBANK holds a license for banking operations of the Central Bank of the Russian Federation and all licenses of the professional participant of the Russian securities market. In 2003, Vnesheconombank of the USSR acquired 90,000 shares of ROSEXIMBANK RUB 10,000 par value each on 5 January 2003 by contributing RUB 1,582 million. In the third quarter of 2008, the Bank additionally acquired 130 shares of ROSEXIMBANK for RUB 4 million. In October 2008, the Russian Government contributed 4,970 shares (5.23%) of

*(In millions of Russian rubles, unless otherwise stated)*

ROSEXIMBANK into the charter capital of Vnesheconombank pursuant to Federal Law No. 82-FZ, "On Bank for Development", dated 17 May 2007.

At 31 December 2008, the Group owned 97.24% of OJSC "Belvnesheconombank"'s equity. The Group owns 3,184,370,221 ordinary shares of OJSC "Belvnesheconombank" with par value of 100 Belarusian rubles (about RUB 1.1). Out of those, 129,389,851 shares were acquired mainly during 2007 at 403 Belarusian rubles per share (about RUB 4.5). In 2008, the Group also purchased 3,054,980,370 ordinary shares of OJSC "Belvnesheconombank" at a price of 100 to 1,139 Belarusian rubles per share for the total amount of RUB 4,592 million. At 31 December 2008, the aggregate cost of all purchased shares was RUB 5,217 million. OJSC "Belvnesheconombank" was established in 1991 as a result of the separation of the Belarus branch of the Vnesheconombank of the USSR; primary areas of its operations include granting loans to exporting industries, issuing and processing export and import letters of credits, transferring payments and exchanging foreign currencies upon demand of its customers and for currency trading purposes, attracting deposits and dealing in debt securities.

At 31 December 2008 the Group owned 50% plus one share in OJSC "VEB-Leasing"'s equity. The Group purchased 2,086,002 ordinary shares in April 2008. At 31 December 2008, the cost of purchased shares was RUB 2,246 million. OJSC "VEB-Leasing" is the legal successor of CJSC "Oboronpromleasing" whose establishment in 2003 was initiated by FGUP "Rosoboronexport" for the purpose of providing leasing services to civil and military production enterprises.

From October through December 2008, Vnesheconombank purchased 461,804,619,018 ordinary shares of Interregional Bank for Settlements of the Telecommunications and Postal Services, Open Joint Stock Company (Sviaz-Bank), which amounts to 90% of its share capital. The cost of acquisition was RUB 3,972. This transaction was approved by Vnesheconombank's Supervisory Board whose decision entitles the Bank to purchase up to 100% of shares of Sviaz-Bank.

Other subsidiaries of the Bank included in the consolidated financial statements at 31 December 2008 and 31 December 2007 are LLC Russian Leasing Company (100%), A.F.C. s.r.l. (100%), Bumofin KFT (98.8%), CJSC "Kraslesinvest" (before February 2008 – LLC "Kraslesinvest", 100%).

The list of associated companies and more details on their activities are provided in Note 16.



(In millions of Russian rubles, unless otherwise stated)

**Reconciliation of equity and net income for the year before adjustments and reclassifications and per IFRS**

	2008		2007 (restated)	
	Equity	Net income	Equity	Net income
<b>Before adjustments and reclassifications</b>	<b>263,548</b>	<b>9,346</b>	<b>211,535</b>	<b>7,168</b>
Effect of consolidation	(5,889)	(6,704)	8,284	1,027
Translation differences	(606)	(1,016)	410	483
Effect of accrued interest income and expense	(490)	(700)	1,093	(285)
Effect of recording financial assets at amortized cost	2,392	1,828	562	1,215
Impairment of financial assets	258	(20,670)	–	–
Provisions for losses	6,362	4,768	1,448	(360)
Fair value revaluation of trading securities	59	(18,232)	3,422	(3,102)
Fair value revaluation of investment securities available for sale	47	190	(3,257)	(24)
Derivatives	(9,919)	(9,145)	(773)	(952)
Taxation	–	(484)	37	3,672
Goodwill written off	(41,841)	(41,841)	–	–
Initial recognition of financial instruments	–	–	–	830
Expenses recorded directly to equity	–	–	–	(203)
Other income and expenses	1,375	1,391	(54)	(8)
<b>International Financial Reporting Standards</b>	<b>215,296</b>	<b>(81,269)</b>	<b>222,707</b>	<b>9,461</b>

**Reclassifications**

The following reclassifications have been made to 2007 balances to conform to the 2008 presentation:

	As restated	Reclassification	As adjusted
<b>Consolidated statement of income for the year ended 31 December 2007</b>			
Payroll and other staff costs	3,521	(246)	3,275
Other operating expenses	4,500	246	4,746

**3. Summary of significant accounting policies**

**Changes in accounting policies**

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

**IFRIC 12 "Service Concession Arrangements"**

IFRIC Interpretation 12 was issued in November 2006 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member entity of the Group is an operator and hence this Interpretation has no impact on the Group.

*(In millions of Russian rubles, unless otherwise stated)*

***IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"***

IFRIC Interpretation 14 was issued in July 2007 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. This Interpretation has no impact on the financial position or performance of the Group.

***Reclassification of Financial Assets – Amendments to IAS 39 "Financial instruments: Recognition and measurement" and IFRS 7 "Financial instruments: Disclosures"***

The amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allowed the reclassification from the category of non-derivative financial assets held for trading:

- to loans to customers or to due from other banks in case these financial assets meet the definition of loans and receivables under IAS 39, or
- to investment securities held to maturity or to investment securities available for sale in case of change in intention "in rare circumstances".

The amendments also allow transfer of certain financial assets from the available for sale category to loans and receivables category in case these financial assets meet the definition of loans and receivables under IAS 39.

The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. The disclosures about reclassifications are presented in Note 9.

***Subsidiaries***

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or participation shares, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, financial statements for subsidiaries are adjusted to ensure consistency with the accounting policies adopted by the Group.

***Acquisition of subsidiaries***

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

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognized directly in the consolidated statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

*(In millions of Russian rubles, unless otherwise stated)*

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

#### *Increases in ownership interests in subsidiaries*

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

#### *Acquisitions of subsidiaries from parties under common control*

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the 1 January of the year preceding the reporting year.

#### *Investments in associates*

Associates are entities in which the Group generally has between 20% and 50% of the voting rights or participation shares, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated statement of income, and its share of movements in reserves is recognized in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### *Financial assets*

##### *Initial recognition*

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

*(In millions of Russian rubles, unless otherwise stated)*

#### *Date of recognition*

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Determination of fair value*

The fair value for financial instruments traded in active market at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

#### *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

#### *Reclassification of financial assets*

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

#### *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, amounts due from the Bank of Russia and amounts due from other banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

*(In millions of Russian rubles, unless otherwise stated)*

### ***Precious metals***

Gold and other precious metals are recorded at CBR bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBR bid prices are recorded as translation differences from precious metals in other income.

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

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'.

Financial assets are classified as held for trading if they are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin.

Financial assets classified as held for trading are initially recognized under the policy for financial assets and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with financial assets at fair value through profit or loss are recognized in the consolidated statement of income within gains less losses from securities. Interest earned on financial assets at fair value through profit or loss is reported as interest income in the statement of income.

In determining fair value, financial assets are valued at last deal prices on stock exchange. Financial assets traded over-the-counter are valued at last bid prices. When prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded in different markets or using discounted cash flow models.

### ***Due from other banks***

In the normal course of business, the Group maintains current accounts or places deposits for various periods of time with other banks. Amounts due from other banks with fixed maturity are subsequently measured at amortized cost using the effective interest method. Amounts due from other banks are carried net of any allowance for impairment.

### ***Repurchase and reverse repurchase agreements***

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated balance sheet in trading or available-for-sale securities. The corresponding liability is presented within amounts due to other banks or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents, amounts due from other banks or commercial loans as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities received under reverse repurchase agreements are not recorded in the consolidated financial statements, unless these are sold to third parties. The obligation to return them is recorded at fair value as a financial trade liability.

### ***Derivative financial instruments***

In the normal course of business, the Group enters into various derivative financial instruments in the foreign exchange and securities markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices, official

*(In millions of Russian rubles, unless otherwise stated)*

foreign exchange rates or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from securities or gains less losses from dealing in foreign currencies, depending on the nature of the instrument.

#### ***Available-for-sale securities***

Securities not classified as trading are designated as investment securities available-for-sale. Investment securities available-for-sale are initially recognized in accordance with the policy stated above and subsequently measured at fair value, which is equal to the estimated fair value at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on the market value of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Unrealized gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in equity, net of income taxes, in the period that the change occurs until the investment is derecognized or until the investment is determined to be impaired. Realized gains and losses on available-for-sale securities are computed on a specific security basis and included in the consolidated statement of income within gains less losses from securities. Interest calculated using the effective interest method is recognized in the consolidated statement of income.

In determining fair value, marketable securities are valued at last deal prices on stock exchange. Securities traded over-the-counter are valued at last bid prices. When market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions.

#### ***Held-to-maturity securities***

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in the consolidated statement of income when the investments are impaired, as well as through the amortization process.

#### ***Promissory notes***

Promissory notes purchased are included in trading securities, amounts due from other banks or loans to customers, depending on their substance and are recorded and subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets

*(In millions of Russian rubles, unless otherwise stated)*

### **Leases**

#### ***Finance - Group as lessor***

The Group recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

#### ***Operating - Group as lessee***

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

#### ***Operating - Group as lessor***

The Group presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

### ***Loans to customers***

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recorded in accordance with the policy for initial recognition of financial instruments. The difference between the nominal amount of the consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as gain/loss from initial recognition of loans to customers in the consolidated statement of income. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those loans that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for impairment

### ***Allowances for impairment of financial assets***

The Group establishes allowances for impairment of financial assets when it is probable that the Group will not be able to collect the principal and interest according to the contractual terms of the related loans issued and other financial assets, which are carried at cost or amortized cost. The allowances for impairment of financial assets are defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument.

The Group assesses whether objective evidence of impairment exists individually for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

*(In millions of Russian rubles, unless otherwise stated)*

The allowances for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of current economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and in the Republic of Belarus and what effect such changes might have on the adequacy of the allowances for impairment of financial assets.

Changes in allowances are reported in the consolidated statement of income of the related period. When an asset is not collectable, it is written off against the related allowance for impairment; if the amount of impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the consolidated statement of income.

### *Derecognition of financial assets and liabilities*

#### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.



*(In millions of Russian rubles, unless otherwise stated)*

### ***Financial guarantees***

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income. The premium received is recognized in the consolidated statement of income on a straight-line basis over the life of the guarantee.

### ***Taxation***

Income tax expense is calculated in accordance with the regulations currently in force in the respective territories that the Group operates. Income tax expense of the Group comprises current and deferred income tax. Current income tax is calculated by applying income tax rate effective at reporting date to taxable base.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

Income and expenses of Vnesheconombank are not taxable for income tax purposes.

Various operating taxes, which are assessed on the Group's activities are included as a component of other operating expenses in the consolidated statement of income.

### ***London club receivable and debt***

The London Club receivable and debt represent the Bank's receivable from the Russian Government and payable to London Club creditors (primarily international banks) for outstanding debts relating to the former USSR.

*(In millions of Russian rubles, unless otherwise stated)*

### ***Property and equipment***

Property and equipment are carried at cost less accumulated depreciation. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives.

	<u>Years</u>
Buildings	25-40
Computers and equipment	2-8
Furniture and fixtures	2-8
Motor vehicles	2-5

Leasehold improvements are amortized over the life of the related leased asset. Costs related to repairs and renewals are charged when incurred and included in operating expenses, unless they qualify for capitalization.

### ***Goodwill***

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### ***Intangible assets***

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated

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impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

#### ***Assets classified as held for sale***

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

#### ***Amounts due to banks and to customers***

Amounts due to credit institutions and to customers are initially recognized in accordance with the policy for recognition of financial instruments. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

For the purposes of the consolidated statement of cash flows, the Group recognizes amounts attracted from banks for a period of up to one year in "Cash flows from operating activities" category, for a period exceeding one year - in "Cash flows from financing activities" category.

#### ***Debt securities issued***

Debt securities issued represent promissory notes, deposit and savings certificates, issued by the Group to its customers, as well as bonds traded on stock exchange. Debt securities issued are accounted for according to the same principles used for amounts due to banks and to customers. If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognized in the statement of income.

#### ***Provisions***

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

*(In millions of Russian rubles, unless otherwise stated)*

### ***Retirement and other benefit obligations***

Current pension contributions of the Group are calculated as a percentage of current gross salary payments to employees; such expense is charged to the statement of income in the period the related contributions are paid and included into payroll and other staff costs.

In addition, the Bank operates two separately administered defined contribution pension schemes, where the Bank's obligation for each period is determined by the amounts to be contributed for that period. Contributions made by the Bank are recognized as expense in the respective period.

The Group has no other post-retirement benefits or significant other employee benefits requiring accrual.

### ***Fiduciary assets***

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Bank.

### ***Contingencies***

Contingent liabilities are not recognized in the balance sheet but are disclosed unless the possibility of any outflow in settlement is probable. A contingent asset is not recognized in the balance sheet but disclosed when an inflow of economic benefits is probable.

### ***Income and expense recognition***

Income and expense are recognized to the extent that it is probable that the economic benefits will flow to the Group and they can be reliably measured. The following specific recognition criteria must also be met before income and expense are recognized:

#### ***Interest and similar income and expense***

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

#### ***Fee and commission income***

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

*(In millions of Russian rubles, unless otherwise stated)*

*- Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

*- Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

*Dividend income*

Dividend income is recognized when the Group's right to receive the payment is established.

*Foreign currency translation*

The consolidated financial statements are presented in Russian Rubles, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of income as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2008 and 2007 were 29.38 Rubles and 24.55 Rubles to 1 USD, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Russian Rubles at the rate of exchange ruling at the balance sheet date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in equity relating to that particular entity is recognized in the consolidated statement of income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

*(In millions of Russian rubles, unless otherwise stated)*

### ***Future changes in accounting policies***

#### ***Standards and interpretations issued but not yet effective***

##### ***Improvements to IFRS***

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

##### ***IAS 1 Presentation of Financial Statements (Revised)***

A revised IAS 1 was issued in September 2007, and becomes effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

##### ***IAS 23 "Borrowing Costs" (Revised)***

A revised IAS 23 "Borrowing Costs" was issued in March 2007 and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change.

Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

##### ***Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation***

These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. The Group does not expect the amendment to affect its consolidated financial statements.

##### ***Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items.***

Amendments to IAS 39 were issued in August 2008 and become effective for annual periods beginning on or after 1 July 2009. The amendments address the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. The amendments clarify that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group does not expect these amendments to affect its consolidated financial statements as the Group has not entered into any such hedges.

(In millions of Russian rubles, unless otherwise stated)

*Amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 27 "Consolidated and Separate Financial Statements" - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

These amendments were issued in May 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendments to IAS 27 will have to be applied prospectively. The amendments to IFRS 1 allow an entity to determine the cost of investments in a subsidiary, jointly controlled entity or associate in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendments to IAS 27 require all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the statement of income in the separate financial statements. The new requirements affect only the separate financial statements and do not have an impact on the consolidated financial statements.

*Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations*

These amendments to IFRS 2 were issued in January 2008 and become effective for annual periods beginning on or after 1 January 2009. These amendments clarify the definition of vesting conditions and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. These amendments will have no impact on the consolidated financial statements of the Group, since no shares have been issued with respect to the charter capital of the Bank.

*IFRS 3 "Business Combinations" (Revised) and IAS 27 "Consolidated and Separate Financial Statements" (Revised)*

The revised IFRS 3 and IAS 27 were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

*Amendments to IFRS 7 "Improving Disclosures about Financial Instruments"*

Amendments to IFRS 7 were issued in March 2009 and become effective for periods beginning on or after 1 January 2009 with early application permitted. These Amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The Group is currently assessing the impact of the revised standard on its future consolidated financial statements.

*IFRS 8 "Operating Segments"*

IFRS 8 becomes effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard will not have any impact on the financial position or performance of the Group. The Group determined that operating segments will be identical to business-segments defined in IAS 14 "Segment Reporting".

*IFRIC 13 "Customer Loyalty Programs"*

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award

(In millions of Russian rubles, unless otherwise stated)

credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

*IFRIC 15 "Agreements for the Construction of Real Estate"*

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. The Group expects that this interpretation will have no impact on the Group's financial statements.

*IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"*

IFRIC Interpretation 16 was issued in July 2008 and is effective for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation where the hedging instrument belongs to any company within a group, and on determination of the amount of foreign currency gain or loss (relating both to the net investment and the hedging instrument) to be reclassified from equity to profit or loss on disposal of the net investment. The Group expects that this interpretation will have no impact on the Group's financial statements.

*IFRIC 17 "Distribution of Non-Cash Assets to Owners"*

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets to owners except for common control transactions and requires that a dividend payable should be recognized, when the dividend is appropriately authorized, at the fair value of the net assets to be distributed; and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Group expects that this interpretation will have no impact on the Group's financial statements.

*IFRIC 18 "Transfers of Assets from Customers"*

IFRIC Interpretation 18 is effective for annual periods beginning on or after 1 July 2009. The interpretation clarifies the procedure of transfers of assets from customers, namely, the circumstances in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services (one or several services to be rendered for an asset transferred), the recognition of revenue and the accounting for transfers of cash from customers. The Group expects that this interpretation will have no impact on the Group's financial statements.

**4. Significant accounting estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. The actual results may differ from these estimates and it is possible that these differences may have a material effect on the financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:



*(In millions of Russian rubles, unless otherwise stated)*

#### *Allowance for impairment of loans and receivables*

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

#### *Taxation*

Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. In addition, certain provisions of Belarusian tax legislation may give rise to varying interpretations and inconsistent applications. The Bank's management's and its subsidiaries' management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant tax authorities. Trends within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be accrued.

At 31 December 2008, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

#### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

### **5. Business combinations**

At 31 December 2008 the Group owned 50% plus one share in OJSC "VEB-Leasing"'s equity. The Company's principal activities include finance lease of the high-technology equipment produced by the world leading companies, helicopters and related equipment to the companies located in the Russian Federation. The Group owns 2,086,002 ordinary shares purchased in April 2008.

The fair value of the identifiable assets and liabilities acquired was determined provisionally and did not differ significantly from the carrying value of respective assets and liabilities.

(In millions of Russian rubles, unless otherwise stated)

	<b>Provisional fair value recognized on acquisition 2008</b>
Cash and cash equivalents	324
Due from other banks	13
Loans to customers	1,699
Property and equipment (Note 17)	273
Other assets	3,858
	<b>6,167</b>
Due to other banks	2,053
Amounts due to customers	1,468
Deferred tax liability (Note 15)	93
Other liabilities	815
	<b>4,429</b>
Net assets	1,737
Less: minority interests	(868)
<b>Net assets acquired</b>	<b>869</b>
Goodwill arising on acquisition	1,377
	<b>2,246</b>
<b>Cost of acquisition</b>	
Cash outflow on acquisition of subsidiary:	
Net cash acquired with the subsidiary	324
Less: Cash paid	(2,246)
<b>Net cash outflow</b>	<b>(1,922)</b>

From the date of acquisition of OJSC "VEB-Leasing", the losses incurred by the Group have been reduced by RUB 485 million. If the acquisition had taken place at the beginning of the year, the losses incurred by the Group would have been RUB 16 million less at RUB 81,761 million.

In the fourth quarter of 2008, the Group acquired 90% of the share capital of Sviaz-Bank. The Bank accepts deposits from the public, extends credits, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Group owns 461,804,619,018 ordinary shares.

The fair value of the identifiable assets and liabilities acquired was determined provisionally and did not differ significantly from the carrying value of respective assets and liabilities.

(In millions of Russian rubles, unless otherwise stated)

	<b>Provisional fair value recognized on acquisition 2008</b>
Cash and cash equivalents	8,312
Financial assets at fair value through profit or loss	3,966
Due from other banks	12,176
Loans to customers	81,161
Investment securities	
- available-for-sale	88
- held-to-maturity	131
Property and equipment (Note 17)	1,656
Other assets	1,230
	<b>108,720</b>
Due to other banks	60,411
Amounts due to customers	80,335
Debt securities issued	9,193
Deferred tax liability (Note 15)	15
Other liabilities	607
	<b>150,561</b>
Net assets deficit	(41,841)
Less: minority interests	-
<b>Net assets acquired</b>	<b>(41,841)</b>
Goodwill arising on acquisition	41,841
	<b>0</b>
<b>Cost of acquisition</b>	<b>0</b>
Cash inflow on acquisition of the subsidiary:	
Net cash acquired with the subsidiary	8,312
Less: Cash paid	0
<b>Net cash inflow</b>	<b>8,312</b>

Currently, Sviaz-Bank's financial stabilization plan is being reviewed by the CBR. In December 2008, according to the said plan Vnesheconombank acquired Sviaz-Bank's distressed assets to total RUB 67,899 million. As of the acquisition date, the fair value of these assets carried on the balance sheet of Sviaz-Bank equaled RUB 16,040 million. At 31 December 2008, the goodwill related to acquisition of Sviaz-Bank was considered totally impaired and was fully expensed.

From the date of acquisition of Sviaz-Bank, the losses incurred by the Group have been increased by RUB 7,801 million. If the acquisition had taken place at the beginning of the year, the losses incurred by the Group during the reporting year would have been RUB 36,308 million more at RUB 118,085 million. In this case the goodwill related to acquisition of Sviaz-Bank would have been RUB 3,916 million; thus the amount of impaired goodwill expensed would have been RUB 37,925 million less than the amount actually recognized in the consolidated statement of income for the year 2008.

(In millions of Russian rubles, unless otherwise stated)

## 6. Operations with the Russian Government and its authorized institutions

Amounts due to the Russian Government and its authorized agencies were predominantly non-interest bearing and consisted of the following:

	2008	2007 (restated)
Interest bearing deposits from the Bank of Russia	482,140	443
Interest-bearing loans and deposits from the Ministry of Finance of the Russian Federation	404,187	-
Settlements related to redemption of Russian Government loans	25,245	28,356
Current accounts in precious metals	1,141	1,470
External debt payment funds	780	1,913
Special purpose funds	302	27,429
Current accounts of the Russian Government	94	71
	<u>913,889</u>	<u>59,682</u>

At 31 December 2008, the interest bearing deposits from the Bank of Russia included USD-denominated deposits to total RUB 289,069 million received by the Group in 2008 for the purposes of implementing measures aimed at supporting the financial system of the Russian Federation according to Federal Law No. 173-FZ. The said funds were placed with Vnesheconombank at one-year LIBOR plus 1%, for a period of one year, and were used by Vnesheconombank to extend credits to organizations for the purposes of repaying and servicing loans received from foreign institutions.

At 31 December 2008, the interest bearing deposits from the Bank of Russia also included:

- Special purpose deposits in the amount of RUB 87,358 million for a period until October 2009 at annual rates ranging from 5.5% to 6.5% for the purposes of implementing the program of financial support to CJSC GLOBEXBANK to stabilize the bank's operations and ensure unconditional compliance with all obligations to customers and counterparties;
- A special purpose USD-denominated deposit in the amount of RUB 74,337 million at one-year LIBOR plus 1% for a period of one year. The said funds were used to provide financial support to Sviaz-Bank to ensure compliance of the bank with all obligations to lenders and counterparties.

Interest bearing deposits from the Bank of Russia also include funds used by the Group to extend credits to certain industries. These deposits are USD-denominated and carry interest at approximately 5% per annum.

At 31 December 2008, the interest-bearing loans and deposits from the Ministry of Finance of the Russian Federation included funds of the National Welfare Fund of the Russian Federation deposited with Vnesheconombank following Federal Law No. 173-FZ. These deposits are RUB-denominated and bear interest 7% per annum with maturity on 21 October 2013 and 31 December 2019.

Settlements related to redemption of Russian Government loans represent amounts deposited by the Ministry of Finance with the Bank to facilitate the servicing and redemption of the external debt obligations of the Russian Government and the former USSR. These deposits and the processing of payments are managed and conducted by the Bank in accordance with the Agency Agreements. The balance also includes funds received from borrowers as repayment for loans granted by the Russian Government. At 31 December 2008 and 31 December 2007, these amounts are regarded as due to the Russian Government.

*(In millions of Russian rubles, unless otherwise stated)*

Current accounts in precious metals include funds of the Russian Government transferred to the balance sheet of Vnesheconombank in the process of reorganization.

At 31 December 2008 and 31 December 2007, the special purpose funds included proceeds from export sale and other funds subject to further negotiation between the Ministry of Finance and Vnesheconombank. These funds were previously reclassified and consolidated on Special purpose funds accounts.

### **London Club**

As a legal successor of the Vnesheconombank of the USSR the Bank is a party to certain rescheduling agreements with various foreign commercial bank creditors (the "London Club"). The London Club represents liabilities of the former USSR due to foreign banks and financial institutions. These liabilities were primarily reconciled and restructured under a series of agreements and other legal documentation between the Bank and foreign creditors dated 6 October 1997, which became effective on 2 December 1997. These agreements required the original debts and the accrued interest thereon, denominated in various currencies, to be converted into Restructured Loans ("PRINs") and Interest Arrears Notes ("IANs") in base currencies (Swiss Francs, Japanese Yen, Deutsche Mark, European Currency Units, and US Dollars).

The London Club debt was issued as a legal obligation of the Vnesheconombank of the USSR. Based on Russian Government resolution No. 1167 "Concerning the Settlement of the Indebtedness of the Former USSR to Foreign Commercial Banks and Financial Institutions (the London Club)" dated 15 September 1997 and the Declaration of Support dated 28 November 1997, the Russian Government expressed its willingness, without right of legal recourse from creditors or specific commitment, to provide financial resources to enable the Vnesheconombank of the USSR to honor its London Club obligations as they became due. The Declaration of Support remains in force as long as any debt under the London Club restructuring agreements remains outstanding.

On 11 February 2000, an agreement was reached between representatives of the London Club creditors and the Russian Government, under which the outstanding London Club debt of approximately USD 31.7 billion (at 31 March 2000) was exchanged for a new issue of Eurobonds issued by the Government of the Russian Federation and maturing in 2010 and 2030. As the exchange process substitutes obligations of the Bank with obligations of the Russian Government, receivables from the Russian Government under London Club and amounts due to London Club have been excluded from the Bank's balance sheet to the extent that the bondholders have presented their PRINs and IANs for exchange.

At 31 December 2008 and 2007, most holders of PRINs and IANs have participated in the exchange, with 99.8% of the face value of PRINs and IANs being submitted for exchange to Eurobonds. The remaining 0.2% of the face value of the PRINs and IANs continues to be carried as a liability of the Bank, along with the corresponding receivable from the Russian Government.

At 31 December the London Club debt comprised:

	2008	2007 (restated)
IANs	983	822
PRINs	16	13
Accrued interest on the PRINs and IANs, including overdue and default interest	84	70
	<u>1,083</u>	<u>905</u>

*(In millions of Russian rubles, unless otherwise stated)*

## **7. Agency operations**

### ***Paris Club***

Vnesheconombank of the USSR served as the debt manager and maintained the applicable records related to the Paris Club debt of the former Soviet Union. Paris Club debt represented the obligations contracted or guaranteed on behalf of the Government of the former Soviet Union which were due to foreign official creditors including the governments of most European countries, Australia, Canada, Japan and the United States of America, among others (the "Participating Creditor Countries") which were recognized in a Memorandum of Understanding dated 28 October 1991 on the Debt to Foreign Creditors of the USSR and Its Successors and a subsequent Agreement on the Deferral of the Debt of the USSR and Its Successors to Foreign Official Creditors dated 4 January 1992 (the "Paris Club Agreement"). The Russian Government agreed to be responsible for these debts as evidenced by a declaration acknowledging the foreign debts of the former USSR signed by the Russian Government on 2 April 1993.

In August 2006, pursuant to a Multilateral protocol with the Participating Creditor Countries of the Paris Club of 16 June 2006, the Vnesheconombank of the USSR acting as an agent transferred USD 22.7 billion to the Paris Club creditors for the early repayment of the amount of the Russian Government's remaining debt under the Paris Club Agreement.

### ***Commercial indebtedness***

The Russian Government has announced its intention to assume the legal responsibility for certain commercial indebtedness (also referred to as the "trade indebtedness") of the former USSR, identified as obligations of the Government of the former USSR and other bodies and entities acting on its behalf, within the Declaration of the Government of the Russian Federation dated October 1, 1994 "On the Restructuring of Commercial Indebtedness of the former USSR to Foreign Creditors" (the "Declaration").

The Government of the Russian Federation has authorized the exchange of Russian Federation Eurobonds for eligible uninsured trade debt of the former USSR in accordance with the Resolution No. 931 dated 29 December 2001 "On the Settlement of the Trade Indebtedness of the Former USSR to Foreign Trade Creditors". During 2002 – 2006 the Ministry of Finance conducted two stages of exchange of Russian Federation Eurobonds for eligible uninsured trade debt of the former USSR, Vnesheconombank of the USSR acted as sub-agent under the exchange.

### ***Other agency operations***

At December 31, 2008 and 2007, other assets and liabilities maintained by the Bank under the applicable Agency Agreements represent predominantly claims against foreign governmental and corporate debtors, former USSR companies, Russian state companies, and non-club debt to foreign creditors.

Vnesheconombank is not a legal obligor under mentioned categories of external debt and, therefore, corresponding amounts were not included in the Bank's balance sheet.

### ***Agency operations of OJSC "Belvnesheconombank"***

OJSC "Belvnesheconombank" performs servicing functions in a number of loans received from foreign banks for investment projects in the Republic of Belarus under the guarantee of the Government of the Republic of Belarus. According to the legal form of agreements with foreign banks, OJSC

(In millions of Russian rubles, unless otherwise stated)

"Belvnesheconombank" is a borrower under these agreements. In respect of every such loan agreement OJSC "Belvnesheconombank" signs an agreement with the Government of the Republic of Belarus (represented by the Ministry of Finance) and a beneficiary Belarusian enterprise. These agreements establish functions of OJSC "Belvnesheconombank" in respect of loan servicing and generally define the bank as a loan servicing agent. The functions of OJSC "Belvnesheconombank" comprise the support of settlements for receipts and repayment of loans between foreign banks, authorized government bodies (in the first instance, the Ministry of Finance of the Republic of Belarus) and ultimate borrowers (Belarusian enterprises).

Such operations by their economic substance do not expose OJSC "Belvnesheconombank" to credit and other risks.

Therefore, respective assets and liabilities were not recognized in the consolidated financial statements. At 31 December 2008 and 2007, the loans received from foreign banks, according to the above terms and conditions, comprised RUB 1,913 million and RUB 2,158 million, respectively. These loans mature in 2009-2015. Possible change in the governmental bodies' position in respect of these operations may cause changes in the legislation setting forth the procedure of such operations. There is no certainty in respect of potential impact of these future changes on the functions of OJSC "Belvnesheconombank" related to such operations and the procedure of recognizing them in the financial statements.

## 8. Cash and cash equivalents

Cash and cash equivalents comprise:

	2008	2007 (restated)
Cash on hand	5,124	975
Due from the Bank of Russia	57,361	3,814
Correspondent nostro accounts with Russian banks	22,235	32,965
Correspondent nostro accounts with OECD based banks	53,029	5,934
Correspondent nostro accounts with other banks	4,771	656
Interest-bearing loans and deposits with Russian banks maturing within 90 days	42,891	98,964
Interest-bearing loans and deposits with OECD based banks maturing within 90 days	85,491	10,044
Interest-bearing loans and deposits with a non-OECD based bank maturing within 90 days	979	454
Reverse repurchase agreements with credit institutions for up to 90 days	9,792	3,829
	<u>281,673</u>	<u>157,635</u>

At 31 December 2008, interest-bearing loans and deposits with Russian banks are represented by short-term RUB, USD and EURO placements that bear annual interest rates from 2% to 37% for RUB deposits, from 8% to 9% for USD deposits and 1.5% for EURO deposits. At 31 December 2007, interest-bearing loans and deposits with Russian banks included short-term placements in RUB and USD bearing annual interest rates from 2% to 11.5% for RUB deposits and from 4.7% to 5% for USD deposits.

Interest-bearing loans and deposits with OECD based banks, at 31 December 2008, are represented by short-term RUB, USD, EURO and CAD deposits that bear annual interest rates of 25% for RUB deposits, from 0.5% to 2.2% for USD deposits (2007 - from 0.9% to 4.6%), from 1.8% to 2.3% for EURO deposits (2007 - 4%), from 1.6% to 1.9% for CAD (2007 - 4.2%). At 31 December 2007, interest-bearing loans

*(In millions of Russian rubles, unless otherwise stated)*

and deposits with OECD based banks also included short-term CHF deposits that bear annual interest rate of 1.8%.

At 31 December 2008, reverse repurchase agreements include loans of RUB 6,499 million granted to banks, which are collateralized by debt securities of companies with fair value of RUB 7,622 million, and loans of RUB 1,104 million granted to Russian banks, which are collateralized by equity securities of Russian companies with fair value of RUB 1,967 million. Reverse repurchase agreements include loans of RUB 2,189 million granted to a Russian bank, which are collateralized by promissory notes of Russian banks.

At 31 December 2007, reverse repurchase agreements include loans of RUB 3,349 million granted to Russian banks, which are collateralized by debt securities of Russian companies with fair value of RUB 3,734 million, and loans of RUB 480 million granted to Russian banks, which are collateralized by equity securities of Russian companies with fair value of RUB 610 million.

#### **9. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss comprise:

	<b>2008</b>	<b>2007</b> <b>(restated)</b>
Financial assets held for trading	54,470	39,970
Financial assets designated as at fair value through profit or loss	1,063	753
	<u><b>55,533</b></u>	<u><b>40,723</b></u>



(In millions of Russian rubles, unless otherwise stated)

Financial assets held for trading comprise:

	2008	2007 (restated)
<b>Debt securities:</b>		
Russian Government securities:		
Federal Loan Bonds (OFZs)	783	304
Russian Ministry of Finance bonds, tranche V	–	3,512
Russian Ministry of Finance bonds, tranche VII	–	76
Russian corporate bonds and bonds of regional and municipal authorities	1,453	1,286
	<b>2,236</b>	<b>5,178</b>
Eurobonds issued by the Russian Federation	19,153	13,301
Eurobonds issued by Russian entities	2,679	3,376
Eurobonds issued by governments of OECD countries	91	314
	<b>24,159</b>	<b>22,169</b>
<b>Equity securities:</b>		
OJSC "Gazprom"	10,273	9,275
Sberbank of Russia OJSC	5,508	–
OJSC Oil Company "Rosneft"	4,724	385
Shares of entities established as a result of RAO UES restructuring	987	3,698
American and Global Depositary Receipts	911	2,938
Other marketable equity securities	4,938	1,257
	<b>51,500</b>	<b>39,722</b>
<b>Derivative financial assets (Note 11)</b>	<b>2,970</b>	<b>248</b>
	<b>54,470</b>	<b>39,970</b>

Nominal interest rates and maturities of these debt securities are as follows:

	2008		2007	
	%	Maturity	%	Maturity
Federal Loan Bonds (OFZs)	6.9% – 10%	July 2010 – September 2029	Up to 10%	September 2008 – September 2029
MinFin Bonds Tranche V	–	–	3%	May 2008
MinFin Bonds Tranche VII	–	–	3%	May 2011
Russian corporate bonds and bonds of regional and municipal authorities	7.4% – 22%	January 2009 – December 2013	5.9% – 11%	April 2008 – September 2017
Eurobonds issued by the Russian Federation	7.5% – 12.8%	June 2028 – March 2030	7.5% – 12.8%	March 2010 – March 2030
Eurobonds issued by Russian entities	6.3% – 9.8%	September 2009 – July 2035	6.3% – 10.3%	January 2008 – July 2035
Eurobonds issued by governments of OECD countries	3.8%	January 2017	3.8% – 4.8%	January 2017 – February 2037

Russian Ministry of Finance bonds are USD-denominated bearer securities, which are guaranteed by the Ministry of Finance of the Russian Federation. The bonds were purchased at a discount to nominal value.

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At 31 December 2008, other marketable equity securities consist of shares of leading Russian companies, including OJSC "Lukoil", OJSC "Surgutneftegaz", OJSC "GMK "Norilsk Nickel" (2007 – OJSC "Surgutneftegaz", OJSC "Transneft", OJSC "Lukoil") and others. At 31 December 2008 and 2007, equity securities of the Group are stated at fair value.

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified certain financial assets out of held for trading category as they were no longer held for the purpose of selling or repurchasing them in the near term. The reclassification was made with effect from 1 October 2008 at fair value at that date. The impact of reclassification is as follows:

	<i>Held for trading financial assets were reclassified to</i>	
	<i>Available for sale financial assets</i>	<i>Held to maturity financial assets</i>
Amount reclassified, at fair value at the date of reclassification	858	210
Carrying amount as at 31 December 2008	781	212
Fair value as at 31 December 2008	781	192
Fair value loss recognized on the reclassified assets before reclassification for the year ended 31 December 2008	(18)	(13)
Fair value loss recognized on the reclassified assets for the year ended 31 December 2007	(3)	(1)
Fair value loss that would have been recognized on the reclassified assets for the year ended 31 December 2008 if the reclassification had not been made	(78)	(21)
Effective interest rate at the reclassification date	5.8 – 12.5%	7.6 – 15.23%
Estimated cash flows expected to be recovered at the reclassification date	832	261

Financial assets were reclassified from financial assets held for trading to available for sale financial assets and to held to maturity financial assets due to the deterioration of Russian and international markets that has occurred during the third quarter of 2008.

The Bank's Supervisory Board acknowledged the occurrence of "rare circumstances" as at 1 September 2008 as a result of the crisis on the international financial markets. The decline in the market prices in the third quarter of 2008 represents a "rare event", since it has significantly exceeded the limits of historical fluctuations recorded on the financial markets.

At 31 December 2008 and 2007, shares of OJSC "Terminal" are included in financial assets designated as at fair value through profit or loss.

(In millions of Russian rubles, unless otherwise stated)

## 10. Due from other banks

Amounts due from other banks comprise:

	2008	2007 (restated)
Obligatory reserve with the central banks	473	614
Non-interest bearing deposits with other banks	104	282
Non-interest bearing deposits in clearing currencies	22,225	26,475
Subordinated loans issued to Russian banks	225,210	210
Interest-bearing deposits with Russian banks	56,538	16,606
Interest-bearing deposits with OECD based banks	5,832	46
Interest-bearing deposits with non-OECD banks	1,261	774
	<b>311,643</b>	<b>45,007</b>
Less allowance for impairment	(133)	(128)
	<b>311,510</b>	<b>44,879</b>

Obligatory reserve with the central banks includes cash deposits (obligatory reserve) maintained by the Group's subsidiary banks with the Central Bank of Russia and the National Bank of Republic of Belarus. The amount of this reserve depends on the level of funds attracted by the credit institutions. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation. Pursuant to the law "On Bank for Development", Vnesheconombank creates no obligatory reserve to be maintained with the CBR.

Use of non-interest-bearing deposits in clearing currencies (gross RUB 22,225 million and RUB 26,475 million at 31 December 2008 and 2007, respectively) is subject to certain restrictions as stipulated in the agreements between governments of the respective countries. The funds can be used for purchase of goods and services by Russian importers who purchase clearing currencies in tenders organized by the Bank under the supervision of the Ministry of Finance.

At 31 December 2008, RUB-denominated subordinated loans comprise loans of RUB 225,000 million, issued in accordance with Federal Law No. 173 to two Russian banks carrying annual interest of 8% and maturing in December 2019. At 31 December 2008 and 2007, subordinated loans issued to Russian banks also include a RUB-denominated subordinated loan issued to a Russian bank and carrying an interest of 9.5%, maturing in July 2012.

At 31 December 2008, interest-bearing deposits with Russian banks are RUB, USD and BYR-denominated and carry annual interest ranging from 5% to 17.4% for RUB denominated deposits, from twelve-month LIBOR plus 5% to 9% for USD denominated deposits and 14.8% for BYR denominated deposits. At 31 December 2007, interest-bearing deposits with Russian banks are RUB and USD-denominated and carry annual interest from 4.2% to 11.5% for RUB denominated deposits and from 5.6% to 10% for USD denominated deposits.

At 31 December 2008, interest-bearing deposits with non-OECD banks are denominated in RUB, USD EURO and BYR and bear interest from 11.5% to 11.8% for RUB denominated deposits, from 5.5% to 10% for USD denominated deposits, from 7.3% to 9% for EURO denominated deposits and from 10% to 13.5% for BYR denominated deposits. At 31 December 2007, interest-bearing deposits with non-OECD banks are denominated in USD and bear interest from 5.5% to 8.8%.

The movements in allowance for impairment of amounts due from other banks were as follows

(In millions of Russian rubles, unless otherwise stated)

	2008	2007 (restated)
<b>1 January</b>	<b>128</b>	<b>123</b>
Charge	16	21
Write-offs	(11)	(16)
<b>31 December</b>	<b>133</b>	<b>128</b>

## 11. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The outstanding deals with derivative financial instruments are as follows:

	2008			2007 (restated)		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
<b>Foreign exchange contracts</b>						
Forwards and swaps – foreign	72,025	2,593	6,075	29,376	107	544
Forwards and swaps – domestic	58,163	280	5,054	77,307	122	428
Options – foreign	–	–	–	719	8	–
<b>Securities contracts</b>						
<i>Forwards</i>						
Russian Eurobonds	6,173	–	187	–	–	–
Shares	39	95	–	110	–	3
US Treasury Bonds	–	–	–	3,778	6	1
Credit linked notes	–	–	–	2,455	–	0
Eurobonds issued by Russian entities	–	–	–	2	–	0
<b>Interest rate swaps</b>	16,661	2	1,753	6,332	5	316
Cross-currency interest rate swap	739	–	382	–	–	–
<b>Credit default swap</b>	–	–	–	123	0	–
		<u>2,970</u>	<u>13,451</u>		<u>248</u>	<u>1,292</u>

### Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future transacted in the over-the-counter market.

### Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

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### Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

### Derivative financial instruments held or issued for trading purposes

Most of the Group's derivative trading activities relate to deals with banks which are normally laid off with counterparties. The Group may also take positions with the expectation of profiting from favorable movements in prices, rates or indices.

## 12. Loans to customers

Loans to customers comprise:

	2008	2007 (restated)
Back-to-back finance	269,668	-
Project finance	199,450	71,311
Commercial loans	138,894	33,041
Pre-export finance	110,520	107,588
Promissory notes	4,000	2,418
Financing of operations with securities	1,668	6,170
Reverse repurchase agreements	57	9,693
Other	13,229	1,124
	<u>737,486</u>	<u>231,345</u>
Allowance for loans impairment	(11,846)	(3,327)
	<u>725,640</u>	<u>228,018</u>

Back-to-back finance represent loans issued to entities to repay and maintain loans from foreign entities secured by securities portfolios, using funds deposited by the Bank of Russia with Vnesheconombank, in accordance with Federal Law No.173-FZ.

At 31 December 2008, the annual contractual interest rates charged by the Group on commercial loans are from 1.5% to 25.9% for RUB loans (2007 – from 7% to 23%), from 4.3% to 16% for EURO loans (2007 – from 7.8% to 15%), from one-month LIBOR plus 0.7% to 23% for USD loans (2007 - from six-month LIBOR plus 0.5% to 27.5%), from 8.9% to 10.8% for loans in GBP (2007 – from 8.9% to 10.8%) and from 5% to 30% for loans in other currencies (2007 – from 11% to 29%).

(In millions of Russian rubles, unless otherwise stated)

**Allowance for impairment of loans to customers**

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Pre-export finance 2008	Project finance 2008	Commercial loans 2008	Promissory notes 2008	Other 2008	Total 2008
<b>31 December 2007</b>						
(restated)	235	1,357	1,645	85	5	3,327
Charge	385	6,348	1,818	33	1	8,585
Write-offs	–	–	(66)	–	–	(66)
<b>31 December 2008</b>	<b>620</b>	<b>7,705</b>	<b>3,397</b>	<b>118</b>	<b>6</b>	<b>11,846</b>
Individual impairment	66	3,861	2,420	40	–	6,387
Collective impairment	554	3,844	977	78	6	5,459
Total gross amount of individually impaired loans before deducting allowance for impairment	1,465	8,606	6,978	40	–	17,089
	Pre-export finance 2007	Project finance 2007	Commercial loans 2007	Promissory notes 2007	Other 2007	Total 2007
<b>31 December 2006</b>						
(restated)	264	1,256	1,861	33	7	3,421
Charge/(Reversal)	(29)	101	(178)	52	(2)	(56)
Write-off	–	–	(38)	–	–	(38)
<b>31 December 2007</b>	<b>235</b>	<b>1,357</b>	<b>1,645</b>	<b>85</b>	<b>5</b>	<b>3,327</b>
Individual impairment	–	–	1,361	40	0	1,401
Collective impairment	235	1,357	284	45	5	1,926
Total gross amount of individually impaired loans before deducting allowance for impairment	–	–	11,944	40	47	12,031

At 31 December 2008, no allowance for back-to-back finance, reverse repurchase agreements and loans on financing operations with securities was created. At 31 December 2007, no allowance for reverse repurchase agreements and loans on financing operations with securities was created.

**Individually impaired loans**

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at 31 December 2008, comprised RUB 317 million (2007 – RUB 132 million).

*(In millions of Russian rubles, unless otherwise stated)*

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2008 amounts to RUB 2,983 million (2007 - RUB 3,447 million). Loans may only be written off with the approval of the authorized management bodies and, in certain cases, with the respective decision of the Court.

#### ***Collateral and other credit enhancements***

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for back-to-back finance – pledge of securities;
- for pre-export finance - pledge of claims for revenues under export contracts;
- for financing operations with securities and reverse repurchase transactions - cash or securities;
- for project finance and commercial lending - charges over real estate properties, inventory, and trade receivables, securities and other claims to third parties
- for retail lending - mortgages over residential properties and other subject matter of lending.

The Group also obtains guarantees from the Russian Government, parent companies for loans to their subsidiaries and other guarantees from third parties as collateral for loans issued.

The market value of collateral is monitored on a regular basis, additional collateral is requested in accordance with the underlying agreement, and the market value of collateral obtained is monitored during review of the adequacy of the allowance for loan impairment.

#### ***Reverse repurchase agreements***

At 31 December 2008, the Group has entered into a reverse repurchase agreement with a Russian company. The subject of this agreement is marketable securities with total fair value of RUB 56 million. At 31 December 2007, the Group entered into reverse repurchase agreements with seven Russian companies and one individual. The subjects of these agreements were mainly marketable securities with total fair value of RUB 13,017 million.

#### ***Concentration of loans to customers***

At 31 December 2008, the total outstanding amount of the loans to three major borrowers is RUB 314,722 million, equivalent to 42.7% of the total loan portfolio (2007 – RUB 110,038 million or 47.6% of the loan portfolio). These loans include a loan to an oil and gas company, a related party to the Bank, which accounts for 12.8% of the loan portfolio. At 31 December 2008, an allowance of RUB 1,747 million was made against these loans (2007 – RUB 361 million).

Apart from these three largest borrowers at 31 December 2008 and 31 December 2007, loans issued to the next ten largest borrowers / groups of related borrowers amounted to RUB 196,210 million and RUB 49,840 million, respectively, which represent 26.6% and 21.5% of the Group's gross loan portfolio. At 31 December 2008 and 31 December 2007, an allowance of RUB 1,789 million and RUB 755 million was made against these loans, respectively.

(In millions of Russian rubles, unless otherwise stated)

Loans have been extended to the following groups of customers:

	<u>2008</u>	<u>2007(restated)</u>
Private companies	497,798	73,840
State-controlled companies	225,343	152,209
Companies under foreign state control	5,194	4,280
Individuals	4,129	870
Regional authorities	3,773	42
Foreign state	798	–
Individual entrepreneurs	451	104
	<u>737,486</u>	<u>231,345</u>

Loans are made principally in the following industry sectors:

	<u>2008</u>	<u>%</u>	<u>2007 (restated)</u>	<u>%</u>
Metallurgy	163,623	22	–	–
Construction & reconstruction	140,606	19	12,782	6
Oil and gas	129,257	18	109,156	47
Manufacturing, heavy machinery and military	111,314	15	53,654	23
Telecommunication	74,824	10	3,404	1
Finance companies	37,535	5	31,857	14
Transportation	15,477	2	1,269	1
Agriculture	15,122	2	8,182	4
Trade	13,812	2	2,845	1
Energy	10,719	1	5,648	2
Individuals	4,129	1	870	0
Regional authorities	3,773	1	42	0
Logistics	2,564	0	–	–
Mass media	2,295	0	717	0
Foreign state	798	0	–	–
Other	11,638	2	919	1
	<u>737,486</u>	<u>100</u>	<u>231,345</u>	<u>100</u>

At 31 December 2008, loans and similar debt include a total of RUB 715,274 million granted to companies operating in Russia, which is a significant concentration.

At 31 December 2007, loans and similar debt include a total of RUB 215,724 million granted to companies operating in Russia, which is a significant concentration.



(In millions of Russian rubles, unless otherwise stated)

**Finance lease receivables**

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2008 is as follows:

	<i>Not later than 1 year</i>	<i>Later than 1 and not later than 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Finance lease receivables	2,577	6,724	2,093	11,394
Unearned future finance income on finance leases	(1,078)	(2,505)	(423)	(4,006)
<b>Net investment in finance leases</b>	<b>1,499</b>	<b>4,219</b>	<b>1,670</b>	<b>7,388</b>

The analysis of finance lease receivables at 31 December 2007 is as follows:

	<i>Not later than 1 year</i>	<i>Later than 1 year and not later than 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Finance lease receivables	195	455	28	678
Unearned future finance income on finance leases	(42)	(99)	(9)	(150)
<b>Net investment in finance leases</b>	<b>153</b>	<b>356</b>	<b>19</b>	<b>528</b>

(In millions of Russian rubles, unless otherwise stated)

### 13. Investment securities

Available-for-sale securities comprise:

	2008	2007 (restated)
<b>Debt Securities:</b>		
Federal Loan Bonds (OFZs)	229	3,219
Russian Eurobonds	1	–
Eurobonds issued by governments of OECD countries	919	1,321
Debt obligations issued by governments of non-OECD countries	1,810	1,879
Eurobonds and other debt obligations issued by OECD based financial institutions	567	1,044
Eurobonds issued by Russian entities	8,714	4,905
Russian corporate bonds	57,456	8,527
Credit linked notes	4,486	9,818
Promissory notes of Russian banks	1,322	3,410
State long-term bonds of the Republic of Belarus	–	177
	<b>75,504</b>	<b>34,300</b>
<b>Equity Securities:</b>		
OJSC "Gazprom"	50,059	–
EADS N.V.	20,570	32,205
OJSC "Lukoil"	20,539	–
Sberbank of Russia OJSC	16,829	–
OJSC Oil Company "Rosneft"	16,740	–
OJSC "GMK "Norilsk Nickel"	14,005	–
OJSC "Surgutneftegaz"	5,155	–
OJSC "Vneshtorgbank"	4,739	–
Other corporate equities	4,469	1,045
Allowance for impairment	(2)	(8)
	<b>153,103</b>	<b>33,242</b>
	<b>228,607</b>	<b>67,542</b>

To implement measures aimed at stabilizing the stock market and diversifying funds of the Russian National Welfare Fund (the "Russian NWF"), a total of RUB 175,000 million from this Fund was allocated to Vnesheconombank. Subject to the approval by the Russian Ministry of Finance, these funds were invested in the instruments of the Russian stock market. At 31 December 2008, investment securities available for sale include securities with fair value of RUB 159,741 million purchased with the funds of the Russian NWF.

(In millions of Russian rubles, unless otherwise stated)

Nominal interest rates and maturities of these debt securities are as follows:

	2008		2007	
	%	Maturity	%	Maturity
Federal Loan Bonds (OFZs)	5.8% – 10.0%	January 2010 – August 2018	6.3% – 10.0%	March 2008 – August 2016
Russian Eurobonds	7.5% – 8.3%	March 2010 r. – March 2030 r.	–	–
Eurobonds issued by governments of OECD countries	3.8% – 5%	January 2009 – January 2018	3.3% – 5%	August 2008 – November 2017
Debt obligations issued by governments of non-OECD countries	–	January 2009	–	January 2008
Eurobonds and other debt obligations issued by OECD based financial institutions	9.6%	October 2014	9.6%	October 2014
Eurobonds issued by Russian entities	3.9% – 10.9%	February 2009– August 2037	6.1% – 10.9%	June 2008 – August 2037
Russian corporate bonds	6.7% – 21%	January 2009 – March 2040	5.9% – 14.5%	June 2008 – September 2017
Credit linked notes	5.5% – 11.7%	November 2009 – April 2030	6.5% – 14%	October 2008 – April 2030
Promissory notes of Russian banks	8.9% – 18.6%	February 2009 – August 2009	7.7% - 19.4%	January 2008 – March 2009
State long-term bonds of the Republic of Belarus	–	–	10.1% – 11%	October 2008 – March 2010

Debt obligations issued by governments of non-OECD countries are treasury bills denominated in Indian Rupees for clearing settlements. These securities are purchased at a discount to the nominal value and carry no interest.

At 31 December 2008, Russian corporate bonds are marketable securities primarily issued by such Russian entities and banks as OJSC "Gazprom", LLC "VTB-Leasing Finance", OJSC VTB Bank and OJSC "Rosselkhozbank". At 31 December 2007, Russian corporate bonds are mainly represented by marketable securities of Russian entities and banks including OJSC VTB Bank, OJSC "Gazprom" and CJSC "Sukhoi Civil Aircraft".

At 31 December 2008, credit-linked notes are issued by OECD based financial institutions and are linked to debt obligations of Russian Federation, OJSC "Gazprom", and OJSC "Rosselkhozbank". At 31 December 2007, credit linked notes are also linked to debt obligations of OJSC VTB Bank and OJSC "AHML".

At 31 December 2008, corporate equities are mainly represented by shares of the Joint Stock Commercial Industrial Investment Bank of Ukraine ("Prominvestbank") and OJSC "Evraziysky" (at 31 December 2007 - OJSC "Evraziysky").

At 31 December 2008, the Bank recognized impairment of EADS N.V. shares by transferring the negative revaluation of RUB 20,655 million, earlier recorded in equity, to the statement of income - gains less losses from securities.

(In millions of Russian rubles, unless otherwise stated)

In 2008, the Group changed its plans with regard to certain debt securities available for sale and decided to hold them to maturity. The Group reclassified these securities in the amount of RUB 11,159 million from securities available for sale to held-to-maturity securities. The decision was motivated by the significant deterioration of the stock market.

Held to maturity securities comprise:

	2008		2007	
	Book value	Nominal value	Book value	Nominal value
Federal Loan Bonds (OFZs)	52	49	–	–
Credit linked notes	8,930	8,777	–	–
Eurobonds issued by Russian entities	1,156	1,205	–	–
Regional government and Russian corporate bonds	1,407	1,512	–	–
Promissory notes	302	330	–	–
Less allowance for impairment	(95)	–	–	–
<b>Held-to-maturity securities</b>	<b>11,752</b>	<b>11,873</b>	<b>–</b>	<b>–</b>

Nominal interest rates and maturities of these debt securities are as follows:

	2008		2007	
	%	Maturity	%	Maturity
Federal Loan Bonds (OFZs)	9%	August 2012	–	–
Credit linked notes	5.3% –	March 2009 –	–	–
	10.4%	October 2011	–	–
Eurobonds issued by Russian entities	4.6% –	May 2009	–	–
	10.9%	May 2012	–	–
Regional government and Russian corporate bonds	7.4% –	February 2009 –	–	–
	12.3%	June 2013	–	–
Promissory notes	–	January 2010	–	–

At 31 December 2008, credit linked notes are issued by OECD based financial institutions and are linked to debt obligations of OJSC "Rusal" and OJSC "AHML".

#### 14. Due from the Russian Government

At 31 December 2008, amounts due from the Russian Government include claims to the Russian Ministry of Finance of RUB 194 million (2007 – RUB 164 million) to unfreeze correspondent accounts.

At 31 December 2007, amounts due from the Russian Government also include claims to the Russian Government of RUB 1,126 million purchased under four assignment contracts. The nominal values of these claims were denominated in USD and CHF and totaled RUB 1,617 million including claims of RUB 1,149 million denominated in USD and of RUB 468 million, denominated in CHF, respectively.

(In millions of Russian rubles, unless otherwise stated)

## 15. Taxation

The components of income taxes charged to the income statement comprise:

	2008	2007 (restated)
Current income tax expense	302	969
Current income tax adjustment for prior periods	485	-
Deferred income tax expense / (benefit)	160	(3,872)
	<u>947</u>	<u>(2,903)</u>

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than interest income on state securities was 24% for 2008 and 2007. The tax rate for companies for profits other than banks was also 24% for 2008 and 2007. The tax rate for interest income on state securities was 15% for Federal taxes.

The aggregate income tax rate effective in the Republic of Belarus for 2008 and 2007 was 26.28%.

In accordance with federal legislation, effective from reorganization date income and expenses received and paid by Vnesheconombank are not accounted when determining taxable base for income tax purposes. Therefore, income and expenses of the Bank for the period from 8 June 2007 to 31 December 2007 and for 2008 are not included into taxable base for income tax purposes, which had significant impact on the Group's effective income tax rate for 2008 and 2007.

At 31 December, the Group's income tax assets and liabilities comprise:

	2008	2007 (restated)
Current income tax assets	1,494	498
Deferred income tax assets	79	43
	<u>1,573</u>	<u>541</u>
Current income tax liabilities	22	11
Deferred income tax liabilities	260	2
	<u>282</u>	<u>13</u>

*(In millions of Russian rubles, unless otherwise stated)*

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2008	2007 (restated)
<b>Income/(loss) before tax</b>	<b>(80,322)</b>	<b>6,558</b>
Statutory tax rate	24%	24%
<b>Theoretical income tax expense/(benefit) at the statutory rate</b>	<b>(19,277)</b>	<b>1,574</b>
State securities non-taxable income	(12)	(23)
Income taxed at different rate	(10)	(6)
Non-deductible expenses:		
- goodwill written off	10,041	-
- other	311	200
Currency translation effect	(5)	(142)
Vnesheconombank income and expense not included into taxable base for income tax purposes and other permanent differences	8,187	(4,572)
Change in deferred income tax resulting from change in tax rate	(31)	-
Change in unrecognized deferred tax assets	1,668	53
Other	75	13
<b>Income tax expense (benefit)</b>	<b>947</b>	<b>(2,903)</b>

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Deferred tax assets and liabilities at 31 December and their movements for the respective years comprise:

	Origination and reversal of temporary differences			Origination and reversal of temporary differences		
	2006 (restated)	In the statement of income	Effect of business combination	2007 (restated)	In the statement of income	Effect of business combination
<b>Deferred tax assets:</b>						
Allowances for losses	61	(27)	37	71	442	(271)
Tax asset arising from losses	-	-	-	-	326	-
Initial recognition of loans at fair value	196	(196)	-	-	-	-
Property and equipment	-	6	-	6	63	-
Changes in fair value of securities	-	5	-	15	1,126	296
Accrued income and expense	-	6	-	6	9	-
Currency translation differences	458	(458)	-	-	-	-
Derivatives	17	35	-	52	(48)	-
Tax losses carried forward	-	5	-	5	194	-
Other	8	28	14	50	7	11
	<b>740</b>	<b>(596)</b>	<b>51</b>	<b>205</b>	<b>2,119</b>	<b>887</b>
Unrecognized deferred tax assets	(17)	(53)	-	(70)	(1,668)	(793)
	<b>723</b>	<b>(649)</b>	<b>51</b>	<b>135</b>	<b>451</b>	<b>94</b>
					<b>62</b>	<b>(271)</b>
					<b>(16)</b>	<b>(93)</b>
					<b>46</b>	<b>(12)</b>
						<b>(23)</b>
						<b>(60)</b>
						<b>(70)</b>
						<b>(60)</b>
						<b>(124)</b>
						<b>(202)</b>
						<b>(108)</b>
						<b>46</b>
						<b>79</b>
						<b>3,273</b>
						<b>(2,547)</b>
						<b>726</b>
<b>Deferred tax liabilities:</b>						
Changes in fair value of securities	(4,129)	3,884	(1)	(8)	-	(8)
Property and equipment	(239)	228	(26)	(37)	(81)	(93)
Loans to customers	-	-	-	-	(416)	(12)
Allowances for losses	(209)	207	-	(2)	(4)	(6)
Customers' accounts	-	-	-	-	(47)	(23)
Accrued income and expense	(14)	8	(41)	(47)	(13)	-
Derivatives	(58)	58	-	-	-	-
Other	(132)	136	(4)	-	(50)	(74)
	<b>(4,781)</b>	<b>4,521</b>	<b>(72)</b>	<b>(94)</b>	<b>(611)</b>	<b>(202)</b>
Net deferred tax liabilities	(4,076)	3,860	(21)	(2)	(150)	(108)
Net deferred tax assets	18	12	-	43	(10)	-

(In millions of Russian rubles, unless otherwise stated)

## 16. Investments in associates

### Associates

The following associates are accounted for under the equity method:

#### 2008

Associates	Ownership / Voting, %	Country	Industry	Date of acquisition
OJSC "National trade bank"	16.3/16.7	Russia	Banking	April 2007
OJSC "Ilyushin Finance Co."	21.4	Russia	Leasing	August 2006
LLC "Interbank Trading House"	50	Russia	Trade and investment	June 2006
LLC "Interfax – Center of Economic Analysis"	49	Russia	Media	August 2005
OJSC "Corporation of development of Krasnoyarsk Territory"	25	Russia	Finance intermediary	December 2006
CJSC "Konsultbankir"	34	Russia	Publishing	October 1996
CJSC "CentrEnergStroyMontazh"	25	Russia	Construction	March 2007
LLC "PROMINVEST" (former LLC "OboronImpeks"	25	Russia	Foreign trade	November 2001
LLC "Managing Company "Bioprocess Capital Partners"	25.1	Russia	Finance intermediary	April 2008
CMIF "Bioprocess Capital Ventures"	50	Russia	Investment	April 2008
LLC "VEB-Invest"	19	Russia	Investment	December 2008

#### 2007

Associates	Ownership / Voting, %	Country	Industry	Date of acquisition
OJSC "National trade bank"	24.2 / 25.1	Russia	Banking	April 2007
OJSC "Ilyushin Finance Co."	21.4	Russia	Leasing	August 2006
LLC "Interbank Trading House"	50	Russia	Trade and investment	June 2006
LLC "Interfax – Center of Economic Analysis"	49	Russia	Media	August 2005
OJSC "Corporation of development of Krasnoyarsk Territory"	25	Russia	Finance intermediary	December 2006
CJSC "Konsultbankir"	34	Russia	Publishing	October 1996
CJSC "CentrEnergStroyMontazh"	25	Russia	Construction	March 2007
LLC "PROMINVEST" (former LLC "OboronImpeks"	25	Russia	Foreign trade	November 2001



(In millions of Russian rubles, unless otherwise stated)

Movement in investments in associates was:

	<b>2008</b>	<b>2007 (restated)</b>
Balance, beginning of the period	4,463	2,471
Purchase cost	1,507	1,604
Share of net income (loss)	(266)	346
Effect of acquisition of subsidiary	-	14
Allowances for impairment	-	77
Translation differences	4	(49)
<b>Investments in associates, end of the period</b>	<b>5,708</b>	<b>4,463</b>

The following table illustrates summarized financial information of the associates:

<b>Aggregated assets and liabilities of associates</b>	<b>2008</b>	<b>2007 (restated)</b>
Current assets	45,775	30,346
Non-current assets	100,924	13,766
Current liabilities	(31,088)	(16,804)
Non-current liabilities	(98,082)	(10,554)
<b>Net assets</b>	<b>17,529</b>	<b>16,754</b>
<b>Aggregated revenue and net income/ (loss) of associates</b>	<b>2008</b>	<b>2007 (restated)</b>
Revenue	6,389	7,374
Net income / (loss)	(918)	994

## 17. Property and equipment

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvement</i>	<i>Assets under construction</i>	<i>Total</i>
<b>Cost</b>							
31 December 2007	4,401	750	983	446	12	1,301	7,893
Additions	257	254	209	125	-	1,193	2,038
Acquisition through business combinations							
(Note 5)	215	731	334	161	324	164	1,929
Disposals	(4)	(65)	(79)	(172)	(9)	-	(329)
<b>31 December 2008</b>	<b>4,869</b>	<b>1,670</b>	<b>1,447</b>	<b>560</b>	<b>327</b>	<b>2,658</b>	<b>11,531</b>
<b>Accumulated depreciation</b>							
31 December 2007	1,639	493	756	257	9	-	3,154
Depreciation charge	108	80	148	104	14	-	454
Disposals	0	(15)	(29)	(59)	0	-	(103)
<b>31 December 2008</b>	<b>1,747</b>	<b>558</b>	<b>875</b>	<b>302</b>	<b>23</b>	<b>-</b>	<b>3,505</b>
<b>Net book value:</b>							
31 December 2007	2,762	257	227	189	3	1,301	4,739
31 December 2008	3,122	1,112	572	258	304	2,658	8,026

(In millions of Russian rubles, unless otherwise stated)

In 2007, there were RUB 733 million of additions and RUB 157 million of disposals of property and equipment, respectively. The effect of acquisition of subsidiary amounted to RUB 1,088 million. The respective depreciation charge for 2007 was RUB 260 million. Accumulated depreciation related to disposed property and equipment was RUB 131 million.

#### 18. Assets held for sale

At the end of 2008, the management of OJSC "VEB-Leasing", the Group's subsidiary, announced a plan to dispose of Aero-Kamov LLC, a company engaged in aviation equipment maintenance. Transaction on disposal of Aero-Kamov LLC should be completed before 2 February 2009. At 31 December 2008, the agreement on sale of 100% interest in the share capital of Aero-Kamov LLC was signed. At 31 December 2008, Aero-Kamov LLC was classified as a disposal group held for sale.

At 31 December 2008, major classes of assets and liabilities of Aero-Kamov LLC classified as held for sale are as follows:

	<u>2008</u>
<b>Assets</b>	
Cash and cash equivalents	12
Trade and other receivables	24
Property and equipment	129
Inventories	20
<b>Assets held for sale</b>	<u>185</u>
Trade and other payables	40
<b>Liabilities directly associated with assets held for sale</b>	<u>40</u>
<b>Net assets held for sale</b>	<u>145</u>
	<u>2008</u>
Non-interest income	141
Interest expense	(29)
Other expenses	(227)
<b>Loss arising from discontinued operations</b>	<u>(115)</u>

Besides, at 31 December 2008, assets held for sale in the amount of RUB 157 million included 100% interest in the company specially established by OJSC "Russian Bank for Development", a Group subsidiary, in 2008. In September 2008, the subsidiary's management announced a plan to dispose this investment. Disposal shall be completed before the end of 2009; currently the transaction is being finally negotiated.

At 31 December 2007, assets held for sale in the amount of RUB 165 million included collateral received by OJSC "Russian Bank for Development" (a subsidiary) under uncollectable loan. These assets were further included in the equity of specially established company classified as an asset held for sale. Twelve-month period for disposal of assets held for sale was extended due to deterioration of the economic situation in Russia in the fourth quarter 2008 when significant transactions on purchase and sale of assets were suspended.

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**19. Other assets and liabilities**

Other assets comprise:

	<b>2008</b>	<b>2007</b> <b>(restated)</b>
Prepaid securities	3,840	–
Settlements with suppliers and other debtors	2,807	1,583
Intangible assets	1,703	137
Equipment purchased for leasing purposes	1,044	–
Prepaid expenses	454	72
Accrued commissions	76	331
Other	2,605	123
	<b>12,529</b>	<b>2,246</b>
Less - allowance for impairment of other assets	(592)	(8)
	<b>11,937</b>	<b>2,238</b>

Included in other assets are intangible assets in the amount of RUB 1,725 million (2007 – RUB 285 million), net of accumulated amortization of RUB 227 million (2007 – RUB 148 million). The respective amortization charge for 2008 and 2007 is RUB 79 million and RUB 30 million, respectively, which is included in other operating expense.

At 31 December 2008, intangible assets include provisionally estimated goodwill in the amount of RUB 1,377 million related to acquisition of OJSC "VEB-Leasing".

Other liabilities comprise:

	<b>2008</b>	<b>2007</b> <b>(restated)</b>
Settlements on operations with securities	2,677	1,112
Settlements with credit institutions	793	869
Advances received from lessees	579	–
Future period income	570	174
Obligations under finance lease agreements	283	–
Settlements with clients on export revenues	267	204
Liabilities associated with assets held for sale (Note 18)	40	–
Other	1,143	567
	<b>6,352</b>	<b>2,926</b>

(In millions of Russian rubles, unless otherwise stated)

## 20. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets	Investment securities	Investments in associates	Claims	Guarantees	Total
<b>31 December 2006</b> <b>(restated)</b>	<u>17</u>	<u>9</u>	<u>119</u>	<u>-</u>	<u>23</u>	<u>168</u>
Effect of acquisition of subsidiary	-	-	-	18	13	31
Reversal	(9)	(1)	(77)	0	(23)	(110)
<b>31 December 2007</b> <b>(restated)</b>	<u>8</u>	<u>8</u>	<u>42</u>	<u>18</u>	<u>13</u>	<u>89</u>
Effect of acquisition of subsidiary	-	-	-	-	31	31
Charge	586	91	-	-	1,318	1,995
Write-off	(2)	(2)	(3)	(18)	-	(25)
<b>31 December 2008</b>	<u>592</u>	<u>97</u>	<u>39</u>	<u>-</u>	<u>1,362</u>	<u>2,090</u>

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims and guarantees are recorded within liabilities.

## 21. Due to other banks

Balances due to other banks consisted of the following at 31 December:

	2008	2007 (restated)
Correspondent loro accounts from Russian banks	141,887	5,016
Correspondent loro accounts from other banks	6,474	5,682
Loans and other placements from Russian banks	27,523	1,326
Loans and other placements from OECD based banks	108,629	106,225
Loans and other placements from other banks	86,282	99,976
Deposits from Russian banks - fiduciaries	304	0
Repurchase agreements	2,361	-
	<u>373,460</u>	<u>218,225</u>

At 31 December 2008 loans and other placements from Russian banks include loans denominated in RUB, EUR and USD with interest rates ranging from 9% to 15% for RUB placements, from 1.4% to 11% for EUR placements and from 2.3% to 8.7% for USD placements, as well as collateral under letters of credit. At 31 December 2007 loans and other placements from Russian banks include loans denominated in RUB and USD with interest rate of 10.3% for USD placements and 9.8% for RUB placements, as well as collateral under letters of credit.

Loans and other placements from OECD based banks at 31 December 2008 include:

- Syndicated loan of RUB 17,477 million (2007 – RUB 19,513 million). The syndicated loan is denominated in USD with interest rate of three-month LIBOR plus 0.4% and matures in July 2009.

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- According to the Facility Agreement, the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100%, tangible net worth of no less than RUB 17,628 million (equivalent of USD 600 million). This loan was used to refinance a RUB 14,690 million (equivalent of USD 500 million) syndicated loan and for trade related finance;
- Deposits totaling RUB 15,098 million (2007 – RUB 22,869 million) denominated in RUB with interest rates from 7% to 7.1% and with maturity from November 2009 to February 2012. They may be applied towards general corporate purposes of the Bank;
  - Syndicated loan of RUB 13,297 million (2007 – nil) denominated in EUR. This loan bears an interest rate of six-month EURIBOR plus 0.9% and matures in October 2011. According to the Facility Agreement, the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100%, tangible net worth of no less than RUB 141,026 million (equivalent of USD 4,800 million). This loan may be used for general corporate purposes of the Bank;
  - Loan of RUB 7,875 million (2007 – nil) denominated in EUR, with an interest rate of six-month EURIBOR plus 0.8% and maturing in October 2012. According to the Facility Agreement, the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100%, tangible net worth of no less than RUB 17,628 million (equivalent of USD 600 million). This loan was used to finance a Russian oil and gas company;
  - Loan of RUB 5,995 million (2007 – nil) denominated in USD, with an interest rate of 5.9% and maturing from March 2009 to August 2010. This loan was used to finance investment projects of Russian companies. According to the Facility Agreement, the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans in the amount of 100%, tangible net worth of no less than RUB 22,035 million (equivalent of USD 750 million);
  - Loans of RUB 5,091 million (2007 – RUB 5,077 million) denominated in USD, with interest rate from three-month LIBOR plus 0.5% to three-month LIBOR plus 1% and maturing in May 2019. These loans were used to finance investment projects of Russian companies;
  - Loan of RUB 4,437 million (2007 – nil) denominated in USD, with an interest rate of three-month LIBOR plus 0.7% and maturing in July 2009. This loan was used to finance investment projects of Russian companies;
  - Loans of RUB 4,394 million (2007 – nil) denominated in USD with interest rates ranging from six-month LIBOR plus 1.7% to six-month LIBOR plus 1.8%, maturing from January 2010 to July 2015. These loans were used to finance investment projects of Russian companies;
  - Loans of RUB 3,375 million (2007 – RUB 3,177 million) denominated in EUR with interest rates ranging from 3.4% to six-month EURIBOR plus 1.3% and maturing by February 2015. These loans were used to finance investment projects of Russian companies;
  - Loans of RUB 3,091 million (2007 – nil) denominated in USD, with an interest rate of 4% and maturing from December 2009 to March 2010. According to the Credit Agreement, these loans were used to finance Russian companies;

*(In millions of Russian rubles, unless otherwise stated)*

- Loan of RUB 2,517 million (2007 – RUB 2,507 million) denominated in RUB, with an interest rate of 8.3% and maturing in March 2010.
- Loans of RUB 2,089 million (2007 – RUB 1,218 million) denominated in USD, with an interest rate of 6.4% and maturing in June 2013. According to the Facility Agreement, the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100%, tangible net worth of no less than RUB 15,865 million (equivalent of USD 540 million). This loan was used to finance a defense-industry company;
- Syndicated loan of RUB 2,066 million (2007 – RUB 1,729 million) denominated in USD, with interest rate of six-month LIBOR plus 0.7%, maturing in December 2010. According to the Credit Agreement this loan is guaranteed by the Government of the Russian Federation and is used for export and import financing.
- Loan of RUB 1,987 million (2007 – nil) denominated in EUR, with an interest rate of six-month EURIBOR plus 0.7% and maturing in October 2011. According to the Facility Agreement, the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100%, tangible net worth of no less than RUB 141,026 million (equivalent of USD 4,800 million). This loan was used to finance investment projects of Russian companies;
- Loans of RUB 1,971 million (2007 – RUB 4,939 million) denominated in USD, with interest rates from 6.4% to 6.5% and maturing in May 2009. According to the Framework Agreement, these loans were used to finance a Russian oil and gas company;
- Loan of RUB 1,807 million (2007 – RUB 1,988 million) denominated in USD with an interest rate of six-month LIBOR plus 1% and maturing in December 2012. According to the Term Credit Facility Agreement this loan was used to finance a Russian "blue-chip" company;
- Loan of RUB 1,775 million (2007 – RUB 1,482 million) denominated in USD with an interest rate of 6.5% and maturing in November 2009. This loan is used to finance foreign trade activity of the Bank's clients;
- Loan of RUB 1,629 million (2007 – nil) denominated in EUR with an interest rate of six-month EURIBOR plus 0.5% and maturing in February 2011. According to the Facility Agreement, the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100%, tangible net worth of no less than RUB 17,628 million (equivalent of USD 600 million). This loan was used to finance a Russian oil and gas company;
- Loan of RUB 1,178 million (2007 – RUB 2,450 million) denominated in USD with an interest rate of three-month LIBOR plus 0.6 % and maturing in May 2009.
- Loan of RUB 1,147 million (2007 – nil) denominated in USD with an interest rate of three-month LIBOR plus 0.2% and maturing in February 2018. According to the Credit Agreement, this loan was used to finance a power engineering project;

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- Loan of RUB 985 million (2007 – RUB 2,468 million). The loan is denominated in USD with an interest rate of 6.4% and maturing in May 2009. According to the Facility Agreement, the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans in the amount of 100%, tangible net worth of no less than RUB 15,865 million (equivalent of USD 540 million);
- Loans of RUB 928 million (2007 – RUB 785 million) denominated in USD with an interest rate of six-month LIBOR plus 1.5% and maturing from March 2009 to April 2014. These loans were used to finance investment projects of Russian companies.

At 31 December 2008 loans and other placements from other banks include:

- Deposit of RUB 77,590 million (2007 – RUB 91,730 million) denominated in USD, bearing an interest rate of one-month LIBOR plus 0.7% and maturing in January 2011. This deposit was used to finance a Russian oil and gas company;
- Deposit of RUB 4,423 million (2007 – nil) denominated in USD, bearing an interest rate of six-month LIBOR plus 2.1% and maturing in December 2009. This deposit was used to finance a defense-industry company;
- Loan of RUB 1,809 million (2007 – RUB 2,734 million), denominated in USD and bearing annual interest of six-month LIBOR plus 1%. This loan was used for financing of pre-export activities of Russian companies and matures by March 2009.

## 22. Amounts due to customers

Amounts due to customers include:

	2008	2007 (restated)
Customer current accounts	76,929	32,376
Term deposits	34,158	6,928
Repurchase agreements	254	–
	<u>111,341</u>	<u>39,304</u>

At 31 December 2008, term deposits have annual interest rates from 1% to 12.3% for USD-denominated deposits, from 1% to 10.3% for EUR-denominated deposits, from 2% to 25% for RUB-denominated deposits and from 2% to 18% for BYR-denominated deposits. At 31 December 2007, term deposits have annual interest rates from 1% to 10% for USD-denominated deposits, from 3% to 10% for EUR-denominated deposits, from 3% to 25% for RUB-denominated deposits and from 3% to 16% for BYR-denominated deposits.

At 31 December 2008 and 2007, amounts due to the Bank's four largest customers amounted to RUB 55,446 million and RUB 20,508 million respectively, representing 50% and 53% of the aggregate amount due to customers.

(In millions of Russian rubles, unless otherwise stated)

Amounts due to the ten largest customers include settlements with the following types of customers:

	2008	2007 (restated)
Infrastructure development	17,115	11,907
Manufacturers of heavy machinery and military related goods	7,305	5,667
Non-commercial organizations	4,407	4,759
Telecommunication	36,242	2,381
Financial organizations	6,019	1,210
Trade	3,767	-
	<u>74,855</u>	<u>25,924</u>

Amounts due to customers include accounts of the following types of customers:

	2008	2007 (restated)
State and state controlled companies	61,715	21,224
Private companies	36,157	11,400
Employees and other individuals	11,336	5,863
Companies under foreign state control	2,133	817
	<u>111,341</u>	<u>39,304</u>

### 23. Debt securities issued

Debt securities issued at 31 December 2008, represent USD, EUR, GBP and RUB-denominated interest-bearing promissory notes with maturities up to 2032, as well as bonds and deposit and saving certificates issued by subsidiaries. The promissory notes bear annual effective interest rates from 2.25% to 5.7% for USD-denominated notes, from 1.5% to 3.5% for EUR-denominated notes, from 2.7% to 3.5% for GBP-denominated notes and from 5% to 10% for RUB-denominated notes. Bonds were issued by Sviaz-Bank, a subsidiary bank of the Group. The bonds are denominated in RUB with maturity in April 2011 and interest rate of 8.9%. Deposit and saving certificates are denominated in BYR, bear interest rates from 12% to 13% and mature by January 2009.

Debt securities issued at 31 December 2007 represent USD, EUR, GBP and RUB-denominated interest-bearing promissory notes with maturities up to 2012, as well as Eurobonds and deposit and saving certificates issued by subsidiaries. The promissory notes bear annual effective interest rates from 1.2% to 6.5% for USD-denominated notes, up to 3.5% for EUR-denominated notes, 5.5% for GBP-denominated notes and from 5% to 5.5% for RUB-denominated notes. Eurobonds of the Group's subsidiary OJSC "Russian Bank for Development" were redeemed according to the terms of the issue in August 2008. Eurobonds had an effective rate of 6.9%. Deposit and saving certificates are denominated in BYR, bear interest rates from 9% to 14% and mature by March 2008.

### 24. Charter capital

In accordance with Federal Law No. 82-FZ the Bank's charter capital is formed from monetary contributions of the Russian Government and contribution of state-owned shares of OJSC "Russian Bank for Development" and CJSC ROSEXIMBANK.



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In accordance with the Resolution No. 1687-R dated 27 November 2007, issued pursuant to Federal law No. 246-FZ dated 2 November 2007 "On introducing amendments to the Federal law "On the Federal budget for 2007", the Russian Government contributed RUB 180,000 million to the charter capital of Vnesheconombank in November 2007.

In accordance with the Resolution No. 1766-R dated 7 December 2007 the Russian Government decided to contribute 100% state-owned shares of OJSC "Russian Bank for Development" and 5.2% state-owned shares of CJSC State Specialized Russian Export-Import Bank (ROSEXIMBANK) to the charter capital of Vnesheconombank. The transfer of shares was completed in 2008.

In accordance with the Resolution No. 1665-R dated 19 November 2008, issued pursuant to Federal law No. 198-FZ dated 24 July 2007 "On the Federal budget for 2008 and for the 2009 and 2010 budget period", the Russian Government contributed RUB 75,000 million to the charter capital of Vnesheconombank in November 2008. No shares have been issued with respect to the charter capital of the Bank. The Bank is not required to accrue or pay dividends.

At the Shareholders' Meeting of the Group's subsidiary OJSC "Russian Bank for Development" held in June 2008, the bank declared dividends in respect of the reporting year ended 31 December 2007, totaling RUB 90 million on ordinary shares (RUB 19.32 thousand per share). At the Shareholders' Meeting of the Group's subsidiary OJSC "Russian Bank for Development" held in May 2007, the bank declared dividends in respect of the reporting year ended 31 December 2006, totaling RUB 70 million on ordinary shares (RUB 14.93 thousand per share). Dividends for 2007 and 2006 were paid out to the previous shareholder of the bank.

## 25. Unrealized revaluation of investment securities available for sale

Movements in unrealized revaluation of investment securities available for sale were as follows:

	<u>Unrealized gains/(losses) on investment securities available for sale</u>
<b>At 31 December 2006 (restated)</b>	<b>765</b>
Net unrealized gains / (losses) on investments securities available-for-sale	(4,334)
Realized gains/(losses) on investment securities available-for-sale reclassified to the statement of income	221
Tax effect of net gains on investment securities available-for-sale	248
<b>At 31 December 2007 (restated)</b>	<b>(3,100)</b>
Net unrealized losses on investment securities available for sale	(21,492)
Realized losses on investment securities available-for-sale reclassified to the statement of income	(748)
Impairment of investment securities available-for-sale reclassified to the statement of income (Note 13)	20,655
Tax effect of net gains on investment securities available-for-sale	46
<b>At 31 December 2008</b>	<b>(4,639)</b>

*(In millions of Russian rubles, unless otherwise stated)*

## **26. Financial commitments and contingencies**

### ***Operating environment***

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

The economy of the Republic of Belarus is characterized by relatively high rates of taxation and extensive statutory regulation. Laws and regulations defining the business environment in the Republic of Belarus are at the stage of development and subject to frequent changes. The future economic development depends to a large extent on the efficiency of the measures taken by the Government of Belarus and other actions beyond the Group's control. Due to unstable conditions on capital and credit markets in the Republic of Belarus and abroad, factors of economic instability affect the accessibility of credit resources and their cost for the Group and its counterparties.

Also, the borrowers of the Group may have been affected by economic instability and deterioration in liquidity, which could in turn impact their ability to repay timely the amounts due to the Group. Due to the fall in prices in global, Russian and Belarusian securities markets, the Group may face a significant decrease in the fair value of securities pledged as collateral against loans extended by the Group. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

The management of the Group made its best estimate on the recoverability and classification of recorded assets and completeness of recorded liabilities. However, the uncertainty described above still exists and the Group may continue to be affected by it.

### ***Legal***

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

At 31 December 2007, a subsidiary of the Group was subject to a lawsuit that was filed by an executing bank in Austria under a letter of credit issued by order of a Belarusian importer. At 31 December 2007, a provision of RUB 18 million was recognized under this lawsuit in the consolidated financial statements. During 2008 the subsidiary bank paid RUB 18 million in favor of the claimant which put an end to legal proceedings. The subsidiary bank filed a claim against its client on whose order the letter of credit was issued which became subject of the lawsuit. As of 31 December 2008, the court ruled in favor of the bank but the defendant filed an appeal. According to the management of the subsidiary bank, at 31 December

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2008 the claim against this client does not satisfy the criteria for recognition of this asset in the consolidated financial statements.

### ***Financial commitments***

At 31 December financial commitments comprise:

	<b>2008</b>	<b>2007</b> <b>(restated)</b>
Guarantees	61,741	46,369
Undrawn loan commitments	156,733	13,330
Uncovered letters of credit	2,266	1,217
	<b>220,740</b>	<b>60,916</b>
Less - Provisions	(1,362)	(13)
<b>Financial commitments before deducting collateral</b>	<b>219,378</b>	<b>60,903</b>
Less – Cash held as security against guarantees	(1,598)	(1,973)
	<b>217,780</b>	<b>58,930</b>

### ***Operating lease commitments***

	<b>2008</b>	<b>2007</b> <b>(restated)</b>
Not later than 1 year	421	96
Later than 1 year but not later than 5 years	584	120
Later than 5 years	984	199
	<b>1,989</b>	<b>415</b>

### ***Capital expenditure commitments***

At 31 December 2008, capital expenditure commitments of the Group's subsidiary bank amounted to RUB 289 million (2007 – nil).

### ***Insurance***

The Bank's premises are insured for RUB 4,626 million (2007 – RUB 1,546 million). The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

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**27. Net fee and commission income**

Net fee and commission income comprise:

	<b>2008</b>	<b>2007</b> <b>(restated)</b>
Guarantee operations	1,002	1,006
Cash and settlement operations	686	560
Operations with securities	52	61
Trust management of the Pension fund	–	198
Other operations	558	141
<b>Fee and commission income</b>	<b>2,298</b>	<b>1,966</b>
<b>Fee and commission expense</b>	<b>(673)</b>	<b>(88)</b>
<b>Net fee and commission income</b>	<b>1,625</b>	<b>1,878</b>

**28. Other operating income**

Included in other operating income for 2007 is a penalty in the amount of RUB 2,903 million received by the Bank from a Russian company for use of funds prepaid by the Bank under a purchase and sale transaction with securities, which was subsequently recognized null and void.

**29. Other operating expenses**

Other operating expenses comprise:

	<b>2008</b>	<b>2007</b> <b>(restated)</b>
Advertising expenses	668	597
Administrative expenses	574	560
Contributions to non-state pension fund	400	–
Marketing and research	275	213
Charity	245	193
Audit and consulting	286	204
Legal services	198	174
Sponsorship	135	108
Loss from discontinued operations	115	–
Insurance	90	30
Amortization of intangibles	79	30
Penalty paid	7	1,962
Other	734	675
	<b>3,806</b>	<b>4,746</b>

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### **30. Financial risk management policies**

#### *Introduction*

The Group is exposed to financial risks, which it divides into credit risk, liquidity risk and market risk, the latter being subdivided into interest rate risk, currency risk and equity risk. Group members manage financial risks through a process of ongoing identification, measurement and monitoring, as well as by taking steps towards reducing the level of risk.

The Group is also subject to operational risk and strategic risk. Strategic risk is defined by the Group as a risk of a negative effect on the Group's operations arising from mistakes (deficiencies) made in decisions that determine strategy of the Group; this risk is managed by the Group in the course of its strategic planning process.

The process of risk management is critical to ensure that risks accepted by the Group would not affect its financial stability. Each business division within the Group involved in operations exposed to risk is accountable for controlling the level of risks inherent in its activities to the extent provided in the internal regulations.

#### *Risk management structure in place at Group members*

Typical organizational structure of risk management in place at Group members consists of the following elements:

- The supreme collegial management body (Supervisory Board, Board of Directors) takes strategic decisions aimed at organizing and supporting the operation of the risk management system.
- Collegial management bodies (Management Board, Banking Risk Management Committee, Financial Committee, Asset and Liability Management Committee, Credit Committee, Technology Committee) and single management bodies (Chairman of the Bank, Chairman of the Management Board) prepare/adopt management decisions within their established authority, over a particular type of activity or type of risk.
- Independent risk management business division (Risk Management Department, Risk Analysis and Control Subdivision) coordinates activities carried out by independent business divisions to implement risk management decisions taken by management bodies, including development of a regulatory framework that underlies risk assessment and control, independent assessment and subsequent control of risk level, and prepares risk reports for Group member management on a regular basis.
- Business divisions engaging in/supporting operations exposed to risks perform initial risk identification and assessment, control compliance with established limits and generate risk reports subject to the requirements of the adopted/approved regulatory framework.
- The Internal Control Function controls compliance with requirements of internal regulations and evaluates the effectiveness of the risk management system. Following the completion of respective audits, the Internal Control Function reports its findings and recommendations to Group member management.

In 2008-2009, Vnesheconombank carried out turnaround measures at a number of credit institutions that have become new Group members. For this purpose and due to the Group's significant expansion, Vnesheconombank strengthened centralized management of Group members. As part of developing the Group management system, including the risk management system at the Group level, the following measures were carried out in 2008:

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- A Working Group was set up, with an external advisor as its member, to develop a system of managing subsidiaries, associates and joint ventures, as well as banks and organizations of Vnesheconombank; the system objectives include development of a concept of risk management organization at the Group level;
- Horizontal interaction between Vnesheconombank's core business divisions and respective business divisions of subsidiary and associated banks via working groups was arranged for the purposes of developing consolidated management (including risk management);
- A process was developed for gathering and consolidating information on subsidiary and associated banks required for consolidated risk reporting by Vnesheconombank's Risk Management Department. The Group assesses and manages its accepted credit risk exposure by counterparty.

#### *Vnesheconombank's risk management structure*

The Supervisory Board is the supreme management body of the Bank. Within the scope of powers delegated to that body by the Memorandum on Financial Policies and Federal Law "On Bank for Development", the Supervisory Board is responsible for establishing specific parameters of the Bank's investing and financing activities including those related to risk management. Along with the Supervisory Board, the Bank's management structure comprises other management and collegial bodies and business divisions that are responsible for controlling and managing risks.

#### *Supervisory Board*

Pursuant to the Regulation on the Supervisory Board, powers of the Bank's Supervisory Board in the area of risk management include: the approval of procedures governing the activities of the internal control function, credit policy regulations, procedures for providing guarantees, sureties and loans to credit institutions and other legal entities, methods and procedures for measuring credit risk parameters and limits, methodology for calculating the Bank's equity (capital) amount and capital adequacy ratio, impairment and other losses provisioning procedures, regulations on the Bank's management bodies.

The Supervisory Board decides on approving transactions involving acquisition, disposal or potential disposal of assets whose carrying value accounts for at least 10 percent of the Bank's equity and establishes the maximum amount of funds allocated to manage the Bank's temporarily idle cash (liquidity).

Within the scope of powers delegated to it by the Memorandum on Financial Policies and Federal Law "On Bank for Development", the Supervisory Board establishes parameters of the Bank's investing and financing activities, sets limits and establishes limitations on the structure of the Bank's loan portfolio.

#### *Management Board*

The risk management-related authorities of the Management Board include making decisions to approve transactions or a number of interrelated transactions associated with acquisition, disposal or potential disposal of assets whose carrying value accounts for 2 to 10 percent of the Bank's equity.

The Management Board drafts proposals regarding Vnesheconombank's major lines of business and parameters of its investing and financing activities (including those related to risk management) and submits such proposals for approval by the Supervisory Board.

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#### *Chairman of Vnesheconombank*

With regard to risk management-related aspects of the Bank's operations, the Chairman of Vnesheconombank issues orders and resolutions, approves policies and technical procedures governing banking transactions.

The Chairman of Vnesheconombank decides on other matters related to risk management except for those falling within the competence of the Supervisory Board and the Management Board.

#### *Credit Committee*

Credit Committee is the Bank's standing collegial body whose primary objective is to develop conclusions as a result of considering suggestions for granting loans, guarantees, sureties and financing on a repayable basis, participation in share capital and/or purchase of bonds, setting limits by counterparty and issuer, as well as debt recovery and write-off.

#### *Internal Control Function*

The Internal Control Function is responsible for monitoring, on a continuous basis, the functioning of the banking risk management system as provided in the internal regulations. Following the completion of the respective audits, the Internal Control Function reports its findings and recommendations to the Bank's management.

#### *Risk Management Department*

The Risk Management Department is an independent business division designed to maintain the efficient functioning of the risk management system in compliance with the requirements of supervisory and regulatory bodies, international standards governing banking risk management practices in order to ensure the requisite reliability and financial stability of the Bank.

The Risk Management Department is responsible for developing methods and procedures for the assessment of various types of risks, draft proposals to limit the risk level, perform follow-up monitoring of compliance with the established risk limits and relevant risk decisions, and prepare reporting documents for each type of risks and each line of the Bank's business.

The Risk Management Department is responsible for monitoring compliance with risk policies and principles, and for assessing risks of new products and structured transactions. The Risk Management Department is composed of units that are responsible for control over the level of exposures by each type of risk and each line of the Bank's business.

#### *Directorate for Currency and Financial Transactions*

To control the Bank's day-to-day liquidity, the Directorate for Currency and Financial Transactions monitors compliance with the established minimum levels of liquidity and maturity mismatch in assets and liabilities. The Directorate prepares regular forecasts of the Bank's estimated leverage by source of funding, performs daily monitoring of open position limits by class of financial instruments and operations performed by the Directorate on money, equity and currency markets as well as counterparty limits.

The Directorate monitors the market value and liquidity of collateral provided by the Bank's counterparties.

Independently from other operating divisions, the Analytical Unit within the Directorate analyzes the current situation on money, equity and currency markets.

*(In millions of Russian rubles, unless otherwise stated)*

### *Economic Planning Department*

The Economic Planning Department is involved in the development of methodological documents for managing the Bank's financial risks. The Department monitors the Bank's financial stability parameters, including capital adequacy ratio. The Department coordinates the activities across the Bank relating to the establishment of allowances for losses.

### *Risk management*

#### *Risk measurement and reporting systems*

The Bank's risks are measured using the methodologies approved by the Bank's authorized bodies which allow assessing both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate possible loss at a given level of probability. Losses are measured on the basis of the analysis and processing of historical data relating to risk factors underlying such losses and the established patterns (models) used to determine the relationship between changes in risk factors and loss events. Statistical patterns derived from the analysis of historical data are adjusted, as appropriate, to account for the current operating environment of the Bank and situation on the markets.

The Bank also applies stress testing practices to run worse case scenarios that would arise in case extreme events which are unlikely to occur do, in fact, occur.

Monitoring and limiting risks is primarily performed based on limits established by the Bank. These limits reflect the level of risk which is acceptable for the Bank and set strategic priorities for each line of the Bank's business.

To assess and monitor the aggregate credit and market risk exposure, the Bank computes capital adequacy ratio in accordance with the methodology approved by the Bank's Supervisory Board and based on approaches set out in regulations issued by the CBR. The minimum capital adequacy ratio of 10% has been set.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. The above information and analytical comments thereon are communicated regularly to the Bank's management bodies, heads of business divisions and the Internal Control Function. The reporting frequency is established by the Bank's management body. The reports include the level of risk and risk profile changes by each type of risks and main business line, respective estimated values, updates on compliance with the existing risk limits, results of sensitivity analysis for market risks, and the Bank's liquidity ratios.

To ensure timely response to changes in internal and external operating environment, heads of business divisions are obliged to notify the Bank's management of any factors contributing to banking risks. Information is to be communicated in accordance with the procedure set forth in the corresponding internal documents governing the activities of the business divisions.

The Risk Management Department, jointly with other responsible business divisions, regularly monitors compliance with the existing limits, analyzes risk factors associated with financial and non-financial counterparties, jurisdictions, countries, market instruments, and the Bank's position in a given market segment and reviews changes in the level of risk.



*(In millions of Russian rubles, unless otherwise stated)*

### *Risk mitigation*

As part of its overall risk management, the Bank may use derivatives and other instruments to manage exposures arising from changes in interest rates, currency rates, equity prices, credit risk factors, and exposures arising from changes in positions under forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see above for more detail).

### *Excessive risk concentration*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features, or when their ability to meet contractual obligations will be similarly affected by possible changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to control the level of risk concentrations, the Bank's policies and procedures include guidelines and restrictions designed to maintain a diversified portfolio.

### *Credit risks*

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations in full when they fall due. The Bank manages and controls credit risk by placing limits on the amount of risk it is willing to accept in relation to one counterparty, groups of counterparties and to industry segments and regions, and by monitoring exposures in relation to the existing limits.

Within the framework of risk management, the Bank ensures compliance with the following limits established in the Memorandum on Financial Policies:

- the maximum limit of exposure per individual borrower or a group of related borrowers shall not exceed 25 percent of the Bank's equity (capital);
- the aggregate volume of major exposures shall not exceed 800 percent of the Bank's equity (capital)

When extending guarantees under export operations and arranging for export loan insurance against political and commercial risks, the Bank complies with the limitations set forth in the Memorandum on Financial Policies, whereby the maximum value of the Bank's commitments in respect of one borrower or a group of related borrowers should not exceed 25 percent of the Bank's equity (capital).

The Bank adopts a systemic approach to managing risks associated with the Bank's entire asset portfolio and those attributable to individual transactions entered into with borrowers / counterparties (a group of related borrowers / counterparties). Such approach consists of the following steps:

- risk identification;
- risk analysis and assessment,
- risk acceptance and/or risk reduction;
- risk level control.

Credit risk is managed throughout all the stages of the lending process: loan application review, execution of a lending / documentary transaction (establishment of a corresponding credit limit), loan administration (maintaining loan files, etc.), monitoring the loan (credit limit) drawdown status, monitoring the borrower's financial position and repayment performance until full settlement has been made (credit / documentary

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limit has been closed), monitoring the status of the current investment project. Since transactions that are bearing credit risk may not only involve credit risk as such, but give rise to other risks (e.g. market risk, project risk, collateral risk), the Bank performs a comprehensive assessment of risks attributable to such transactions.

The principle of methodological integrity provides for the use of a consistent methodology for identifying and measuring credit risk which is in line with the nature and scale of operations conducted by the Bank.

The credit risk assessment methodology applied by the other Group members will be amended in the near future to harmonize approaches to credit risk assessment used within the Group with the Bank's standards.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a credit rating. Credit ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

*Credit-related commitments risks*

The Bank makes available to its customers documentary operations which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee / letter of credit given. They also expose the Bank to credit risks which are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown in gross, before the effect of mitigation through the use of master netting and collateral agreements and including any allowance for impairment and other losses.

	Notes	Gross maximum exposure 2008	Gross maximum exposure 2007 (restated)
Cash and cash equivalents (excluding cash on hand)	8	276,549	156,660
Financial assets at fair value through profit or loss	9	24,159	22,169
Due from other banks	10	311,510	44,879
Derivative financial assets	11	2,970	248
Loans to customers	12	725,640	228,018
Investment securities	13		
- available-for-sale		75,504	34,300
- held-to-maturity		11,752	-
Other assets	19	2,883	1,914
		<u>1,430,967</u>	<u>488,188</u>
Financial commitment	26	219,378	60,903
<b>Total credit risk exposure</b>		<b><u>1,650,345</u></b>	<b><u>549,091</u></b>

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect on loans to customers of collateral and other risk mitigation techniques is shown in Note 12.

(In millions of Russian rubles, unless otherwise stated)

*Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Bank using internal credit ratings. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the inputs for measuring the counterparty risk. Credit risk measurement methodology has been approved by the Bank's Supervisory Board. Group-wide guidelines for assessing the credit quality of assets have been developed for the purpose of preparing Group's aggregate reports.

The table below shows the credit quality by class of assets for credit risk-related balance sheet lines, based on the Bank's credit rating system. The information is based on carrying amounts and does not include allowance for impairment.

	Notes	2008				Total
		Neither past due nor impaired			Past due or individually impaired	
		High grade	Standard grade	Sub-standard grade		
Due from other banks	10					
Back-to-back finance		246,002	–	–	–	246,002
Subordinated loans		420	–	–	–	420
Interbank loans under small and medium-sized business support program		21,498	370	45	48	21,961
Reverse repurchase agreements		705	102	–	–	807
Other		40,648	1,750	55	–	42,453
		<u>309,273</u>	<u>2,222</u>	<u>100</u>	<u>48</u>	<u>311,643</u>
Loans to customers	12					
Back-to-back finance		232,333	37,335	–	–	269,668
Pre-export finance		80,798	17,749	10,508	1,465	110,520
Project finance		11,554	179,196	94	8,606	199,450
Commercial loans		38,919	81,151	11,831	6,993	138,894
Reverse repurchase agreements		–	–	57	–	57
Financing of operations with securities		–	1,668	–	–	1,668
Promissory notes		153	510	3,297	40	4,000
Other		10,166	2,372	691	–	13,229
		<u>373,923</u>	<u>319,981</u>	<u>26,478</u>	<u>17,104</u>	<u>737,486</u>
Investment securities:	13					
- available-for-sale		58,322	17,182	–	–	75,504
- held-to-maturity		10,171	1,486	190	–	11,847
		<u>68,493</u>	<u>18,668</u>	<u>190</u>	<u>–</u>	<u>87,351</u>
<b>Total</b>		<u><u>751,689</u></u>	<u><u>340,871</u></u>	<u><u>26,768</u></u>	<u><u>17,152</u></u>	<u><u>1,136,480</u></u>

(In millions of Russian rubles, unless otherwise stated)

	Notes	2007 (restated)			Past due or individually impaired	Total
		Neither past due nor impaired				
		High grade	Standard grade	Sub-standard grade		
Due from other banks	10					
Subordinated loans		–	949	–	949	
Interbank loans under small and medium-sized business support program		6,334	–	–	6,335	
Other		329	36,638	740	37,723	
		<u>6,663</u>	<u>37,587</u>	<u>740</u>	<u>45,007</u>	
Loans to customers	12					
Pre-export finance		96,392	10,382	814	107,588	
Project finance		15,993	53,905	1,413	71,311	
Commercial loans		4,565	10,159	6,373	33,041	
Reverse repurchase agreements		9,692	–	1	9,693	
Financing of operations with securities		6,170	–	–	6,170	
Promissory notes		96	780	1,502	2,418	
Other		106	971	–	1,124	
		<u>133,014</u>	<u>76,197</u>	<u>10,103</u>	<u>231,345</u>	
Investment securities: - available-for-sale	13	7,852	26,448	–	34,300	
<b>Total</b>		<u><b>147,529</b></u>	<u><b>140,232</b></u>	<u><b>10,843</b></u>	<u><b>310,652</b></u>	

*Carrying amount per class of financial assets whose terms have been renegotiated*

The table below shows the carrying amounts for renegotiated loans, by class, which would otherwise be past due or impaired. At 31 December 2008 and 2007, the terms of other financial assets were not renegotiated.

	2008	2007 (restated)
Loans to customers		
Pre-export finance	2,653	941
Project finance	56,577	34,298
Commercial loans	6,663	3,089
Financing of operations with securities	1,668	6,170
Promissory notes	–	40
<b>Total</b>	<u><b>67,561</b></u>	<u><b>44,538</b></u>

(In millions of Russian rubles, unless otherwise stated)

*Analysis of financial assets past due but not impaired at the balance sheet date, by impairment period*

The table below shows the carrying amounts of past due but not impaired loans by the number of days past due:

	31 December 2008			<i>Total assets past due but not impaired</i>
	<i>Less than 7 days</i>	<i>7 to 30 days</i>	<i>More than 30 days</i>	
Due from other banks				
Interbank loans under small and medium-sized business support program	-	-	1	1
	-	-	1	1
Loans to customers				
Commercial loans	-	8	7	15
	-	8	7	15
<b>Total</b>	<b>-</b>	<b>8</b>	<b>8</b>	<b>16</b>

At 31 December 2007, the carrying amount of past due but not impaired loans was zero.

*Impairment assessment*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Impairment assessment is performed in two areas: individually assessed allowances and collectively assessed allowances.

*Individually assessed allowances*

The allowances appropriate for each individually significant loan or advance payment are determined on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

*Collectively assessed allowances*

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

*(In millions of Russian rubles, unless otherwise stated)*

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

### ***Liquidity risk and funding management***

Liquidity risk is the risk that the Group will be unable to meet its financial obligations when they fall due.

The Group manages its liquidity risk at the following levels:

- Each bank within the Group manages its liquidity on a standalone basis so that it can meet its obligations in full and comply with requirements of the national regulator; for this purpose relevant policies and procedures have been developed that detail the liquidity risk assessment and control process;
- The Bank manages the Group's liquidity through reallocating, where necessary, funds within the Group both in the form of lending and using other instruments.

Group members assess liquidity risk using analysis of the maturity structure of assets and liabilities, and a liquid asset cushion under various scenarios. To limit liquidity risk, Group members control liquidity gaps and the level of the liquid asset cushion. Subsidiary banks within the Group also forecast and control compliance with mandatory liquidity ratios established by national regulators.

As a part of the liquidity risk management process the Bank performs the following actions limiting the liquidity risk:

- Regularly monitors the Bank's liquidity situation, supervises the compliance with the established limits and reviews them;
- Maintains a well-balanced maturity and currency structure of assets and liabilities and an optimal liquid asset cushion;
- Maintains a diversified structure of funding sources and directions of investments by counterparty;
- Develops plans to raise debt funding;
- Assesses sustained balances on customers' accounts, monitors the level of concentration of balances on customers' accounts in order to prevent an abrupt outflow of funds from customers' accounts;
- Performs cash flow modeling and supervises liquidity ratios under various scenarios that reflect changes in the macroeconomic and market operating environment;
- Performs stress testing of the Bank's exposure to liquidity risk and financial market conditions on a regular basis and as and when significant changes in external and internal factors arise or are expected;

Operational control over liquidity ratios, including liquidity gaps, is performed at the Bank by the Directorate for Currency and Financial Transactions. The subsequent control is performed by the Risk Management Department. Liquidity control results are reported to the Bank's management and used for making management decisions.

In addition, for the purposes of identifying available sources to cover an unexpected deficit of liquid assets, the Bank daily monitors and forecasts the liquidity reserve. The liquidity reserve comprises the following:

- Cash on Bank's correspondent accounts, cash on hand, cash on accounts in stock exchange and clearing centers, and the net balance of Bank's overnight placements.
- Short-term deposits placed in banks considered by the Bank as highly reliable;
- Liquid securities measured at fair value less any discount for unexpected losses due to market risk realization that can be promptly converted into cash form or used as a collateralized funding.

In order to take into account any possible changes in projected cash flows, the Bank uses a procedure of liquidity ratios stress testing in accordance with scenarios covering both internal factors, specific to the Bank, and external factors.

*(In millions of Russian rubles, unless otherwise stated)*

- non-fulfillment by Bank's counterparties of transaction, loan and debt obligations (credit risk realization);
- decrease in the market value of the securities portfolio (market risk realization);
- unexpected outflow of funds from customers' accounts;
- reduction of the expected inflow of funds to customers' accounts;
- reduced or closed access to financial market resources;
- reduction of the Bank's credit rating;
- early repayment of the attracted interbank loans due to the breaches of set financial covenants.

The Risk Management Department uses the procedure of liquidity ratios stress testing on a scheduled and unscheduled basis. Scheduled stress testing is carried out on a monthly basis. Unscheduled stress testing is carried out upon decision of an authorized body of the Bank, as well as in case of evidence of potential stress changes in internal and external risk factors, upon initiative of the Bank's divisions involved in liquidity control activities. Findings of the analysis of the Bank's liquidity indicators calculated for various scenarios are communicated by the Risk Management Department to the Directorate for Currency and Financial Transactions and the Bank's management and are used in making decisions on measures required for regulating liquidity and planning the Bank's operations.

In case of an emergency the Bank uses the following liquidity support mechanisms

- selling the portfolio of highly liquid assets (concluding repurchase agreements);
- limiting the volume of transactions with counterparties having a high credit risk level;
- suspending issuance of loans, guarantees and credit lines;
- taking measures to close positions in low liquid securities and to assign loan portfolio-related receivables;
- strengthening cooperation with Bank's customers for the purpose of short-term planning the Bank's liquidity situation and setting the funds withdrawal schedule;
- maintaining transparency of Bank's operations.

At 31 December 2008 and 2007, monetary assets and liabilities of the Group, excluding receivables from the Russian Government under London Club arrangements and amounts due to London Club creditors, had the following maturities:

Group of state corporation  
"Bank for Development and Foreign Economic Affairs (Vnesheconombank)"

Notes to the 2008 Consolidated Financial Statements

(In millions of Russian rubles, unless otherwise stated)

	2008					Total
	Up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	No stated maturity	
<b>Monetary assets:</b>						
Cash and cash equivalents	278,371	3,302	–	–	–	281,673
Precious metals	–	–	–	–	1,163	1,163
Financial assets at fair value through profit or loss	55,533	–	–	–	–	55,533
Due from other banks	22,959	28,397	23,526	236,614	14	311,510
Loans to customers	9,692	89,836	303,689	322,423	–	725,640
Investment securities:						
- available-for-sale	75,504	–	–	–	153,103	228,607
- held-to-maturity	3	6,576	1,272	3,901	–	11,752
Due from the Russian Government	–	–	–	–	194	194
Income tax assets	–	1,494	–	–	79	1,573
Investments in associates	–	–	–	–	5,708	5,708
Assets held for sale	–	–	157	185	–	342
Other assets	5,482	2,510	1,304	756	182	10,234
	<u>447,544</u>	<u>132,115</u>	<u>329,948</u>	<u>563,879</u>	<u>160,443</u>	<u>1,633,929</u>
<b>Monetary liabilities:</b>						
Due to other banks	184,597	14,265	31,497	143,088	13	373,460
Derivative financial liabilities	5,921	4,573	2,957	–	–	13,451
Due to the Russian Government and the Bank of Russia	51,480	24,814	435,964	401,631	–	913,889
Amounts due to customers	79,700	12,320	7,669	11,547	105	111,341
Debt securities issued	765	2,150	2,060	3,250	–	8,225
Income tax liabilities	–	22	–	–	260	282
Other liabilities	3,483	86	84	953	1,746	6,352
	<u>325,946</u>	<u>58,230</u>	<u>480,231</u>	<u>560,469</u>	<u>2,124</u>	<u>1,427,000</u>
<b>Net position</b>	<u>121,598</u>	<u>73,885</u>	<u>(150,283)</u>	<u>3,410</u>	<u>158,319</u>	<u>206,929</u>
<b>Accumulated gap</b>	<u>121,598</u>	<u>195,483</u>	<u>45,200</u>	<u>48,610</u>	<u>206,929</u>	



(In millions of Russian rubles, unless otherwise stated)

	2007 (restated)					Total
	Up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	No stated maturity	
<b>Monetary assets:</b>						
Cash and cash equivalents	157,585	50	–	–	–	157,635
Precious metals	–	–	–	–	1,485	1,485
Financial assets at fair value through profit or loss	40,723	–	–	–	–	40,723
Due from other banks	27,874	8,769	2,482	5,577	177	44,879
Loans to customers	15,698	32,031	39,527	140,731	31	228,018
Investment securities:						
- available-for-sale	34,300	–	–	–	33,242	67,542
Due from the Russian Government	–	–	–	–	1,290	1,290
Income tax assets	–	482	–	–	59	541
Investments in associates	–	–	–	–	4,463	4,463
Assets held for sale	–	–	165	–	–	165
Other assets	435	463	1,024	109	70	2,101
	<b>276,615</b>	<b>41,795</b>	<b>43,198</b>	<b>146,417</b>	<b>40,817</b>	<b>548,842</b>
<b>Monetary liabilities:</b>						
Due to other banks	17,076	11,160	29,755	160,223	11	218,225
Derivative financial liabilities	1,000	59	233	–	–	1,292
Due to the Russian Government and the Bank of Russia	59,186	–	451	45	–	59,682
Amounts due to customers	32,428	2,393	2,097	2,234	152	39,304
Debt securities issued	63	4,386	44	5,045	–	9,538
Income tax liabilities	–	–	–	–	13	13
Other liabilities	1,782	44	28	15	1,057	2,926
	<b>111,535</b>	<b>18,042</b>	<b>32,608</b>	<b>167,562</b>	<b>1,233</b>	<b>330,980</b>
<b>Net position</b>	<b>165,080</b>	<b>23,753</b>	<b>10,590</b>	<b>(21,145)</b>	<b>39,584</b>	<b>217,862</b>
<i>Accumulated gap</i>	<i>165,080</i>	<i>188,833</i>	<i>199,423</i>	<i>178,278</i>	<i>217,862</i>	

Maturities represent remaining terms until repayment in accordance with underlying contractual arrangements at the balance sheet date.

While majority of available-for-sale securities is shown as "up to 1 month", realizing such assets upon demand is dependent upon financial market conditions. Significant security positions not always may be liquidated in a short period of time without adverse price effects.

Amounts due to the Russian Government, other than deposits from the Bank of Russia, generally do not carry a specified maturity and are shown as having a maturity of up to one month. In practice, these amounts are maintained for longer periods.

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

(In millions of Russian rubles, unless otherwise stated)

<b>Financial liabilities</b>	<b>Less than 3</b>	<b>3 to</b>	<b>1 to</b>	<b>Over</b>	
At 31 December 2008	<b>months</b>	<b>12 months</b>	<b>5 years</b>	<b>5 years</b>	<b>Total</b>
Due to the Russian Government and the Bank of Russia	59,892	481,242	298,469	323,515	1,163,118
Due to other banks	200,799	82,175	90,079	2,715	375,768
Derivative financial instruments					
- Contractual amounts payable	134,763	29,654	3,563	743	168,723
- Contractual amounts receivable	(129,271)	(26,145)	(2,266)	(196)	(157,878)
Amounts due to customers	76,087	30,587	4,974	-	111,648
Debt securities issued	2,023	3,329	3,616	9	8,977
Other liabilities	3,337	128	2,408	920	6,793
<b>Total undiscounted financial liabilities</b>	<b>347,630</b>	<b>600,970</b>	<b>400,843</b>	<b>327,706</b>	<b>1,677,149</b>

<b>Financial liabilities</b>	<b>Less than 3</b>	<b>3 to</b>	<b>1 to</b>	<b>Over</b>	
At 31 December 2007 (restated)	<b>months</b>	<b>12 months</b>	<b>5 years</b>	<b>5 years</b>	<b>Total</b>
Due to the Russian Government and the Bank of Russia	59,194	443	45	-	59,682
Due to other banks	31,471	80,276	140,983	7,869	260,599
Derivative financial instruments					
- Contractual amounts payable	104,342	8,739	1,214	830	115,125
- Contractual amounts receivable	(103,786)	(8,477)	(976)	(798)	(114,037)
Amounts due to customers	34,300	4,005	2,314	1	40,620
Debt securities issued	227	4,448	5,602	-	10,277
Other liabilities	1,557	71	221	534	2,383
<b>Total undiscounted financial liabilities</b>	<b>127,305</b>	<b>89,505</b>	<b>149,403</b>	<b>8,436</b>	<b>374,649</b>

The maturity analysis of liabilities does not reflect the historical stability of customers' current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in "less than 3 months" in the tables above.

The table below shows the contractual expiry by maturity of off-balance sheet financial contingencies (letters of credit, guaranties, undrawn loan facilities, reimbursement obligations).

	<b>Less than 3</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over</b>	
	<b>months</b>	<b>months</b>	<b>years</b>	<b>5 years</b>	<b>Total</b>
2008	52,533	87,322	68,602	12,283	220,740
2007 (restated)	44,917	2,751	11,711	1,537	60,916

The Group expects that not all of the credit-related contingencies will be drawn before expiry thereof.

At 31 December 2008, credit-related contingencies presented in "less than 3 months" category include liabilities in the amount of RUB 43,017 million (2007 – RUB 35,504 million) whose maturities are linked to settlements under export contracts

At 31 December 2008, credit-related contingencies include liabilities in favor of one counterparty, a state company, in the amount of RUB 26,437 million (2007 – RUB 19,686 million), which accounts for 12% (2007 – 34%) of all credit-related contingencies.

*(In millions of Russian rubles, unless otherwise stated)*

### **Market risk**

Market risk is the risk of adverse changes in the fair value or future cash flows of financial instruments due to changes in market variables such as interest rates, foreign exchange rates, prices for equities (equity risk) and commodities. The purpose of the Group's market risk management activities is providing a balance between the level of accepted risks and profitability of banking operations.

Group members monitor the market risk level on a daily basis. To control the market risk level and to set and control its limits the Group uses the sensitivity analysis, VaR calculation and stress testing. Consolidated risks of the Group are primarily assessed using the sensitivity analysis.

At the parent entity level interest rate, currency and equity risks are primarily assessed using the VaR methodology which enables assessing maximum potential losses from the portfolio of financial instruments that can be incurred during a certain period of time (projection horizon) with a given confidence level. The VaR methodology is a probabilistically statistical approach that takes into account market fluctuations and risks diversification under normal market conditions. For management and external reporting purposes the Bank uses VaR calculations with a 99% confidence level and a 10-day projection horizon to assess the price risk of the portfolio of market securities and a 1-day projection horizon to assess the risk of the open currency position of the Bank. The depth of retrospective data used for VaR calculation is 670 working days.

VaR calculation results are assessed by the Bank subject to limitations inherent in the VaR methodology, i.e. possible failure to comply with initial assumptions, namely:

- 1) historical observations used to calculate unexpected losses in the future period might not contain all possible future changes in risk factors, especially in case of any extreme market events;
- 2) usage of a given projection horizon assumes that Bank's positions in financial instruments can be liquidated or hedged over this period. Should the Bank have large or concentrated positions and/or should the market lose its liquidity, the used period of time might be insufficient for closing or hedging positions but unexpected losses estimated with VaR would remain within set limits;
- 3) applying a 99% confidence level does not permit assessing losses that can be incurred beyond the selected confidence level;
- 4) The VaR methodology assesses the amount of unexpected losses from the portfolio of financial instruments under the assumptions that the volume of positions will remain constant over the projection horizon and the Bank will not perform transactions that change the volume of positions. Should the Bank be engaged in purchase and sale of financial instruments over the projection horizon, VaR estimates can differ from estimates of actual losses.

To control the adequacy of the VaR calculation model, the Bank regularly uses back-testing procedures that enable to assess differences between estimated and actual losses.

The results of the 2008 year-end back-testing procedure show a significant increase in the number of cases when hypothetical losses calculated subject to the actual dynamics of financial instruments prices exceed estimated VaR measures, which is mostly due to dramatic changes in financial instrument prices during the financial crisis.

In order to obtain more precise estimates, the Bank is making efforts to enhance inputs used in the current model which provides adequate estimates under normal market conditions. Also, the Bank is making efforts to improve approaches that take into account extraordinary (stress) changes in the market behavior in the process of risk management.

(In millions of Russian rubles, unless otherwise stated)

The Bank performs stress testing procedures on regular and unplanned basis that enables the Bank to assess stress losses from realization of unlikely extraordinary events on financial instruments' portfolios and open currency positions, i.e. losses that are out of predictive limits of probabilistically statistical methods. The above approach supplements the risk estimate obtained from the VaR methodology and sensitivity analysis. The Bank uses a wide range of historical and hypothetical (user) scenarios within stress testing procedures. Stress testing results are reported to the Bank's management and used for making management decisions.

#### Currency risk

Currency risk is the risk that the fair value of a financial instrument or future cash flows will change due to changes in foreign exchange rates.

Group members calculate on a daily basis open currency positions by balance assets and liabilities, off-balance claims and obligations that are subject to changes in currency and precious metals rates. Banks of the Group set limits on the cumulative open position as well as limits on open positions in each currency and for precious metals based on the requirements of the national regulator.

The VaR estimate obtained using the historical modeling method with a 99% confidence level and a 1-day projection horizon is used by the Bank as a currency risk estimate. The aggregate currency risk in respect of Bank's open currency positions is estimated subject to historical correlation of exchange rates of foreign currencies against the Ruble.

The table below shows open currency positions of the Bank as of 31 December 2008 and 2007, which include balance and off-balance currency positions of derivative financial instruments by currencies against the Russian Ruble (open positions).

	<u>Open positions</u>	
	<u>31 December 2008</u>	<u>31 December 2007</u>
USD	7,258	(2,452)
UAH	7,254	-
BYR	6,074	593
GBP	1,409	3,317
EUR	1,374	(4,429)
CHF	(539)	(4,461)
JPY	(2,626)	(2,058)
Other foreign currencies	789	4,228

Below is the Bank's VaR measure for open currency positions as of 31 December 2008 and 2007:

	<u>31 December 2008</u>	<u>31 December 2007</u>
VaR	371	198

The table below shows sensitivity of open currency positions of the Group (excluding the Bank) as of 31 December 2008 and 2007. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Ruble on the income statement (due to the fair value of currency sensitive financial assets and liabilities). All other variables are held constant. A negative amount in the table reflects a potential net reduction in statement of income or equity, while a positive amount reflects a net potential increase.

*(In millions of Russian rubles, unless otherwise stated)*

	Change in currency rate in % 2008	Effect on profit before tax 2008	Change in currency rate in % 2007	Effect on profit before tax 2007
USD	5.35%	(137)	4.20%	(120)
	- 5.35%	137	-5.80%	166
EUR	6.27%	(2)	3.20%	35
	- 6.27%	2	-5.40%	(58)
JPY	11.43%	(11)	5%	-
	- 11.43%	11	-5%	-
BYR	5.61%	(8)	3.27%	-
	- 5.61%	8	-3.27%	-
SEK	9.25%	3	6%	-
	-9.25%	(3)	-6%	-

Operational control over open currency positions is performed by the Directorate for Currency and Financial Transactions. The subsequent control is performed by the Risk Management Department. Results of control over open currency positions are reported to the Bank's management and used for making management decisions.

#### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will adversely affect the fair values or future cash flows of financial instruments.

The interest rate policy of Group members refers to maintenance of a balanced structure of claims and obligations sensitive to change in interest rates (interest rate position) that provides limitation of possible unfavorable change in net interest income and/or equity of a Group member at an acceptable level.

The procedures of identification, assessment and control of the level of interest rate risk in Group members are formalized through developed internal regulations and rules and well as requirements of national regulators. Group members perform sensitivity analysis of net interest income and equity using different scenarios of market interest rate changes for the purpose of controlling financial losses arising from unfavorable changes in interest rates.

In addition, banks within the Group forecast and control the capital adequacy ratio subject to the effect of the interest rate risk.

In performing the sensitivity analysis of the net interest income and equity an interest rate gap method is used. The interest rate gap method is used to assess changes in the amount of net interest income and equity by using data on mismatch of claims and obligations sensitive to interest rate changes aggregated at given maturity intervals. A combination of negative scenarios that take into account the effect of internal and external risk factors related to the market situation is used as a part of the analysis. Scenarios are prepared either based on hypothetical events that can occur in the future or based on past events - historical stress scenarios.

Sensitivity analysis is performed on regular and unplanned basis. The basis for an unplanned sensitivity calculation is as follows:

- expected appearance of large or concentrated positions in financial instruments' portfolios or significant changes in their value, which can significantly affect the balance of the interest rate position;

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– expectations of significant changes in the market situation as well as socio-political and/or economic events that can have a significant adverse impact on the amount of net interest income/equity.

The Bank uses two approaches in modeling risk factors. The statistical approach is based on the following assumptions:

- 1) the actual structure of volume and maturities of claims and obligations is kept constant in the whole projection horizon;
- 2) changes in the term structure of interest rates occur instantly as of the balance sheet date and once during the projection horizon.

In addition to the statistical approach to modeling risk factors, the Bank performs the sensitivity analysis by modeling dynamic changes in interest rates and the volume and maturity structure of claims and obligations using a more complex set of assumptions made by the Bank on a case-by-case basis.

The sensitivity of the statement of income is the estimate of the effect of the assumed changes in interest rates on the net interest income before tax for one year calculated for floating rate financial assets and financial liabilities held at 31 December 2008 and 2007, as well as the amount of revaluation of fixed rate trading financial assets and derivative financial instruments. The sensitivity of equity to changes in interest rates is calculated as the amount of revaluation of fixed rate available-for-sale financial assets in case of assumed change in interest rates. The effect of revaluation of financial assets was calculated based on the assumption that there are parallel shifts in the yield curve.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates by key reference rates, with all other variables held constant, of the Group's statement of income.

The sensitivity was calculated for instruments within portfolio of the Group, excluding bonds within portfolio of the Bank. The interest rate risk for this bond portfolio was calculated using the VaR methodology.

(In millions of Russian rubles, unless otherwise stated)

	Possible change in interest rates	Sensitivity of net interest income, 2008	Sensitivity of equity, 2008
<u>3-m Libor USD</u>			
Increase	0.29%	(14)	–
Decrease	-0.29%	14	–
<u>3-m Libor EUR</u>			
Increase	0.20%	(19)	–
Decrease	-0.20%	19	–
<u>RGBEY</u>			
Increase	4.42%	(415)	(92)
Decrease	-4.42%	415	92
<u>3-m Mosprime</u>			
Increase	9.55%	(1,622)	–
Decrease	-9.55%	1,622	–
<u>3-m Libor GBP</u>			
Increase	0.35%	(0)	–
Decrease	-0.35%	0	–
<u>3-m Libor JPY</u>			
Increase	0.28%	1	–
Decrease	-0.28%	(1)	–
<u>3-m Libor CHF</u>			
Increase	0.16%	0	–
Decrease	-0.16%	(0)	–
<u>3-m Libor AUD</u>			
Increase	0.50%	(0)	–
Decrease	-0.50%	0	–
YTM 5Y German Treasuries			
Increase	0.49%	160	–
Decrease	-0.49%	(160)	–
<u>YTM 5Y US Treasuries</u>			
Increase	0.58%	242	(0)
Decrease	-0.58%	(242)	0
<u>BYR</u>			
Increase	1.46%	3	–
Decrease	-1.46%	(3)	–

(In millions of Russian rubles, unless otherwise stated)

	Possible change in interest rates	Sensitivity of net interest income, 2007 (restated)	Sensitivity of equity, 2007 (restated)
<u>USD (LIBOR)</u>			
Increase	0.75%	(181)	–
Decrease	-1.25%	302	–
<u>EUR (EURIBOR)</u>			
Increase	0.75%	(12)	–
Decrease	-1.50%	23	–
<u>RUB</u>			
Increase	0.80%	(2)	(40)
Decrease	-0.80%	2	40
<u>USD (US T-bonds)</u>			
Increase	0.80%	0	(5)
Decrease	-0.80%	(0)	5
<u>BYR</u>			
Increase	1%	5	–
Decrease	-1%	(5)	–

Below are VaR measures for bond portfolio of the Bank as of 31 December 2008 and 2007:

	31 December 2008	31 December 2007
VaR	15,637	1,386

#### Equity price risk

Equity price risk is the risk of adverse changes in the fair values or future cash flows of a financial instrument as a result of changes in the levels of equity indices and the value of individual equities.

The Group uses the VaR methodology and/or sensitivity analysis to assess the equity price risk.

Below are VaR measures for equity portfolio of the Bank as of 31 December 2008 and 2007:

	31 December 2008	31 December 2007
VaR	60,484	8,637

The Bank sets aggregate exposure limits for each portfolio by class of securities in order to limit equity price risk. Within a portfolio "risk borrowing" is permitted, i.e. changing the volume of open positions under individual financial instruments subject to compliance with the set limit of the aggregate market risk for the portfolio and with credit risk limits by issuer.

The limits are approved by Management Board of Vnesheconombank at the suggestion of the Risk Management Department as agreed with Bank's business units. The set limits are reviewed on a regular basis.

The effect on profit before tax and equity of other Group members of reasonably possible change in equity indices, with all other variables held constant, is as follows:



(In millions of Russian rubles, unless otherwise stated)

<i>Market index</i>	<i>Change in index</i>	<i>Change in equity price, 2008</i>	<i>Effect on profit before tax, 2008</i>	<i>Change in equity price, 2008</i>	<i>Effect on equity, 2008</i>
RTS	39%	51%	4,291	59%	45
	-39%	-51%	(4,291)	-59%	(45)

As of the end of 2007, none of the Group members, except the Bank, had significant investments in market equity securities.

### **Operational risk**

Operational risk is defined as a risk of losses arising from inadequate internal procedures, failures of equipment and information systems (technology risk), human errors or misconduct, and external factors. Legal risk is one of the types of operational risk.

Operational and legal risks are managed in banks of the Group by addressing clearly all of the bank's business processes in the corresponding internal documents and applying internal controls to monitor the compliance with the established procedures as well as by obtaining external insurance.

The Bank's Technology Committee is responsible for managing and controlling technology risks. The Banking Infrastructure Protection Department is responsible for providing information and engineering support to all the business divisions in implementing action plans designated to ensure business continuity in the event of IT failures.

The Legal Department is responsible for legal risks and legal support of the Bank's operations. The Bank relies on templates drafted by the Legal Department when preparing transaction documents for transactions executed with counterparties. Any non-standard agreements are to be approved by the Legal Department. The Legal Department is also responsible for the review of the corresponding documents supplied by counterparties that deal with the main lines of the Bank's business. The Bank engages international law firms to assist in executing transactions with foreign partners.

When performing banking transactions and conducting other activities in the event of disaster, the Bank applies emergency procedures and action plans which are governed by internal documents providing guidance to ensure business continuity and / or disaster recovery. The above documents describe principles used to design infrastructure risk protection framework, define a set of measures designated to support the operability of the Bank's protection system, principles, rules and action plans to be implemented by personnel in the event of disaster.

### **31. Fair value of financial instruments**

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

(In millions of Russian rubles, unless otherwise stated)

	Carrying value 2008	Fair value 2008	Unrecognized gain / (loss) 2008	Carrying value 2007 (restated)	Fair value 2007 (restated)	Unrecognized gain / (loss) 2007 (restated)
<b>Financial assets</b>						
Cash and cash equivalents	281,673	281,673	–	157,635	157,635	–
Precious metals	1,163	1,163	–	1,485	1,485	–
Financial assets at fair value through profit or loss	55,533	55,533	–	40,723	40,723	–
Due from other banks	311,510	311,510	–	44,879	44,879	–
Loans to customers	725,640	718,910	(6,730)	228,018	227,948	(70)
Investment securities						
- available-for-sale	228,607	228,607	–	67,542	67,542	–
- held-to-maturity	11,752	9,733	(2,019)	–	–	–
<b>Financial liabilities</b>						
Due to other banks	373,460	373,460	–	218,225	218,225	–
Derivative financial liabilities	13,451	13,451	–	1,292	1,292	–
Amounts due to customers	111,341	109,447	1,894	39,304	39,304	–
Debt securities issued	8,225	8,225	–	9,538	9,538	–
<b>Total unrecognized change in unrealized fair value</b>			<b>(6,855)</b>			<b>(70)</b>

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

*Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, assets without a specific maturity and variable rate financial instruments.

*Fixed rate financial instruments*

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments.

*Financial instruments recorded at fair value*

The fair value of financial instruments is based on quoted market prices, except for investments in OJSC "Terminal", the fair value of which is based on the valuation techniques with the use of non-market observable inputs.

(In millions of Russian rubles, unless otherwise stated)

### 32. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties include the state, key management of the Group and associated companies. Since Vnesheconombank is a state corporation, all state-controlled entities are considered to be related parties of the Group and all transactions and outstanding balances with such entities should be disclosed.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2008			
	<i>State</i>	<i>State controlled entities</i>	<i>Associates</i>	<i>Key management personnel</i>
<b>Cash and cash equivalents at 31 December</b>	57,396	7,626	3,067	–
<b>Precious metals</b>	1,140	–	–	–
<b>Financial assets at fair value through profit or loss at 31 December</b>	19,936	24,055	–	–
Due from other banks at 1 January, gross	209	2,485	1,686	–
Proceeds related to changes in the Group	–	3,989	–	–
Amounts placed during the year	200	274,819	3,008	–
Amounts repaid during the year	(396)	(13,794)	(1,478)	–
Other changes	–	1,815	(636)	–
Due from other banks at 31 December, gross	13	269,314	2,580	–
Less allowance for impairment	–	(2)	(1)	–
<b>Due from other banks at 31 December, net</b>	<b>13</b>	<b>269,312</b>	<b>2,579</b>	<b>–</b>
<b>Interest income on placements with banks</b>	<b>130</b>	<b>7,006</b>	<b>357</b>	<b>–</b>
<b>Available-for-sale investment securities at 31 December</b>	<b>2,307</b>	<b>136,531</b>	<b>2,250</b>	<b>–</b>
<b>Interest income on securities</b>	<b>1,297</b>	<b>2,268</b>	<b>–</b>	<b>–</b>
Loans to customers at 1 January, gross	42	150,527	2,266	9
Loans granted during the year	97	90,092	87,039	17
Loans repaid during the year	(111)	(50,031)	11	(7)
Other changes	5	30,341	583	3
Proceeds related to changes in the Group	–	392	–	–
Loans to customers at 31 December, gross	33	221,321	89,899	22
Less allowance for impairment	(33)	(1,974)	(2,693)	–
<b>Loans to customers at 31 December, net</b>	<b>–</b>	<b>219,347</b>	<b>87,206</b>	<b>22</b>

(In millions of Russian rubles, unless otherwise stated)

Interest income on loans	1	9,435	205	2
Charge (reversal) of allowance for loan impairment	(9)	902	1,879	(0)
Receivable from the Russian Government under London Club arrangements at 31 December	905	–	–	–
Due from the Russian Government at 31 December	1,083	–	–	–
Other assets at 31 December	69	310	2	–
Correspondent loro accounts at 31 December	0	74,313	249	–
Loans and deposits received at 1 January	–	113	–	–
Changes in the Group's structure	–	1,232	–	–
Loans and deposits received during the year	–	1,070,370	275	–
Loans and deposits repaid during the year	–	(1,062,895)	(277)	–
Other changes	–	632	3	–
Loans and deposits received at 31 December	–	9,452	1	–
Interest expense on interbank placements	–	594	0	–
Derivative financial liabilities	–	1,258	–	–
Due to the Russian Government and the Bank of Russia at 31 December	913,889	–	–	–
Current accounts at 31 December	43	55,147	53	14
Deposits at 1 January	272	255	82	86
Proceeds related to changes in the Group	–	4,329	–	564
Deposits received during the year	10	4,082	1,210	56
Deposits repaid during the year	(241)	(3,152)	(605)	(660)
Other changes	78	140	13	3
Deposits at 31 December	119	5,654	700	49
Other liabilities	–	724	–	–
Interest expense on customer accounts	6	1,603	38	14
Debt securities issued at 1 January	–	1,169	31	–
Proceeds related to changes in the Group	–	1,846	–	–
Debt securities issued during the year	–	2,205	–	–
Debt securities redeemed during the year	–	(2,340)	(31)	–
Other changes	–	307	–	–
Debt securities issued at 31 December	–	3,187	–	–
Interest expense on debt securities issued	–	78	–	–
Guarantees issued and undrawn loan commitments	19	95,405	3,977	3
Fee and commission income, net	11	1,217	(3)	–
Dividends	–	102	36	–
Other operating income	14	44	1	–
Other operating expense	1	9	6	–

(In millions of Russian rubles, unless otherwise stated)

	2007 (restated)			
	State controlled			Key management
	State	entities	Associates	personnel
<b>Cash and cash equivalents at 31 December</b>	<b>3,814</b>	<b>73,855</b>	<b>1,002</b>	<b>–</b>
<b>Precious metals</b>	<b>1,470</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Financial assets at fair value through profit or loss at 31 December</b>	<b>17,254</b>	<b>18,690</b>	<b>–</b>	<b>–</b>
Due from other banks at 1 January, gross	256	1,255	23	–
Amounts placed during the year	317	26,474	1,986	–
Amounts repaid during the year	(363)	(25,279)	(337)	–
Other changes	–	35	14	–
Due from other banks at 31 December, gross	209	2,485	1,686	–
Less allowance for impairment	–	(10)	–	–
<b>Due from other banks at 31 December, net</b>	<b>209</b>	<b>2,475</b>	<b>1,686</b>	<b>–</b>
<b>Interest income on placements with banks</b>	<b>47</b>	<b>638</b>	<b>80</b>	<b>–</b>
<b>Available-for-sale investment securities at 31 December</b>	<b>5,832</b>	<b>15,313</b>	<b>–</b>	<b>–</b>
<b>Interest income on securities</b>	<b>1,060</b>	<b>855</b>	<b>–</b>	<b>–</b>
Loans to customers at 1 January, gross	559	119,925	2,913	–
Loans granted during the year	452	170,974	1,074	9
Loans repaid during the year	(969)	(138,600)	(1,706)	–
Other changes	–	(1,772)	(15)	–
Loans to customers at 31 December, gross	42	150,527	2,266	9
Less allowance for impairment	(42)	(1,072)	(814)	(0)
<b>Loans to customers at 31 December, net</b>	<b>–</b>	<b>149,455</b>	<b>1,452</b>	<b>9</b>
<b>Interest income on loans to customers</b>	<b>22</b>	<b>11,700</b>	<b>219</b>	<b>–</b>
<b>Charge (reversal) of allowance for loan impairment</b>	<b>(25)</b>	<b>144</b>	<b>(9)</b>	<b>–</b>
<b>Receivable from the Russian Government under London Club arrangements at 31 December</b>	<b>905</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Due from the Russian Government at 31 December</b>	<b>1,290</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Other assets at 31 December</b>	<b>198</b>	<b>115</b>	<b>–</b>	<b>–</b>
<b>Correspondent loro accounts at 31 December</b>	<b>–</b>	<b>8,530</b>	<b>181</b>	<b>–</b>
Loans and deposits received at 1 January	–	75,186	–	–
Loans and deposits received during the year	56	179,516	–	–
Loans and deposits repaid during the year	(56)	(252,367)	–	–
Other changes	–	(2,222)	–	–
<b>Loans and deposits received at 31 December</b>	<b>–</b>	<b>113</b>	<b>–</b>	<b>–</b>
<b>Interest expense on interbank placements</b>	<b>2</b>	<b>2,277</b>	<b>–</b>	<b>–</b>

(In millions of Russian rubles, unless otherwise stated)

	2007 (restated)			
	<i>State</i>	<i>State controlled entities</i>	<i>Associates</i>	<i>Key management personnel</i>
<b>Derivative financial liabilities</b>	-	276	-	-
<b>Due to the Russian Government and the Bank of Russia at 31 December</b>	59,682	-	-	-
<b>Other liabilities</b>	-	251	1	(0)
<b>Current accounts at 31 December</b>	306	20,111	211	17
Deposits at 1 January	182	5,287	82	161
Deposits received during the year	537	88,015	-	186
Deposits repaid during the year	(447)	(93,047)	-	(256)
Other changes	-	0	-	(5)
<b>Deposits at 31 December</b>	<u>272</u>	<u>255</u>	<u>82</u>	<u>86</u>
<b>Interest expense on customer accounts</b>	8	1,136	20	9
Debt securities issued at 1 January	-	1,349	49	-
Debt securities issued during the year	-	575	31	-
Debt securities redeemed during the year	-	(800)	(50)	-
Other changes	-	45	1	-
<b>Debt securities issued at 31 December</b>	<u>-</u>	<u>1,169</u>	<u>31</u>	<u>-</u>
<b>Interest expense on debt securities issued</b>	-	55	0	-
<b>Guarantees issued and undrawn loan commitments</b>	116	44,851	773	-
<b>Fee and commission income, net</b>	215	788	2	-
<b>Dividends</b>	-	164	-	-
<b>Other operating income</b>	2	2,982	-	-
<b>Other operating expense</b>	9	2,056	-	-

Compensations of key management personnel comprise:

	2008	2007 (restated)
Salaries and other short-term benefits	318	251
Social security costs	20	11
	<u>338</u>	<u>262</u>

In addition, till the date set by the Government of the Russian Federation, Bank is servicing, in an agency capacity, the foreign debt and assets of the former USSR and the Government of the Russian Federation and its authorized institutions (Note 7).

### 33. Capital adequacy

Capital adequacy ratio is one of the most important indicators characterizing the level of risks accepted by the Bank and, therefore, determining its financial stability. To comply with minimal level of 10% set out in

*(In millions of Russian rubles, unless otherwise stated)*

the Memorandum on Financial Policies and to maintain high credit rating the Bank monitors its capital adequacy ratio on an ongoing basis.

The methods of computing the capital adequacy ratio are elaborated on the basis of regulations issued by the CBR and with regard to the generally acceptable international practices of computing capital adequacy ratios, and approved by the Supervisory Board of the Bank.

Starting from the date of monetary contribution of the Russian Government in the amount of RUB 180,000 million to the charter capital in November 2007, the Bank complied with set requirements in respect of capital adequacy ratio.

At 31 December, the Bank's capital adequacy ratio calculated in accordance with the above methods was as follows:

	<u>2008</u>	<u>2007</u>
Main capital	294,265	204,382
Additional capital	22	5,014
Less: deductions from capital	(49,936)	(6,648)
<b>Total capital</b>	<b><u>244,351</u></b>	<b><u>202,748</u></b>
<b>Risk-weighted assets</b>	<b><u>1,666,992</u></b>	<b><u>457,532</u></b>
Capital adequacy ratio	14.7%	44.3%

In order to maintain or adjust the capital structure and in accordance with Federal law No. 82-FZ "On Bank for Development" the charter capital of the Bank may be increased pursuant to the resolution of the Russian Government on the account of additional monetary contribution of the Russian Federation or income of Vnesheconombank. Proposals regarding income distribution are drafted by the Management Board of the Bank and further approved by the Supervisory Board.

#### **34. Subsequent events**

In January 2009, after purchasing the additional share issue of Prominvestbank, a Ukrainian bank, Vnesheconombank became an owner of 75% plus 3 shares of Prominvestbank. The acquisition cost of the above stake amounted to RUB 6,904 million.

In May 2009, Vnesheconombank purchased 98.94% shares of CJSC GLOBEXBANK for RUB 5 thousand. This decision was approved by the Vnesheconombank's Supervisory Board in October 2008. The acquisition was made in view of Vnesheconombank activities aimed at financial recovery of CJSC GLOBEXBANK.

Other disclosures required by IFRS 3 "Business combinations" is impracticable since Vnesheconombank has not yet completed the allocation of the acquisition cost of Prominvestbank and CJSC GLOBEXBANK with regard to fair values of their identifiable assets and liabilities.

In May (7 May) 2009, Vnesheconombank adopted and approved decisions on placement of five issues of internal currency bonds with par value of USD 1,000 each in the total amount of USD 10 billion. The volume of every issue amounts to USD 2 billion, with maturity of 1 year and interest rate of six-month LIBOR plus 1%.

On 14 May 2009, the Federal Service for Financial Markets registered these five issues of currency bonds.

**ISSUER**

**VEB Finance Limited**  
53 Merrion Square  
Dublin 2  
Ireland

**BORROWER**

**State Corporation “Bank for Development and Foreign  
Economic Affairs (Vnesheconombank)”**  
9 Akademika Sakharova  
Moscow B-78, GSP-6, 107996  
Russian Federation

**ARRANGERS AND PERMANENT DEALERS**

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ  
United Kingdom

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
London E14 5LB  
United Kingdom

**Société Générale**  
29 Boulevard Haussmann  
75009 Paris  
France

**LEGAL ADVISERS TO VEB**

*As to U.S. and English law*

**Dewey & LeBoeuf**  
No. 1 Minster Court  
Mincing Lane  
London, EC3R 7YL  
United Kingdom

*As to Russian law*

**Dewey & LeBoeuf LLP**  
Nikitsky Pereulok, 5  
125009 Moscow  
Russian Federation

**LEGAL ADVISERS TO THE ARRANGERS AND THE PERMANENT DEALERS**

*As to U.S. and English law*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

*As to Russian law*

**Linklaters CIS**  
Paveletskaya Square 2  
Bld. 2  
Moscow 115054  
Russian Federation

**LEGAL ADVISERS TO THE ISSUER**

**Arthur Cox**  
Earlsfort Centre  
Earlsfort Terrace  
Dublin 2  
Ireland

**LEGAL ADVISERS TO THE TRUSTEE**

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

**PRINCIPAL PAYING AGENT,  
CALCULATION AGENT AND  
TRANSFER AGENT**

**The Bank of New York Mellon,  
London Branch**  
On Canada Square  
London EC14 4AL  
United Kingdom

**U.S. PAYING AGENT AND  
TRANSFER AGENT**

**The Bank of New York Mellon,  
New York Branch**  
101 Barclay Street  
New York, NY 10286  
United States of America

**THE IRISH PAYING AGENT**

**The Bank of New York Mellon  
(Ireland) Limited**  
4th floor, Hanover Building  
Windmill Lane  
Dublin 2  
Ireland

**TRUSTEE**

**BNY Corporate Trustee  
Services Limited**  
One Canada Square  
London EC14 5AL  
United Kingdom

**REGISTRAR**

**The Bank of New York Mellon  
(Luxembourg) S.A.**  
Vertigo Building – Polaris  
2-4 rue Engène Ruppert  
L-2453 Luxembourg.

**LISTING AGENT**

**Arthur Cox Listing Services Limited**  
Earlsfort Centre  
Earlsfort Terrace  
Dublin 2  
Ireland

**AUDITORS TO VEB**

**CSJC Ernst & Young Vneshaudit**  
Sadovnicheskaya Nab. 77, bld. 1  
Moscow 115035  
Russian Federation