



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 plc

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 plc (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 million (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 Mellon 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 Central Bank of Ireland, as competent authority under Directive 2003/71/EC (the “**Prospectus Directive**”). The Central Bank of Ireland 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 “**Main Securities Market**”). The Main Securities 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 regulated market of the Irish Stock Exchange 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 Central Bank of Ireland 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 Main Securities 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 Issuer does not intend to issue any Notes under the Programme with a denomination of less than €100,000 (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*”.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to a Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (the “**CRA Regulation**”) will be disclosed in the applicable Final Terms. Please also refer to “*Risk Factors—Rating of the Notes*”.

Arrangers and Permanent Dealers

Barclays Capital

BNP PARIBAS

Citi

Crédit Agricole CIB

HSBC

J.P. Morgan

Morgan Stanley

Société Générale Corporate & Investment Banking

The Royal Bank of Scotland

The date of this Base Prospectus is 30 June 2011.

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 plc. 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 Central Bank of Ireland as required by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**"). This Base Prospectus, as approved by the Central Bank of Ireland, 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 Central Bank of Ireland. The Issuer is not and will not be regulated by the Central Bank of Ireland 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.

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 2010, 2009 and 2008 (the "IFRS Financial Statements") and the Group's IFRS Financial Statements for the years ended 31 December 2010 and 2009 are set forth on pages F-2 through F-202 of this Base Prospectus. The Group's IFRS Financial Statements for the year ended 31 December 2008 have not been included in full in this Base Prospectus. 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 Ernst & Young LLC who have expressed an unqualified opinion on each of those statements, as stated in their report appearing herein. The address of Ernst & Young LLC is Sadovnicheskaya Naberezhnaya 77, Building 1, Moscow 115035, Russian Federation. Ernst & Young LLC are independent auditors. Ernst & Young LLC 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 (Vnesheconombank)" approved by Directive of the Government of the Russian Federation No. 1007-r on 27 July 2007 as amended by Directive 1170-r and as otherwise amended from time to time;

"**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 from time to time;

"**Directive 1170-r**" means the Directive of the Government of the Russian Federation No. 1170-r dated 15 July 2010;

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

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

"**FCPF**" means OJSC "Federal Centre for Project Finance";

"**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 from time to time;

“**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 from time to time;

“**NCDC**” means OJSC “Corporation for the Development of North Caucasus”;

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

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

“**ROSEXIMBANK**” means CJSC ROSEXIMBANK;

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

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

“**SME Bank**” means OJSC “Russian Bank for Small and Medium Enterprises Support” (formerly, Russian Bank of Development OJSC “Rossiyskiy bank razvitiya”);

“**Sviaz-Bank**” means OJSC “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 “Investment Company of Vnesheconombank” (formerly, 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;

“**CHF**” or “**Swiss Franc**” means the lawful currency of Switzerland;

“**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 Hryvnia” or “UAH” 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 ⁽¹⁾
Year				
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
2010	31.78	28.93	30.48	30.37
Month				
January 2011	30.63	29.67	29.67	30.09
February 2011	29.80	28.94	28.94	29.29
March 2011	28.90	28.16	28.43	28.43
April 2011	28.52	27.50	27.50	28.10
May 2011	28.48	27.26	28.07	27.87
June 2011 (through 24 June 2011)	28.19	27.68	28.06	27.93

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 2010 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 30.48 per U.S.\$1.00 as at 31 December 2010; 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 2010, which was RUB 30.37 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 (httplx-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 (although, as at the date of this Base Prospectus, no new recovery finance is being provided); (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*”. Beginning in late 2009 and in 2010, as the global economic crisis has eased and the Russian economy has shown signs of improvement and increased stability, VEB has refocused on its development bank activities and has ceased to provide new recovery finance. VEB expects that the related change in the mix of its business will continue at least in the near to medium term.

VEB has four banking subsidiaries in the Russian Federation (SME Bank, 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. In late 2010, VEB acquired FCPF, which is primarily engaged in VEB’s programme of providing financial assistance for the implementation of projects aimed at regional and urban development in Russia with the participation of regional and municipal authorities and, in November 2010, VEB established NCDC, whose principal activities include supporting investment projects implemented (or to be implemented) in the North Caucasus and advising regional authorities in connection therewith. See “*Description of VEB’s Business—Principal Subsidiaries and Associates*”. In addition, on 28 July 2010, VEB’s Supervisory Board approved the establishment of an export credit agency as a wholly owned subsidiary of VEB (the “**Russian Export Credit Agency**”) with an expected capitalisation of RUB 30 billion. The stated objective of the Russian Export Credit Agency, whose activities will be supplemental and complementary to, and not intended to replace or compete with, VEB’s existing export finance activities, is to promote the Russian export market by providing credit insurance and guarantees to Russian exporters with the support of the State. The Russian Export Credit Agency will be established only after adoption of certain amendments to existing federal laws.

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 the principal development bank of the Russian Federation 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 and projects focusing on technological and industrial innovation, 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*”.

From October 2008 into 2010, VEB was also 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 provided 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 a 90.0% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009, and a 98.9% interest in GLOBEXBANK in 2009, which was subsequently increased to 99.2% in 2010. At the time of VEB's initial acquisitions of these banks, both Sviaz-Bank and GLOBEXBANK were in a distressed financial condition as a result of the global financial crisis. See *"Description of VEB's Business—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System"*. As the global economic crisis has eased and the Russian economy has shown signs of improvement and increased stability, although a number of VEB's recovery finance programmes continue to remain in effect, VEB has ceased to provide new recovery finance and reduced its exposure to borrowers who had received recovery finance pursuant to programmes established by VEB under the Financial System Support Law. Whilst the subordinated loans that VEB extended to Russian banks pursuant to such programmes, as well as some amounts extended under certain other recovery finance programmes, remain outstanding as at the date of this Base Prospectus, as at 2 October 2010, all of the back-to-back (recovery) finance loans which VEB had extended to Russian corporate borrowers to refinance claims of foreign creditors have been repaid and, consequently, VEB has repaid all of the deposits which it received from the CBR to provide such recovery finance.

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, as well as those who have selected VEB as their pension fund manager. 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 continues to receive the largest portion 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 2010, VEB had charter capital of RUB 382,571 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 211,647 million (as compared to RUB 446,151 million as at 31 December 2009) and RUB 594,028 million (as compared to RUB 501,455 million as at 31 December 2009), respectively. As at 31 December 2010, total funding from the Russian Government and the CBR as a percentage of VEB's total equity and liabilities was 39.9% (as compared to 50.9% as at 31 December 2009). Following the repayment of back-to-back (recovery) finance loans extended by VEB to qualifying borrowers under the Financial System Support Law, VEB has repaid deposits in an aggregate amount of U.S.\$7,947 million (including all accrued interest), which it received from the CBR to provide such recovery finance. See *"Certain Statistical Data and Other Information—Sources of Funding—Amounts Due to the CBR"*. 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. See *"Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources"*. 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, five representative offices within the Russian Federation and ten representative offices outside the Russian Federation (in the United States of America, India (two),

Switzerland (opened in January 2011), 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 2010, VEB had total assets of RUB 2,043,472 million and total loans of RUB 1,203,567 million, whilst VEB had net interest income of RUB 66,673 million and net income of RUB 28,247 million for the year ended 31 December 2010.

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, although, as at the date of this Base Prospectus, no new recovery finance is being provided;
- 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 depositary in the Russian Federation.

Beginning in late 2009 and in 2010, as the global economic crisis has eased and the Russian economy has shown signs of improvement and increased stability, VEB has refocused on its development bank activities and has ceased to provide new recovery finance.

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

Issuer	VEB Finance plc (formerly, VEB Finance Limited).
VEB (as Borrower)	State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”.
Description	Programme for the Issuance of Loan Participation Notes pursuant to which the Issuer may issue Notes.
Programme Size	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).
Arrangers	Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, HSBC Bank plc, J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc, The Royal Bank of Scotland plc and Société Générale.
Dealers	Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, HSBC Bank plc, J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc, Société Générale and The Royal Bank of Scotland plc. 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.
Trustee	BNY Mellon Corporate Trustee Services Limited (formerly, BNY Corporate Trustee Services Limited).
Principal Paying Agent	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.
Registrar	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.
Paying Agents	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.
Transfer Agents	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.
Calculation Agent	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.
Method of Issue.....	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.
Issue Price of Notes.....	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
Status	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> ”.
Security	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: • 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 • 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.

Assignment of Rights.....	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 depositary 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 Central Bank of Ireland 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 Central Bank of Ireland and that the Issuer is not regulated by the Central Bank of Ireland 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). The Issuer does not intend to issue any Notes under the Programme with a denomination of less than €100,000 (or its equivalent in any other currency as at the date of issue of the 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 arrear 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, <i>inter alia</i> , 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 " <i>Terms and Conditions of the Notes—4. Restrictive Covenants</i> ". Furthermore, the Issuer will agree in the Trust Deed not to make or consent to any amendment or modification or waiver of, or authorise any breach or proposed breach of the terms of 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 “ <i>Terms and Conditions of the Notes—6 Redemption and Purchase</i> ”), 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 “ <i>Terms and Conditions of the Notes</i> ”.
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 Main Securities 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 Credit Market Services Europe Limited (“S&P”), a stable rating of “Baa1” from Moody’s Investors Service Ltd. (“Moody’s”), and stable rating of “BBB” from Fitch Ratings Ltd. (“Fitch”). Each of S&P, Moody’s and Fitch is established in the European Union and has applied to be registered under Regulation (EC) No 1060/2009 (the “CRA Regulation”), although the result of such applications has not yet been determined. A 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. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to a Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms. See “<i>Risk Factors—Rating of the Notes</i>”. 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 and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law.
Selling Restrictions	United States, United Kingdom, Ireland, the Russian Federation and any other jurisdiction relevant to any Series. See “ <i>Subscription and Sale</i> ”.
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 “ <i>Certain ERISA Considerations</i> ” and “ <i>Transfer Restrictions</i> ”.

THE SENIOR LOAN CORRESPONDING TO EACH SENIOR SERIES OF NOTES

Lender.....	The Issuer.
Borrower	VEB.
Security and Ranking	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.
Currency.....	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.
Loan Interest Basis	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.
Redemption of the Option of VEB.....	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.
Put/Call Options	If a call option is specified in the applicable Loan Supplement (a “Call Option”) 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). If a put option is specified in the applicable Loan Supplement (a “Put Option”) 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.
Mandatory Repayments.....	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.
Redemption upon a Change of Control.....	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.
Certain Restrictions and Covenants	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 and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, 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.

One of VEB's principal functions is to promote the stability and development of the Russian economy. Although VEB 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 certain 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. As the main provider of liquidity in the Russian market in 2008 and 2009,

VEB provided recovery finance to Russian borrowers and, to the extent not already repaid, VEB bears the risk of non-payment of such recovery finance.

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 original 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 original 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 original interest rates ranging from 8.0% to 9.5% per annum with maturities for up to 31 December 2019 and December 2020). See “*Lending Policy and Procedures—Credit Approval and Monitoring*”. In accordance with amendments made to the Financial System Support Law adopted on 27 July 2010, the interest rates that VEB charges on these subordinated loans to Russian banks were lowered in 2010 from 8.0% to 6.5% and from 9.5% to 7.5% whilst, at the same time, the interest rates for the matching deposits received from the Ministry of Finance of the Russian Federation (comprised of funds of the NWF) were lowered from 7.0% to 6.25% and from 8.5% to 7.25%. Under the Financial System Support Law, (i) VEB had the right to receive additional deposits from the CBR in an aggregate amount of U.S.\$50,000 million, 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”). VEB received U.S.\$11, 636 million of the U.S.\$50,000 million in deposits available from the CBR and, as required, applied all of such amount to provide refinancing loans to Russian corporate borrowers. As at 2 October 2010, following repayment of all these loans, VEB has repaid all of the deposits which it received from the CBR for such purpose. As at 28 April 2011, VEB has drawn down RUB 3,000 million of the RUB 40,000 million credit line from the Russian Government and, as required, applied such deposits 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, and although all of the back-to-back (recovery) finance loans extended by VEB to Russian corporate borrowers to refinance claims of foreign creditors have been repaid, both the subordinated loans that VEB extended to Russian banks and the loans VEB has extended to AHML remain outstanding as at the date of this Base Prospectus. Consequently, VEB ultimately bears the risk of non-payment by the borrowers in respect of these loans. 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, in the case of the outstanding subordinated loans to Russian banks, due to their subordinated nature, VEB’s claims in respect of the payment of principal and interest on such 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 2010, 2009 and 2008, funding from the Russian Government and the CBR, as a percentage of VEB’s total liabilities, represented 52.6%, 66.5% and 63.9%, 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, or may decide to reorganise or privatise VEB, either of which actions may have a material adverse effect on VEB’s business, financial condition, results of operations and prospects.

The 2007 Memorandum, which was originally due to expire on 27 July 2010, was extended by Directive 1170-r on 15 July 2010 on its existing terms for an additional three years, expiring in July 2013. The Russian Government may, in its sole discretion, replace or amend the 2007 Memorandum at any time, before or after the current stated expiration date. 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 amend the 2007 Memorandum or to replace it. If any fundamental changes are introduced to the 2007 Memorandum, however, these could have a material adverse effect on VEB’s business, financial condition, results of operations and prospects. Moreover, although, under the applicable regulatory framework, if the 2007 Memorandum is not extended from July 2013 onwards or a new memorandum is not then adopted, the 2007 Memorandum will be deemed to be extended on its existing terms from July 2013 onwards until the decision on the extension of the 2007 Memorandum or its replacement with a new memorandum is adopted, there can be no assurance that the 2007 Memorandum will be extended from July 2013 onwards on its existing terms, if at all.

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 and projects focusing on technological and industrial innovation, 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 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 2010, loans to VEB's three largest borrowers included a group of loans to an associate of VEB in the amount of RUB 135,415 million and comprising 14.5% of total 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. As at 31 December 2010, VEB recorded allowance for impairment of these loans to its associate in an aggregate amount of RUB 38,586 million.

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 from RUB 272,897 million as at 1 January 2008 to RUB 1,203,567 million as at 31 December 2010. Continued and improved monitoring of the credit quality of VEB's loan portfolio, and the adequacy of its provisioning levels, is required, and, in particular, as the composition of the portfolio has changed in 2010 to include a higher proportion of development bank loans. Beginning in late 2009 and in 2010, VEB has refocused its activities on development bank lending, whilst ceasing to provide recovery finance and reducing its exposure to borrowers who had received recovery finance pursuant to programmes established by VEB under the Financial System Support Law. By their nature, VEB's recovery finance loans tended to be characterised by a higher credit quality than VEB's ordinary course development bank loans. In the course of VEB's development bank activities, 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. Furthermore, loans and investments made by VEB in the course of its development bank activities 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. Accordingly, VEB expects that it may experience some deterioration in the overall credit quality of its loan portfolio as a result of the refocusing of its lending activities. See "*Risk Management*".

Allowance for impairment of total loans was RUB 145,930 million as at 31 December 2010, representing 10.8% of VEB's total gross loans as at 31 December 2010, as compared to RUB 122,694 million, as at 31 December 2009, representing 8.6% of VEB's total loans as at 31 December 2009. As at each of 31 December 2010 and 31 December 2009, allowance for impairment of loans 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*". As at 31 December 2010, VEB recorded an allowance for impairment of loans to its three largest borrowers in an aggregate amount of RUB 41,359 million and an allowance for impairment of loans to its next ten further major borrowers or groups of related borrowers in an aggregate amount of RUB 12,878 million, as compared to allowances of RUB 37,583 million for loans to its three largest borrowers and RUB 7,946 million for loans to its next ten further major borrowers or groups of related borrowers, respectively, as at 31 December 2009. See "*Certain Statistical Data—Borrower Concentration*".

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 2010, loans outstanding to borrowers in real estate and construction, manufacturing (including heavy machinery and military) and finance comprised 26.9%, 17.0% and 16.9% 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 2010, loans outstanding to VEB's three largest borrowers aggregated RUB 210,585 million and comprised 22.6% of the total loan portfolio. As at 31 December 2010, the loans to VEB's three largest borrowers included (i) a group of loans to an associate of VEB, in the amount of RUB 135,415 million and comprising 14.5% of total 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; (ii) a loan, provided in the ordinary course of VEB's development bank activities, to implement a development project in the metallurgy sector, in the amount of RUB 54,563 million and comprising 5.9% of VEB's total loans to customers; and (iii) a group of loans, also provided in the ordinary course of VEB's development bank activities, to implement a development project in the agriculture sector, in the aggregate amount of RUB 20,607 million and comprising 2.2% of VEB's total loans to customers. See *“Related Party Transactions”*. As at 31 December 2010, VEB recorded allowance for impairment of these loans to its three largest borrowers in an aggregate amount of RUB 41,359 million, of which RUB 38,586 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.

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 147,587 million, or 15.8% of total loans to customers, as at 31 December 2010. For the year ended 31 December 2010, VEB recorded allowance for impairment of these ten large loans in a total amount of RUB 12,878 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 2010, VEB had issued guarantees amounting to RUB 156,237 million, letters of credit amounting to RUB 49,806 million and other undrawn credit lines and commitments to extend credit amounting to RUB 436,271 million, compared to 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, as at 31 December 2009, respectively. As at 31 December 2010, VEB's largest guarantee accounted for 10.7% 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's reliance on funding from the CBR and the Russian Government has decreased to a certain extent as VEB has obtained funding from alternative sources, such as the international capital markets and bilateral and syndicated loan facilities, and VEB intends to continue to diversify its funding sources. 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.

There can be no assurance that VEB will continue to 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. An increase in interest rates may also 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 particular, although VEB's increased access to cheaper funding and the higher average rates on its interest-earning assets in 2010 combined to result in an increase in VEB's overall net interest margin to 3.8% for the year ended 31 December 2010, as compared to 3.0% for the year ended 31 December 2009, VEB has also experienced certain downward pressure on its net interest margin. As at the date of this Base Prospectus, VEB continues to hold the unsecured subordinated loans advanced to Russian banks pursuant to the Financial System Support Law on a fully matched basis. In accordance with amendments to the Financial System Support Law adopted on 27 July 2010, and the respective decision of VEB's Supervisory Board, the interest rates VEB charges on these subordinated loans were lowered from 8.0% to 6.5% and from 9.5% to 7.5%, whilst, at the same time, the interest rates for the matching deposits received from the Ministry of Finance of the Russian Federation (comprised of funds of the NWF) were lowered by a smaller amount from 7.0% to 6.25% and 8.5% to 7.25%. As a result of the smaller reduction in the funding rates, as compared to the loan rates, the overall net interest margin on VEB's subordinated loans to qualifying borrowers under the Financial System Support Law has decreased. Furthermore, 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 activities on which VEB has refocused in late 2009 and in 2010 generally involve the provision of financing at lower rates. The related change in the composition of VEB's total loans to customers to include a higher proportion of development bank loans has, and is expected to continue to, put downward pressure on VEB's net interest margin. Whilst the lower average cost of VEB's funding has had an offsetting effect, there can be no assurance that VEB will continue to be able to sustain its net interest margin at recent or current levels in the future.

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 2010 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.

The value of VEB's securities portfolio increased by 34.8% to RUB 562,978 million as at 31 December 2010 from RUB 417,726 million as at 31 December 2009, after having increased by 42.6% from RUB 292,922 million as at 31 December 2008. The increase in the value of VEB's securities portfolio as at 31 December 2010, as compared to 31 December 2009, was principally attributable to a further recovery in the market price of the securities held by VEB, a large portion of which had been 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, but which also now include VEB's recent strategic investments. See "*Description of VEB's Business—Recovery Finance—Equity Investments*" and "*Description of VEB's Business—Securities Markets and Treasury Operations*". The increase in the value of VEB's securities portfolio as at 31 December 2009, as compared to 31 December 2008, was 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 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, 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 2010 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, VEB's total assets have grown from RUB 554,623 million as at 1 January 2008 to RUB 2,043,472 million as at 31 December 2010. 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 and VEB has ceased to provide new recovery finance, 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 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 98.0% in 2010 (including 32.4% through two subsidiaries); a 90.0% 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 January 2009, which was subsequently increased to 93.8% in October 2009; and a 98.9% interest in GLOBEXBANK in 2009, which was subsequently increased to 99.2% in 2010. Certain claims have been brought by minority shareholders challenging the validity of VEB's investment in Prominvestbank. See "*—Litigation*". In 2010, VEB's asset growth also reflected its acquisition of a 2.7% stake in OAO Gazprom for

a purchase price of approximately U.S.\$3.5 billion, as well as the contribution to VEB's charter capital of the shares of FCPF. See "*Description of VEB's Business—Securities Markets and Treasury Operations*".

VEB's recent acquisitions, together with the contribution of FCPF, 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 or national economies in which subsidiaries operate;
- 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, 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, although VEB has reduced its exposure to borrowers who had received recovery finance pursuant to the programmes established by VEB under the Financial System Support Law and the Russian economy has shown signs of improvement and increased stability, 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 outstanding 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 VEB's revenues and financial condition of the Russian Federation.

The Russian economy is 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.\$140.80 per barrel and the average price per barrel was U.S.\$94.37, compared to a peak price of U.S.\$78.15 and an average price of U.S.\$60.89 in 2009. In 2010, the peak price of Urals oil was U.S.\$92.05 per barrel and the average price per barrel was U.S.\$78.20. In the first four months of 2011, the average price of Urals oil was U.S.\$106.72 per barrel. Russia's 2011 Budget Law assumes an average price per barrel of Urals oil of U.S.\$75, U.S.\$78 and U.S.\$79 for 2011, 2012 and 2013, respectively. 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

lowest monthly average export price of natural gas was U.S.\$294.80 per thousand m³, the highest monthly average export price of natural gas was U.S.\$417.10 per thousand m³ and the average export price of natural gas was U.S.\$359.10 per thousand m³, compared to the lowest monthly average export price of U.S.\$217.70 per thousand m³, a peak monthly average export price of U.S.\$332.90 per thousand m³ and an average export price of U.S.\$257.10 per thousand m³ in 2009. In 2010, the lowest monthly average export price of natural gas was U.S.\$254.40 per thousand m³, the peak monthly average export price of natural gas was U.S.\$287.60 per thousand m³ and the average export price of natural gas was U.S.\$273 per thousand m³ (excluding trade with Kazakhstan since 1 July 2010). 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, if sustained, 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 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 economy and finances were adversely affected in 2008 and 2009 by the global financial crisis. Real gross domestic product ("GDP"), for example, declined by 7.8% in 2009 compared to 2008. The value of the Rouble against the U.S. Dollar also declined in 2009, by 12.2% in real terms, as did the value of the effective exchange rate for Roubles to U.S.Dollars, which fell by 5.6%. Any future 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.

Although the Russian economy has shown signs of improvement and increased stability, 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 recent 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.

Ratings of Notes

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the “**CRA Regulation**”) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-European Union credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-European Union rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Where a Series of Notes is rated, the rating assigned to the Notes and details of the relevant rating agency will be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to a Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms.

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 Russian 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. VEB is aware of at least one instance when the Russian tax authorities tried to challenge the application of double tax treaty benefits in similar structures. The Federal Arbitrazh Court of the Moscow District upheld the position of the taxpayer. At this stage it is difficult to predict whether the above-mentioned dispute would remain an isolated case or whether there might be other similar disputes in the future.

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. This draft law, if enacted as currently drafted, would increase the existing uncertainty and inconsistency in the application of double 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.

and what effect it may have on taxpayers, including VEB. In fact, there has been no progress with this legislation since late 2009. Further, in May 2010 the Russian Government also proposed in its Main Directions of Russian Tax Policy for 2011-2013 (the “**Directions**”) legislative changes concerning an anti-avoidance mechanism with respect to double tax treaty benefits, as well as creating tax incentives to move organisations from offshore to Russia. As noted in these Directions, such changes related to tax treaties are based on the provisions of the OECD Model Tax Convention. 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 benefits of the Convention will cease and payments of interest under such Loan Agreement to the Trustee 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. However, there is no assurance that the treaty relief will be available in practice in this case.

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 and/or the Noteholders receive a net amount that will not be less than the amount they 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 under any Loan Agreement, it may (without premium or penalty), subject to certain conditions, prepay the relevant 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 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 tax, 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 of time 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 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, the Ministry of Finance of the Russian Federation (the “**Ministry of Finance**”) and the tax authorities often interpret tax laws differently. The current practice is that private clarifications to specific taxpayers' queries with respect to particular situations issued by the Ministry of Finance are not binding on the tax authorities and there can be no assurance that the tax authorities will not take positions contrary to those set out in the private responses issued by the Ministry of Finance. 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, which has led to an increased number of material tax assessments issued by the tax authorities as a result of tax audits of companies operating in various industries, including the financial industry, 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 or other Russian laws. 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. Based on the available practice 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 the concept of “unjustified tax benefit”, 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. The ruling provides that a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction of the tax base, the receipt of a tax deduction (recovery) or tax concession, the application of a reduced tax rate and the receipt of a right to a refund (offset) or reimbursement of tax from the budget. The Supreme Arbitration Court ruled that a tax benefit itself cannot be regarded as a business objective, and such tax benefit may be deemed unjustified if the true economic intent of transactions is inconsistent with the manner in which they have been

accounted for tax purposes or when a transaction lacks a reasonable economic or business purpose. On the other hand, the mere fact that the same economic result might have been obtained with a lesser tax benefit received by the taxpayer should not be treated as grounds for declaring a tax benefit to be unjustified. 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 the taxpayers. Although the explicit intention of this ruling was to combat abuse of tax law, based on the available court practice relating to Resolution No. 53, it can be concluded that 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. Importantly, there are some cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date, however, in 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 by the tax authorities 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. Therefore, previous tax audits do not preclude subsequent claims relating to the audited period.

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 terms “obstructed”, “hindered” and “create insurmountable obstacles” are not defined in Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year 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 as currently in effect 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 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 expected to occur during 2011. The law is currently expected to come into force effective 1 January 2012. The proposed amendments, if adopted, would result in stricter transfer pricing rules. At this stage it cannot be predicted with absolute certainty when these amendments will be enacted, if at all, and what effect they may have on taxpayers, including VEB.

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.

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 or organisation that holds the Notes other than through its permanent establishment in Russia 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 personal income tax would be charged at a rate of 30% on gross proceeds from such disposition of the Notes less any available documented cost deductions (including the acquisition cost of the Notes). 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 can be extremely difficult, if not impossible. Furthermore, even though the Tax Code requires only a Russian licensed broker or an asset manager that is a Russian legal entity or an organisation, or any other person located in Russia (including a foreign company with a permanent establishment or any registered presence in Russia or an individual entrepreneur located in Russia) carrying out operations for the benefit of the Non-Resident Noteholder-Individual under an asset management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement to withhold the tax from payment to a non-Russian 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 SME Bank, ROSEXIMBANK and FCPF 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 2010, 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 2010 included elsewhere in this Base Prospectus.

	As at 31 December 2010	
	<i>(U.S.\$ millions)⁽¹⁾</i>	<i>(RUB millions)</i>
Long-term debt⁽²⁾		
Senior long-term debt.....	23,845	726,807
Total long-term debt.....	23,845	726,807
Equity		
Charter capital.....	12,552	382,571
Retained earnings.....	822	25,043
Unrealised gains / (losses) on investment securities available-for-sale.....	2,811	85,679
Foreign currency translation reserve.....	12	373
Equity.....	16,197	493,666
Minority interest.....	47	1,438
Equity.....	16,244	495,104
Total capitalisation.....	40,089	1,221,911

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 2010, which was RUB 30.48 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 2010.

Since 31 December 2010, VEB has incurred the following long-term debt:

- Between January and March 2011, Prominvestbank placed three series of Ukrainian Hryvnia-denominated bonds on the Ukrainian Stock Exchange and PFTS Stock Exchange, each with a nominal value of UAH 500 million and with final maturities in January 2014, February 2013 and March 2014, respectively;
- On 17 February 2011, VEB placed a Series of Swiss Franc-denominated Notes under the Programme listed on the Swiss SIX Exchange with a nominal value of CHF 500 million and with a final maturity in February 2016;
- On 31 March 2011, VEB placed Rouble-denominated notes listed on MICEX with a nominal principal amount of RUB 15,000 million and with a final maturity in March 2021;
- On 5 April 2011, VEB-Leasing entered into a supplement to an existing framework bilateral loan facility with Alpha Bank in a principal amount of RUB 3,481 million and with a final maturity in March 2016;
- On 12 April 2011, VEB-Leasing entered into a bilateral loan facility with Deutsche Bank AG in a principal amount of U.S.\$200 million and with a final maturity in April 2014;

- On 15 April 2011, VEB-Leasing issued three series of Rouble-denominated notes listed on MICEX each with a nominal principal amount of RUB 5,000 million and each with a final maturity in April 2021;
- On 28 April 2011, VEB entered into a syndicated loan facility with a number of international banks in a principal amount of U.S.\$2,450 million and with a final maturity in April 2014;
- On 27 May 2011, VEB-Leasing placed U.S. Dollar-denominated notes listed on the Irish Stock Exchange in a nominal principal amount of U.S.\$400 million and with a final maturity in May 2016; and
- On 24 May 2011, VEB entered into a bilateral loan facility with WestLB AG in a principal amount of EUR 80 million and with a final maturity in May 2021.

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			
	2010 ⁽¹⁾	2010	2009	2008
	(U.S.\$	(RUB	(RUB	(RUB
	millions)	millions)	millions)	millions)
Interest income	4,865	147,763	138,794	43,408
Interest expense	(2,670)	(81,090)	(86,858)	(21,058)
Net interest income	2,195	66,673	51,936	22,350
Provision for impairment of interest-earning assets	(1,506)	(45,735)	(114,837)	(8,601)
Net interest income / (expense) after provision for impairment of interest-earning assets	689	20,938	(62,901)	13,749
Net fee and commission income	198	6,030	7,189	1,625
Gains less losses from securities	767	23,307	70,464	(49,182)
Gains less losses from foreign currencies:				
- dealing	117	3,547	12,603	(10,242)
- translation differences	(35)	(1,078)	(2,100)	16,644
Gains less losses on initial recognition of financial instruments	(79)	(2,400)	9,087	—
Share in net income / (expense) of associates	7	204	56	(266)
Excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost	—	—	23,832	—
Dividend income	74	2,260	2,620	386
Other operating income	58	1,754	1,715	948
Non-interest income / (expense)	1,107	33,624	125,466	(40,087)
Non-interest expenses	(915)	(27,793)	(23,833)	(53,984)
Income / (loss) before income tax	881	26,769	38,732	(80,322)
Income tax benefit / (expense)	43	1,306	(417)	(947)
Net income for the year from discontinued operations	6	172	—	—
Net income / (loss) for the year	930	28,247	38,315	(81,269)

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 2010, which was RUB 30.3692 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			
	2010 (U.S.\$ millions) ⁽¹⁾	2010 (RUB millions)	2009 (RUB millions)	2008 (RUB millions)
Assets:				
Cash and cash equivalents	6,453	196,672	168,916	281,673
Financial assets at fair value through profit or loss	2,498	76,144	51,507	52,089
Due from credit institutions	13,638	415,641	467,308	311,510
Loans to customers	25,853	787,926	843,538	725,640
Investment securities:				
- available-for-sale	15,479	471,755	332,739	228,607
- held-to-maturity	707	21,536	22,366	11,752
Investment securities available-for-sale pledged under repurchase agreements	158	4,828	13,328	—
Due from the Russian Government	4	119	207	194
Investments in associates	185	5,638	5,462	5,708
Property and equipment	773	23,550	20,404	8,026
Income tax assets	77	2,350	856	1,573
Other assets	1,178	35,897	11,220	11,937
Total assets⁽²⁾	67,050	2,043,472	1,939,214	1,644,741
Liabilities:				
Due to credit institutions	7,712	235,027	201,137	373,460
Due to the Russian Government and the Bank of Russia	26,738	814,901	987,563	913,889
Amounts due to customers	9,519	290,098	202,223	111,341
Debt securities issued	6,134	186,947	78,896	8,225
Income tax liabilities	34	1,042	1,948	282
Provisions	7	203	2,467	1,362
Other liabilities	447	13,611	6,030	6,352
Total liabilities⁽²⁾	50,805	1,548,368	1,483,978	1,429,445
Equity:				
Charter capital	12,553	382,571	382,489	261,489
Retained earnings / (accumulated deficit)	822	25,043	(3,809)	(43,981)
Unrealised gains / (losses) on investment securities available-for-sale	2,811	85,679	73,940	(4,639)
Foreign currency translation reserve	12	373	382	856
Equity	16,198	493,666	453,002	213,725
Non-controlling interests	47	1,438	2,234	1,571
Total equity	16,245	495,104	455,236	215,296
Total equity and liabilities	67,050	2,043,472	1,939,214	1,644,741

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 2010, which was RUB 30.4769 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		
	2010	2009	2008
Profitability Ratios:			
Net interest margin ⁽¹⁾	3.8%	3.0%	3.7%
Operating expenses ⁽²⁾ as a percentage of net interest income before provisions for impairment losses	41.4%	43.3%	45.4%
Operating expense as a percentage of average total assets	1.4%	1.2%	1.5%
Return on average assets ⁽³⁾	1.4%	2.0%	(12.2%)
Liquidity Ratios:			
Loans to customers as a percentage of total assets ⁽⁴⁾	38.6%	43.5%	44.1%
Liquid assets ⁽⁵⁾ as a percentage of total assets	20.9%	20.3%	25.1%
Equity Ratios:			
Capital adequacy ratio	20.1%	19.1%	14.7%
Single borrower (or group of related borrowers) exposure ⁽⁶⁾	76.8%	82.2%	106.9%
Maximum exposure to large credit risk ⁽⁷⁾	355.8%	353.6%	414.0%

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) Loans to customers as a percentage of total assets is calculated as total loans to customers net of allowance divided by total assets.
- (5) Liquid assets include cash and cash equivalents in a full amount 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, all with remaining contractual maturities of less than one month.
- (6) 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.
- (7) 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 (although, as at the date of this Base Prospectus, no new recovery finance is being provided); (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, a 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*". Beginning in late 2009 and in 2010, as the global economic crisis has eased and the Russian economy has shown signs of improvement and increased stability, although a number of VEB's recovery finance programmes continue to remain in effect, VEB has refocused on its development bank activities and has ceased to provide new recovery finance. VEB expects that this change in the mix of its business will continue at least in the near to medium term.

VEB has four banking subsidiaries in the Russian Federation (SME Bank, ROSEXIMBANK, Sviaz-Bank and GLOBEXBANK), one in Belarus (Belynesheconombank) 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. In late 2010, VEB acquired FCPF, which is primarily engaged in VEB's programme of providing financial assistance for the implementation of projects aimed at regional and urban development in Russia with the participation of regional and municipal authorities and, in November 2010, VEB established NCDC, whose principal activities include supporting investment projects implemented (or to be implemented) in the North Caucasus and advising regional authorities in connection therewith. See "*Description of VEB's Business—Principal Subsidiaries and Associates*". On 28 July 2010, VEB's Supervisory Board approved the establishment of the Russian Export Credit Agency as a wholly owned subsidiary of VEB with an expected capitalisation of RUB 30 billion. The stated objective of the Russian Export Credit Agency, whose activities will be supplemental and complementary to, and not intended to replace or compete with, VEB's existing export finance activities, is to promote the Russian export market by providing credit insurance and guarantees to Russian exporters with the support of the State. The Russian Export Credit Agency will be established only after adoption of certain amendments to existing federal laws to authorise the functions necessary for the implementation of the Agency's stated objectives, including authority for the State to issue supporting guarantees. VEB expects to fund its capital contribution to the Russian Export Credit Agency out of gains on the sale of securities from VEB's securities portfolio.

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 the

principal development bank of the Russian Federation 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 and projects focusing on technological and industrial innovation, 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 a 90.0% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009, and a 98.9% interest in GLOBEXBANK in 2009, which was subsequently increased to 99.2% in 2010. At the time of VEB's initial acquisitions thereof, both Sviaz-Bank and GLOBEXBANK 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*". As the global financial crisis eased in late 2009 and 2010, these subsidiaries returned to profitability and increased their lending activities.

From October 2008 through early 2010, VEB was also 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 provided recovery finance to Russian banks and corporate entities suffering from the effects of the recent economic turmoil. See "*Description of VEB's Business—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System*". Although a number of VEB's recovery finance programmes continue to remain in effect, as the global economic crisis has eased and the Russian economy has shown signs of improvement and increased stability, VEB has ceased to provide new recovery finance and also reduced its exposure to borrowers who had received recovery finance pursuant to programmes established by VEB under the Financial System Support Law. Whilst the subordinated loans that VEB extended to Russian banks pursuant to such programmes, as well as some amounts extended under other recovery finance programmes, remain outstanding as at the date of this Base Prospectus, as at 2 October 2010, all of the back-to-back (recovery) finance loans which VEB had extended to Russian corporate borrowers to refinance claims of foreign creditors have been repaid and, consequently, VEB has repaid all of the deposits which it received from the CBR to provide such recovery finance.

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, as well as those who have selected VEB as their pension fund manager. 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, five representative offices within the Russian Federation (in St. Petersburg, Khabarovsk, Krasnoyarsk, Pyatigorsk (opened in 2010) and Ekaterinburg (opened in 2010)) and ten representative offices outside the Russian Federation (in the United States of America, France (opened in 2010), India (two), Switzerland (opened in January 2011), Italy, China, the Republic of South Africa, Germany and the United Kingdom).

VEB prepares its consolidated financial statements in accordance with IFRS. As at 31 December 2010, VEB had total assets of RUB 2,043,472 million and total loans of RUB 1,203,567 million, whilst VEB had net interest income of RUB 66,673 million and net income of RUB 28,247 million for the year ended 31 December 2010.

VEB continues to receive the largest portion 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 2010, VEB had charter capital of RUB 382,571 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

211,647 million (as compared to RUB 446,151 million as at 31 December 2009) and RUB 594,028 million (as compared to RUB 501,455 million as at 31 December 2009), respectively. As at 31 December 2010, total funding from the Russian Government and the CBR as a percentage of VEB's total equity and liabilities was 39.9% (as compared to 50.9% as at 31 December 2009). Following the repayment of back-to-back (recovery) finance loans extended by VEB to qualifying borrowers under the Financial System Support Law, VEB has repaid deposits in an aggregate amount of U.S.\$7,947 million (including all accrued interest), which it received from the CBR to provide such recovery finance. See "*Certain Statistical Data and Other Information—Sources of Funding—Amounts Due to the CBR*". 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. See "*—Liquidity and Capital Resources*". 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 18 February 2011, GLOBEXBANK acquired ordinary shares in OJSC National Trade Bank ("**NTB**") for RUB 3,145 million and preferred shares in NTB for RUB 12 million, bringing its interest in NTB from 16.32% prior to such acquisition to 100% as a result of such acquisition.

On 17 February 2011, VEB placed a Series of Swiss Franc-denominated Notes under the Programme listed on the Swiss SIX Exchange in a nominal amount of CHF 500 million and with a final maturity in February 2016.

In February 2011, GLOBEXBANK purchased 1,751,471 of its own exchange-traded bonds with an aggregate nominal amount of RUB 1,751 million by public irrevocable offer.

In March 2011, VEB acquired 2,000,000 additional ordinary shares in VEB-Leasing for RUB 5,000 million, as a result of which VEB's interest in VEB-Leasing increased to 98.6%. VEB has agreed to acquire an additional 2,000,000 ordinary shares of VEB-Leasing at the same price, although, as at the date of this Base Prospectus, the completion of this purchase remains pending.

In March 2011, the report on the issue of shares in NCDC was officially registered, with VEB acting as NCDC's founder. VEB contributed RUB 500 million to the charter capital of NCDC (comprising 100% of NCDC's shares). NCDC's main activities include supporting investment projects implemented (or to be implemented) in the North Caucasus and advising regional authorities in connection therewith.

On 31 March 2011, VEB placed a series of Rouble-denominated notes listed on MICEX in a nominal amount of RUB 15,000 million with a final maturity in March 2021.

In April 2011, VEB contributed an additional RUB 300 million to the charter capital of VEB-Capital.

In April 2011, VEB redeemed a series of its non-convertible bonds with a nominal amount of U.S.\$1,000 million at maturity and in accordance with the terms of issue.

On 28 April 2011, VEB entered into a syndicated loan facility with a number of major foreign credit institutions in a principal amount of U.S.\$2,450 million and with a final maturity in April 2014. See "*Certain Statistical Data and Other Information—Sources of Funding—Bilateral and Syndicated Loans*".

On 24 May 2011, VEB entered into a bilateral loan facility with West LB in a principal amount of EUR 80 million and with a final maturity in May 2021.

In June 2011, VEB acquired 4,227 ordinary shares in CJSC MICEX (valued at RUB 2,987 million), in exchange for 11,403 shares owned by VEB in CJSC FB MICEX. As a consequence of the transaction, VEB's interest in CJSC MICEX increased from 10.3% to 10.5%.

In June 2011, VEB established a new wholly owned fund management company (the Management Company of the Russian Direct Investments Fund) with charter capital of RUB 300 million. It is intended that the management company will manage Russia's new sovereign investment fund. See "*Description of VEB's Business—VEB as Development Bank of the Russian Federation—Sovereign Investment Fund*".

Since 31 December 2010, VEB and various of its subsidiaries have also incurred additional 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 2010, and that can be expected to affect VEB’s results of operations in the future, include: (i) the current conditions characterising the Russian and international economies and financial systems, including, without limitation, the effects of the global financial crisis and the recent economic recovery; (ii) changes in the mix of business activities conducted by VEB, particularly reflecting VEB refocusing on its core development bank activities as the global financial crisis has eased and the Russian economy has shown signs of improvement and increased stability and VEB, accordingly, ceasing to provide new recovery finance and reducing its exposure to borrowers who had received recovery finance pursuant to the programmes established by VEB under the Financial System Support Law; (iii) the overall growth of VEB’s assets and liabilities, including as a result of its acquisition of a number of banking subsidiaries in the Russian Federation and other CIS countries, as well as other businesses such as FCPF and NCDC; (iv) fluctuations in the value and composition of VEB’s securities portfolio, including as a result of recent decisions to acquire strategic stakes in certain key Russian companies, such as Gazprom; and (v) the impact of the interest rate and exchange rate environment in which VEB operates.

The Russian and International Economies and Financial Systems

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 was severely impacted by the 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, 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 and oil prices also increased in late 2010 and early 2011, in part due to the turmoil in the Middle East, 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 2008, the worsening effects of the global financial crisis contributed to a slowdown in growth in the fourth quarter of 2008 and a downturn in 2009, which resulted in lower GDP levels, continued capital markets instability, a deterioration in liquidity, tighter credit conditions and a contraction in private-sector consumption and gross investments within the Russian Federation and other countries where VEB conducts its business in 2009. Due to these effects, the Russian economy contracted by 7.9% in 2009. As the financial crisis eased, Russian and international capital markets and economies began a general recovery, resulting in a 4.0% growth in the Russian economy in 2010. Net exports increased in 2010, despite increasing imports resulting largely from a recovery in prices for export commodities (primarily oil and natural gas). Net exports had also increased in 2009, as compared to earlier years, largely, however, as a result of a disproportionate decline in imports resulting from lower domestic demand and the depreciation of the Rouble. According to the CBR, the average Rouble/U.S. Dollar exchange rate rose overall by 4.3% in 2010, as compared to 2009, whilst the Rouble depreciated against the U.S. Dollar by 27.4% in 2009, as compared to 2008. As at 24 June 2011, the official exchange rate of the Rouble to the U.S. Dollar as published by the CBR was RUB 29.55 per U.S. Dollar, which represented further appreciation of the Rouble relative to the U.S. Dollar of 3.1% since 31 December 2010.

VEB’s role during the financial crisis as one of the key State-owned vehicles for the stabilisation of the Russian economy led to significant growth in VEB’s lending volumes and net interest income. This growth, however, also increased the volume of bad debts carried by VEB and required VEB to take significant additional provisions. In addition, for the most part upon the request of the Russian Government, initially as a part of its recovery finance activities, but thereafter for strategic and liquidity management purposes, VEB has acquired shares in certain Russian entities considered to have strategic importance to the Russian economy. See “*Description of VEB’s Business—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System—Recovery Finance—Equity Investments*” and “*Description of VEB’s Business—Securities*”.

Markets and Treasury Operations". VEB recorded significant negative fair value revaluations following its acquisitions of certain of these investments. VEB could be subject to heightened risk exposures, which could lead to increased losses and additional provisions, if VEB is requested by the Russian Government or otherwise elects to acquire or maintain controlling or significant equity positions or other investment securities to provide liquidity to, or otherwise support the equity or financial position of, Russian companies. The Russian securities market has been significantly impacted by the global financial crisis and recent economic recovery. While securities prices have generally recovered from their depressed levels in late 2008 and early 2009 and, in some cases, now exceed pre-crisis levels, a reversal in the improved prices of Russian securities or a general weakening in the Russian securities markets could result in further losses. See "*Fluctuations in the Value of Securities*" below.

Moreover, many of VEB's existing borrowers continue to be adversely affected by the deterioration in economic conditions resulting from the global financial crisis. Factors, including increased unemployment, reduced corporate liquidity and profitability and increased corporate and personal insolvencies, have affected and continue to affect access to and cost of capital for certain of VEB's borrowers, which in turn, may affect their ability to repay amounts due to VEB. These factors 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 resulted in deterioration in the value of collateral held against loans and other obligations and, accordingly, as a result of all of the foregoing, VEB made a significant allowance for impairment of loans in 2009, including principally in respect of loans held by VEB's banking subsidiaries, and VEB took additional allowance for impairment in 2010. See "*Changes in the Mix of Business Activities*". VEB may be required to make additional allowances in the future.

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 were 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. Beginning in late 2009 and in 2010, as the global financial crisis eased and the Russian economy began to show signs of improvement and increased stability, VEB refocused its activities on its core development bank activities, while ceasing to provide new recovery finance and reducing its exposure to borrowers who had received recovery finance pursuant to programmes established by VEB under the Financial System Support Law. Whilst the subordinated loans that VEB extended to Russian banks pursuant to such programmes, as well as some amounts extended under certain other recovery finance programmes, remain outstanding as at the date of this Base Prospectus, as at 2 October 2010, all of the back-to-back (recovery) finance loans which VEB had extended to Russian corporate borrowers to refinance claims of foreign creditors have been repaid and, consequently, VEB has repaid all of the deposits which it received from the CBR to provide such recovery finance. This difference in the focus of VEB's activities in 2009 through 2010 resulted in different areas of growth, changes in VEB's asset concentrations and revenue drivers and variations in VEB's risk profile, on a period-on-period basis and is expected to continue to affect the nature and rate of VEB's growth and its overall results.

The composition of VEB's loan portfolio has increasingly shifted toward development bank finance, as VEB has ceased to provide recovery finance and reduced its exposure to borrowers who had received recovery finance pursuant to programmes established by VEB under the Financial System Support Law, and VEB expects this trend to continue. By their nature, VEB's recovery finance loans tended to be characterised by a higher credit quality than VEB's ordinary course development bank loans. In the course of VEB's development bank activities, 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. Furthermore, loans and investments made by VEB in the course of its development bank activities 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. Accordingly, VEB expects that it may experience some deterioration in the overall credit quality of its loan portfolio as a result of the refocusing of its lending activities. Allowance for impairment of total loans was

RUB 145,930 million as at 31 December 2010, representing 10.8% of VEB's total gross loans as at 31 December 2010, as compared to RUB 122,694 million as at 31 December 2009, representing 8.6% of VEB's total loans as at 31 December 2009.

Overall Growth and Acquisitions

VEB's total assets have grown to RUB 2,043,472 million as at 31 December 2010, from RUB 1,939,214 million as at 31 December 2009 and RUB 1,644,741 million as at 31 December 2008. The growth in VEB's total assets in 2010 was primarily as a result of VEB's renewed focus on its core development bank activities and the related provision of significant financing for several large-scale infrastructure and investment projects, as well as VEB's strategic investments in Russian banks and corporates. The growth in VEB's total assets in 2009 was in large part driven by its recovery finance activities.

A portion of VEB's historic growth has resulted from 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 98.0% in March 2010 (including 32.4% through two subsidiaries); a 90.0% 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 January 2009, which was subsequently increased to 93.8% in October 2009; and a 98.9% interest in GLOBEXBANK in 2009, which was subsequently increased to 99.2% in 2010.

Whilst not material to VEB's total assets as at the date of this Base Prospectus, the acquisitions of Sviaz-Bank, Prominvestbank and GLOBEXBANK, in particular, had a material adverse impact on VEB's net profit in 2009 as VEB was required to record significant one-time provisions for impairment of bad loans acquired through these banking subsidiaries. As the operations of these banking subsidiaries have stabilised and begun to grow, these acquisitions have continued to have a significant impact on VEB's assets and liabilities and its results of operations. For the year ended 31 December 2010, GLOBEXBANK and Sviaz-Bank returned to profitability providing RUB 859 million and RUB 1,008 million of net income to VEB's consolidated financial statements respectively for the year ended 31 December 2010, compared with RUB 293 million of net profit and RUB 71,302 million of net loss respectively for the year ended 31 December 2009 and these entities are expected to become growing contributors to VEB's consolidated net income in the near to medium term.

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 574,263 million as at 31 December 2010, as compared to RUB 419,940 million and RUB 295,892 million as at 31 December 2009 and 2008, respectively. 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. As the Russian stock market stabilised in 2009, and prices generally returned to pre-crisis levels or above, VEB experienced a 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. In comparison, in 2010, although the value of VEB's portfolio of financial assets at fair value through profit and loss and investment securities available-for-sale increased by 39.0% to RUB 552,727 million as at 31 December 2010 from RUB 397,574 million as at 31 December 2009, VEB recorded a smaller gain of RUB 10,178 million on its securities portfolio reassessed at fair value through profit or loss and a smaller gain of RUB 35,154 million on its investment securities available-for-sale. In both cases, the reduction in gains in 2010, as compared to 2009, reflected both the lower increase in the overall value of the Russian securities market and the smaller volume of sales transactions in 2010, as compared to 2009, as these factors combined to result in the receipt of a smaller amount of income from sales of securities, as compared to the receipt of income in 2009 from the sale of a substantial portion of VEB's portfolio of securities acquired at depressed market prices at the end of 2008.

As the Russian securities market has continued to improve and share prices have generally recovered and stabilised with the easing of the global financial crisis, subject to market conditions and its responsibility not to disrupt the normal operations of the securities market, and in line with its mandate to focus on development banking activities rather than securities trading and investment operations, VEB has sold down many of its positions in the securities of Russian blue-chip companies and, so long as prices remain favourable or improve, VEB intends to continue to do so over a period of time. At the same time, for the most part upon the request of the Russian Government, initially as a part of its recovery finance activities, but thereafter for strategic and

liquidity management purposes, VEB has acquired equity positions or other investment securities to provide liquidity to, or otherwise support the equity or financial position of, Russian companies, which acquisitions have contributed to growth in the aggregate size of VEB's securities portfolio. VEB considers these acquisitions to be strategic investments and intends to hold these securities in the longer term in line with its liquidity management policies and practices. See "*Description of VEB's Business—Securities Markets and Treasury Operations*". In addition, as at the date of this Base Prospectus, VEB intends to continue to hold the portfolio of bonds it acquired in connection with its activities to support the Russian securities market. Accordingly, it is likely that, from time to time, VEB will maintain a significant portfolio of investment securities and, accordingly, will 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 and, in particular, a reversal in the improved prices of Russian securities or a general weakening in the Russian securities markets could result in further losses.

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 activities on which VEB has refocused in late 2009 and in 2010 generally involve 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, the maturities and pricing of VEB's assets and liabilities are not balanced. In particular, during 2010, the interest rates on the subordinated loans provided by VEB pursuant to the Financial System Support Law to Russian banks were reduced pursuant to amendments made to the Financial System Support Law adopted on 27 July 2010 from 8.0% to 6.5% and from 9.5% to 7.5% whilst the interest rates on the matched deposits received from the CBR were reduced by a smaller amount from 7.0% to 6.25% and 8.5% to 7.25%, resulting in a negative impact on net interest margin. 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. Although volatility of inter-bank interest rates substantially decreased in 2010 due to excess liquidity, since the beginning of 2011, risks of liquidity shortages during tax periods in the domestic financial markets emerged as a result of an increasing volume of OFZs (Federal Loan Bonds), which are the main source of federal budget financing. 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 continue 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. Whilst the Rouble demonstrated significant volatility against the U.S. Dollar in nominal terms during 2010, the Rouble appreciated overall against the U.S. Dollar by 9.7% and against the Euro by 15.5%, during such year, in each case, due, in part, to a stabilisation in prices of oil and commodities that are an important part of the Russian Federation's export earnings. As at 24 June 2011, the official exchange rate of the Rouble to the U.S. Dollar as published by the CBR was RUB 28.06 per U.S. Dollar, which represented a further appreciation of the Rouble relative to the U.S. Dollar of 7.9% since 31 December 2010. For a presentation on developments in the Rouble to U.S. Dollar exchange rates from 2008 through 24 June 2011, 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. 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 3 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 2010 and 2009.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

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:

	For the year ended 31 December		
	2010	2009	2008
		(RUB millions)	
Interest income	147,763	138,794	43,408
Interest expense	(81,090)	(86,858)	(21,058)
Net interest income before provisions for impairment	66,673	51,936	22,350

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 28.4% to RUB 66,673 million for the year ended 31 December 2010 from RUB 51,936 million for the year ended 31 December 2009, primarily due to the decrease in interest expense on amounts due to credit institutions and the CBR in 2010, as compared to 2009, which, in turn, reflected the decrease in the average balance of such amounts, as well as the lower average rate paid on such amounts in 2010, as compared to 2009. The decrease in interest expense on amounts due to credit institutions and the CBR in 2010 was partially offset by the increase in interest expense on amounts due to customers and the Russian Government, as a result of the higher average balance of such amounts in 2010, as compared to 2009, notwithstanding the lower average rates on such amounts year-on-year. The increase in net interest income before provisions for impairment for 2010, as compared to 2009, also reflected the increase in interest income from VEB's portfolio of debt securities in 2010, as compared to 2009, which, in turn, reflected the year-on-year increase in the size of this portfolio. The lower average rate on VEB's portfolio of debt securities in 2010, as compared to 2009, was more than offset by the higher average year-on-year balance and, in any event, was higher than the average rate on total interest-earning assets. See "*Certain Statistical Data and Other Information—Average Balance Sheet and Interest Rates*." Net interest income before provisions for impairment increased by 132.4% in 2009 from RUB 22,350 million for the year ended 31 December 2008, principally as a result of the increase in absolute terms in interest income, which was, in turn, primarily due to the increase in average interest-earning assets 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.

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:

	For the year ended 31 December		
	2010	2009	2008
		(RUB millions)	
Interest income			
Loans to customers	88,768	89,648	24,395
Amounts due from credit institutions and cash equivalents	38,932	34,742	13,614
Trading and investment securities	20,063	14,404	5,399
Total interest income	147,763	138,794	43,408

Total interest income increased by 6.5% to RUB 147,763 million for the year ended 31 December 2010 from RUB 138,794 million for the year ended 31 December 2009, primarily as a result of the increase in the amount of interest income from VEB's portfolio of debt securities, which, in turn, reflected the year-on-year increase in the size of this portfolio. The lower average rate on VEB's portfolio of debt securities in 2010, as compared to 2009, was more than offset by the higher average year-on-year balance and, in any event, was higher than the

average rate on total interest-earning assets. The increase in total interest income in 2010 also reflected the increase in the average rate earned on amounts due from credit institutions and cash equivalents to 7.0% for the year ended 31 December 2010, as compared to 5.7% for the year ended 31 December 2009. See “*Certain Statistical Data and Other Information—Average Balance Sheet and Interest Rates*”. Total interest income increased by 219.7% in 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 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. 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 60.1%, 64.6% and 56.2% of total interest income in 2010, 2009 and 2008, respectively. Interest income on loans to customers decreased by 1.0% to RUB 88,768 million for the year ended 31 December 2010 from RUB 89,648 million for the year ended 31 December 2009, after having increased by 267.5% in 2009 from RUB 24,395 million for the year ended 31 December 2008. The decrease of VEB’s interest income on loans to customers in 2010, as compared to 2009, both as a percentage and in absolute terms, was primarily due to the decrease in the average interest rate on loans to customers from 9.3% to 9.1%, which was only partially offset by the year-on-year increase in the average balance of loans to customers. See “*Statistical Data and Other Information—Average Balance Sheet and Interest Rates*”.

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 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 2010 primarily reflected changes in the mix of VEB’s business activities and in the environment in which these activities were conducted. Beginning in late 2009 and in 2010, 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 26.3%, 25.0% and 31.4% of total interest income in 2010, 2009 and 2008, respectively. Interest income on amounts due from credit institutions and cash equivalents increased by 12.1% to RUB 38,932 million for the year ended 31 December 2010 from RUB 34,742 million for the year ended 31 December 2009, primarily reflecting the increase, in line with market trends, in the average rate earned by VEB on amounts due from credit institutions and cash equivalents to 7.0% in 2010 from 5.7% in 2009. The increase in the average rate also reflected the higher proportion, in 2010, as compared to 2009, of total interest-earning assets comprised by amounts due from credit institutions, which bear relatively higher rates, as compared to cash equivalents. Interest income on amounts due from credit institutions and cash equivalents increased by 155.2% in 2009 from RUB 13,614 million for the year ended 31 December 2008, primarily reflecting the 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, 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*”. The average rate earned by VEB on amounts due from credit institutions and cash equivalents decreased in 2009, from 6.6% in 2008, primarily as a result of lower inter-bank lending rates in 2009.

Interest Income on Trading and Investment Securities

Interest income on VEB's securities portfolio represented 13.6%, 10.4% and 12.4% of total interest income in 2010, 2009 and 2008, respectively. Interest income on trading and investment securities increased by 39.3% to RUB 20,063 million for the year ended 31 December 2010 from RUB 14,404 million for the year ended 31 December 2009, after having increased by 166.8% in 2009 from RUB 5,399 million for the year ended 31 December 2008. These year-on-year increases primarily reflected the impact of the increase in the size of VEB's portfolio of available-for-sale debt securities to RUB 191,661 million as at 31 December 2010 from RUB 173,243 million as at 31 December 2009 and from RUB 75,504 million as at 31 December 2008. In addition, interest income in 2009 was positively affected by the increase in the size of VEB's portfolio of held-to-maturity debt securities, which grew to RUB 22,366 million as at 31 December 2009 from RUB 11,752 million as at 31 December 2008, as VEB expanded its securities markets operations to support the Russian securities markets following the global financial crisis. VEB's portfolio of held-to-maturity securities decreased in 2010 to RUB 21,536 million as at 31 December 2010, reflecting payments of certain securities held by VEB at their maturity.

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:

	For the year ended 31 December		
	2010	2009	2008
	(RUB millions)		
Interest expense			
Amounts due to credit institutions and the Bank of Russia.....	25,841	39,575	12,843
Amounts due to customers and the Russian Government	50,081	45,920	7,598
Debt securities issued.....	5,168	1,363	617
Total interest expense	81,090	86,858	21,058

Total interest expense decreased by 6.6% to RUB 81,090 million for the year ended 31 December 2010 from RUB 86,858 million for the year ended 31 December 2009, after having increased by 312.5% in 2009 from RUB 21,058 million for the year ended 31 December 2008. The decrease in total interest expense for 2010, as compared to 2009, was primarily due to the impact of the lower average balance of deposits from the CBR held by VEB in 2010, as compared to 2009, as well as the lower average rates paid on borrowings in 2010, as compared to 2009, as VEB continued to diversify its funding sources. The increase in total interest expense in 2009, as compared to 2008, was 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. 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 decreased to 5.6% in 2010 from 5.9% in 2009, after having increased from 4.9% in 2008.

Interest Expense on Amounts due to Credit Institutions and the CBR

Interest expense on amounts due to credit institutions and the CBR decreased by 34.7% to RUB 25,841 million for the year ended 31 December 2010 from RUB 39,575 million for the year ended 31 December 2009, after having increased by 208.1% in 2009 from RUB 12,843 million for the year ended 31 December 2008. The decrease in interest expense on amounts due to credit institutions and the CBR in 2010, as compared to 2009, mainly reflected the repayment, as of 2 October 2010, of the deposits VEB had received from the CBR under the Financial System Support Law to provide recovery finance to Russian corporates for the purpose of refinancing claims of foreign creditors. The increase in interest expense on amounts due to credit institutions and the CBR in 2009, as compared to 2008, was primarily as a result of the initial receipt of such deposits from the CBR in late 2008 and 2009, and the fact that, as interest was payable semi-annually on these deposits, the first instalments of interest were due to the CBR in 2009. Furthermore, average interest rates on amounts due to

credit institutions and the CBR decreased back to 4.3% for the year ended 31 December 2010 from 4.9% for the year ended 31 December 2009, after having increased from 4.3% for the year ended 31 December 2008. See “*Certain Statistical Data and Other Information—Average Balance Sheet and Interest Rates*”.

The amount of interest expense on amounts due to credit institutions and the CBR, as a percentage of total interest expense, decreased to 31.9% of total interest expense in 2010, as compared to 45.6% in 2009 and 61.0% in 2008. 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, in addition to deposits from the CBR, deposits placed by the Russian Government (principally using the funds of the NWF), the consolidation of deposits held by VEB’s banking subsidiaries, the raising of funds in the domestic and international capital markets and the lower 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 61.8%, 52.9% and 36.1% of VEB’s total interest expense in 2010, 2009 and 2008, respectively. Interest expense on amounts due to customers and the Russian Government increased by 9.1% to RUB 50,081 million for the year ended 31 December 2010 from RUB 45,920 million for the year ended 31 December 2009, after having increased by 504.4% in 2009 from RUB 7,598 million for the year ended 31 December 2008. The increase in interest expense on amounts due to customers and the Russian Government in 2010, as compared to 2009, principally reflected the increase in the average balance of amounts due to customers in 2010, as compared to 2009. The increase in interest expense on amounts due to customers and the Russian Government in 2009, as compared to 2008, was 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 Sviaz-Bank in 2008 and the consolidation of customers’ deposits held by these banks when acquired.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued increased in 2010 by 279.2% to RUB 5,168 million for the year ended 31 December 2010 from RUB 1,363 million for the year ended 31 December 2009, after having increased by 120.9% in 2009 from RUB 617 million for the year ended 31 December 2008. These year-on-year increases in interest expense on debt securities issued reflected the issuance by VEB and its subsidiaries of debt securities during such years, including, in particular, Notes issued under the Programme. See “*Certain Statistical Data and Other Information—Sources of Funding—Debt Securities Issued*”. The aggregate principal amount outstanding of VEB’s and its subsidiaries’ debt securities was RUB 186,947 million as at 31 December 2010, as compared to RUB 78,896 million as at 31 December 2009 and RUB 8,225 million as at 31 December 2008.

Provision for Impairment

In 2010, VEB recorded additional provisions for impairment of interest-earning assets of RUB 45,735 million, as compared to provisions of RUB 114,834 million in 2009. In 2008, VEB recorded a net recovery of provisions in the amount of RUB 8,601 million. The increase in provisions for impairment of interest-earning assets in 2010, as compared to 2009, primarily reflected the growth in the overall size of VEB’s portfolio of interest-earning assets, as well as the changes in the composition of this portfolio as VEB ceased to provide new recovery finance and reduced its exposure to borrowers who had received recovery finance pursuant to programmes established by VEB under the Financial System Support Law, whilst instead increasingly shifting its financing activities towards development bank lending. By their nature, VEB’s recovery finance loans tended to be characterised by a higher credit quality than VEB’s ordinary course development bank loans. See “—*Primary Factors Affecting VEB’s Results of Operations and Capital Structure—Change in the Mix of Business Activities*”.

The increase in provisions for impairment in 2009, as compared to 2008, was largely driven by VEB’s acquisitions of its banking subsidiaries. As VEB’s 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. 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 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		
	2010	2009	2008
		(RUB millions)	
Net fee and commission income	6,030	7,189	1,625
Gains less losses from securities	23,307	70,464	(49,182)
Gains less losses arising from foreign currencies:			
- dealing	3,547	12,603	(10,242)
- translation differences	(1,078)	(2,100)	16,644
Gains less losses on initial recognition of financial instruments	(2,400)	9,087	—
Share in net income / (losses) of associates	204	56	(266)
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	2,260	2,620	386
Other operating income	1,754	1,715	948
Total non-interest income / (expenses)	33,624	125,466	(40,087)

VEB’s non-interest income for the year ended 31 December 2010 comprised net income of RUB 33,624 million, as compared to net income of RUB 125,466 for the year ended 31 December 2009 and a net expense of RUB 40,087 million for the year ended 31 December 2008. Non-interest income in 2010 was principally derived from net gains from securities of RUB 23,307 million, whilst VEB’s net non-interest income in 2009 reflected primarily net gains from securities of RUB 70,464 million and 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, as well as a net gain arising from foreign currencies of RUB 10,503 million. VEB’s non-interest expense in 2008 primarily reflected a net loss from securities of RUB 49,182 million for the year ended 31 December 2008, as well as a net gain arising from foreign currencies of RUB 6,402 million.

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		
	2010	2009	2008
	(RUB millions)		
Fee and commission income			
Cash and settlement operations.....	3,230	3,380	686
Guarantees and letters of credit.....	2,033	3,291	1,002
Agency fees	557	535	—
Trust management of pension funds	236	211	—
Operations with securities.....	175	154	52
Other operations.....	1,284	1,291	558
Fee and commission income.....	7,515	8,862	2,298
Fee and commission expense.....	(1,485)	(1,673)	(673)
Net fee and commission income.....	6,030	7,189	1,625

VEB's net fee and commission income decreased by 16.1% to RUB 6,030 million for the year ended 31 December 2010 from RUB 7,189 million for the year ended 31 December 2009, principally as a result of the decrease in fees and commissions received for guarantees and letters of credit, which, in turn, reflected a reduction in VEB's pricing for guarantee operations. Net fee and commission income increased by 342.4% in 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.

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:

	For the year ended 31 December		
	2010	2009	2008
	(RUB millions)		
Gains less losses arising from financial instruments at fair value through profit or loss.....	10,178	27,524	(27,988)
Gains less losses on sale of investment securities available-for-sale, previously recognised in other comprehensive income	35,154	42,721	748
Losses on impairment of investment securities available-for-sale.....	(22,276)	(13,778)	(20,655)
Other gains (losses) from redemption of investment securities.....	251	13,997	(1,287)
Total gains less losses from financial instruments at fair value through profit or loss and investment securities available-for-sale.....	23,307	70,464	(49,182)

Gains less losses from financial instruments at fair value through profit or loss and investment securities available-for-sale represented a net gain of RUB 23,307 million for the year ended 31 December 2010, as compared to a net gain of RUB 70,464 million for the year ended 31 December 2009 and a net loss of RUB 49,182 million for the year ended 31 December 2008. The smaller gain for the year ended 31 December 2010, as compared to the year ended 31 December 2009, reflected both the lower increase in the overall value of the Russian securities market and the smaller volume of sale transactions in 2010, as compared to 2009, as these factors combined to result in the receipt of a smaller amount of income from sales of securities, as compared to the receipt of income in 2009 from the sale of a substantial portion of its portfolio of securities acquired at depressed market prices at the end of 2008 with funds received from the NWF. The gain in 2010 was also offset by the negative revaluation recognised in 2010 in the amount of RUB 22,276 million, which amount was transferred from capital to the profit and loss account as a result of the recognition of impairment of certain securities in the investment portfolio due to a decrease in the market prices of such securities. The net gain recognised in 2009 also reflected 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. 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, resulted in some offsetting losses in 2009. 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 comprising 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:

	For the year ended 31 December		
	2010	2009	2008
		<i>(RUB millions)</i>	
Gains less losses arising from foreign currencies:			
- dealing	3,547	12,603	(10,242)
- translation differences	(1,078)	(2,100)	16,644
Total gains less losses arising from foreign currencies	2,469	10,503	6,402

Total gains less losses from foreign currencies decreased by 76.5% to RUB 2,469 million for the year ended 31 December 2010 from RUB 10,503 million for the year ended 31 December 2009, after having increased by 64.1% in 2009 from RUB 6,402 million for the year ended 31 December 2008. The decrease in gains less losses from foreign currencies in 2010, as compared to 2009, primarily reflected lower volatility in foreign exchange rates in 2010. The 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 Less Losses on Initial Recognition of Financial Instruments

In 2010, VEB recognised a loss on initial recognition of financial instruments of RUB 2,400 million, which primarily reflected the net effect of the placement or acquisition of financial instruments at below market rates, as well as the net effect of the reduction in the interest rates paid on the subordinated loans extended to Russian banks as recovery finance, which was largely offset by the reduction in the interest rates paid on the matching deposits received from the CBR and the Ministry of Finance.

In 2009, VEB obtained two deposits from the CBR in the aggregate amount of RUB 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.

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 as income 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 2010 or 2008.

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:

	For the year ended 31 December		
	2010	2009	2008
		(RUB millions)	
Payroll and other staff costs	12,365	10,152	4,605
Occupancy and equipment	4,336	4,123	1,025
Depreciation	1,456	1,421	454
Taxes other than income taxes	1,582	804	258
Goodwill written off	—	—	41,841
Provision for other impairment and provisions	221	1,327	1,995
Other operating expenses	7,833	6,006	3,806
Total non-interest expenses	27,793	23,833	53,984

Non-interest expenses increased by 16.6% to RUB 27,793 million for the year ended 31 December 2010 from RUB 23,833 million for the year ended 31 December 2009, after having decreased by 55.9% in 2009 from RUB 53,984 million for the year ended 31 December 2008. The increase in non-interest expenses for the year ended 31 December 2010, as compared to the year ended 31 December 2009, principally reflected the increase in payroll and other staff costs and other operating expenses in 2010, as compared to 2009. The decrease in non-interest expenses for the year ended 31 December 2009, as compared to the year ended 31 December 2008, primarily reflected the write-off of goodwill in 2008, partially offset by the increases in payroll and other staff costs and occupancy and equipment expenses.

Payroll and Other Staff Costs

Payroll and other staff costs increased by 21.8% to RUB 12,365 million for the year ended 31 December 2010 from RUB 10,152 million for the year ended 31 December 2009, after having increased by 120.5% in 2009 from RUB 4,605 million for the year ended 31 December 2008. The increase in payroll and other staff costs in 2009, as compared to 2008, reflected an increase in the number of VEB's employees, principally as a result of the consolidation of its then newly-acquired banking subsidiaries during the second quarter of 2009. The increase in payroll and other staff costs in 2010, as compared to 2009, primarily reflected such increase in the number of employees for the full 12 months of 2010, as compared to only part of 2009.

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 2010.

Other Operating Expenses

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

	For the year ended 31 December		
	2010	2009	2008
	(RUB millions)		
Impairment charge for property and equipment.....	91	806	—
Administration expenses.....	653	615	574
Advertising expenses.....	1,437	579	668
Audit and consulting.....	588	403	286
Legal services.....	509	396	198
Deposit insurance.....	356	297	22
Amortisation of intangibles.....	348	277	79
Marketing and research.....	199	262	275
Insurance.....	435	239	90
Loss in initial recognition of financial assets.....	—	224	—
Charity.....	607	219	245
Sponsorship.....	136	125	135
Penalties incurred.....	20	26	7
Contributions to non-state pension fund.....	4	2	400
Other.....	2,450	1,536	827
Total other operating expenses.....	7,833	6,006	3,806

Total other operating expenses increased by 30.4% to RUB 7,833 million for the year ended 31 December 2010 from RUB 6,006 million for the year ended 31 December 2009, principally reflecting the overall growth in VEB's ordinary course business activities. In particular, advertising expenses, as well as a number of other ordinary course expenses, increased, although such increases were partially offset by the decrease in the impairment charge for property and equipment in 2010. Total other operating expenses increased by 57.8% in 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.

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 28,247 million for the year ended 31 December 2010 and 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.

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		
	2010	2009	2008
		(RUB millions)	
Cash on hand	12,450	11,037	5,124
Due from the Bank of Russia	19,127	12,785	57,361
Correspondent nostro accounts with Russian credit institutions and current stock broker accounts	11,981	13,549	22,235
Correspondent nostro accounts with OECD-based credit institutions	27,943	21,297	53,029
Correspondent nostro accounts with other credit institutions ..	17,418	10,009	4,771
Interest-bearing loans and deposits with the Bank of Russia up to 90 days	195	8,127	—
Interest-bearing loans and deposits with OECD-based credit institutions up to 90 days	26,702	41,523	85,491
Interest-bearing loans and deposits with non-OECD based credit institutions up to 90 days	—	1,368	979
Interest-bearing loans and deposits with Russian credit institutions up to 90 days	57,046	35,781	42,891
Reverse purchase agreements with credit institutions for up to 90 days	23,810	13,440	9,792
Total cash and cash equivalent, net	196,672	168,916	281,673

VEB's total net cash and cash equivalent positions increased by 16.4% to RUB 196,672 million as at 31 December 2010 from RUB 168,916 million as at 31 December 2009, after having decreased by 40.0% from RUB 281,673 million as at 31 December 2008. The increase in total net cash and cash equivalents as at 31 December 2010, as compared to 31 December 2009, primarily reflected the increase in the amount of cash and cash equivalents in 2010, which, in turn, was primarily due to the proceeds of the placement of Notes under the Programme (Series 2 and Series 3) in November 2010 remaining largely uninvested in longer term assets by the end of such year. 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. 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 in November 2008. Due to improved conditions in the local foreign exchange market, the CBR determined to allow the recommendation to lapse in June 2009 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		
	2010	2009	2008
		(RUB millions)	
Net cash from / (used in) operating activities	87,701	(166,424)	50,384
Net cash from / (used in) investing activities	(112,479)	(142,389)	(417,692)
Net cash from / (used in) financing activities	52,304	169,462	491,334

Net Cash Flows from Operating Activities

Net cash flows from operating activities were RUB 87,701 million for the year ended 31 December 2010, as compared to net cash flows used in operating activities of RUB (166,424) million for the year ended

31 December 2009 and net cash flows from operating activities of RUB 50,384 million for the year ended 31 December 2008. The positive net cash flows from operating activities in 2010 principally reflected the increase in customer current accounts and other deposits in the amount of RUB 88,264 million, particularly as VEB's borrowers temporarily placed proceeds of loans extended to them by VEB in current accounts and term deposits pending the application of the borrowed funds for the intended purposes under the respective financings, as well as the receipt of funds from other banks and the acquisition of financial assets whose fair value was positively revalued by RUB 14,124 million. See *"Certain Statistical Data and Other Information—Amounts Due to Customers"*.

The cash used in operating activities in 2009 principally reflected the repayment in 2009 of RUB 15,084 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 141,856 million and the growth in the size of VEB's loan portfolio in the amount of RUB 108,074 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, the Russian Government and the CBR, which was not fully utilised by VEB in its recovery finance and development bank activities in that year.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities were RUB 112,479 million for the year ended 31 December 2010, as compared to RUB 142,389 million for the year ended 31 December 2009 and RUB 417,692 million for the year ended 31 December 2008. The lower level of cash used in investing activities in 2010, as compared to 2009, principally reflected the use of cash in 2009 to provide subordinated loans to Russian banks in accordance with programmes established under the Financial System Support Law, which did not recur in 2010. 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. Conversely, the high level of cash used in investing activities in 2008 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 52,304 million for the year ended 31 December 2010, as compared to RUB 169,462 million for the year ended 31 December 2009 and RUB 491,334 million for the year ended 31 December 2008. The reduction in net cash flow from financing activities in 2010, as compared to 2009, was primarily due to the repayment by VEB in 2010 of certain long-term financing received from the CBR and the redemption in such year of certain of VEB's domestic U.S. Dollar-denominated debt securities at maturity. 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 was primarily attributable to long-term special 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 additional contribution to VEB's 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:

	As at 31 December		
	2010	2009	2008
		(RUB millions)	
Guarantees	156,237	131,577	61,741
Undrawn loan commitments	436,271	231,321	156,733
Letters of credit	49,806	33,285	2,266
Total credit-related commitments	642,314	396,183	220,740

As at 31 December 2010, VEB had issued 200 guarantees for a total amount of RUB 156,237 million, as compared to 192 guarantees for a total amount of RUB 131,577 million as at 31 December 2009 and 122 guarantees for a total amount of RUB 61,741 million as at 31 December 2008. In September 2010, in connection with the refinancing by UC RUSAL of the back-to-back (recovery) finance loan previously provided to it by VEB, VEB provided a guarantee (with primary liability) in the amount of U.S.\$2,250 million, with the benefit of certain collateral and subject to other contractual arrangements between VEB and the beneficiary of the guarantee, which could, in certain circumstances, result in VEB becoming subject to a significantly higher exposure, although if VEB were subject to such higher exposure it would have the benefit of a commensurate increase in collateral. The increase in the amount of guarantees issued as at 31 December 2010, as compared to 31 December 2009, was primarily attributable to the provision of the aforementioned guarantee, as well as the overall growth in VEB’s development bank activities over this period, whilst 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.

As at 31 December 2010, credit commitments in relation to undrawn credit lines were RUB 436,271 million, as compared to RUB 231,321 million as at 31 December 2009 and RUB 156,733 million as at 31 December 2008. These continuing year-on-year increases were primarily attributable to the overall growth in VEB’s development bank activities over this period, particularly in 2010, as well as the acquisition of its banking subsidiaries.

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 each year 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. 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 each period were included into calculations as at previous period end dates, so that the consolidated net interest income figure corresponds to the period beginning balances.

	For the year ended 31 December 2010			For the year ended 31 December 2009			For the year ended 31 December 2008		
	Average balance	Average interest rate, % ⁽¹⁾	Interest Income/ Expense	Average balance	Average interest rate, % ⁽¹⁾	Interest Income/ Expense	Average balance	Average interest rate, % ⁽¹⁾	Interest Income/ Expense
<i>(RUB millions, except for percentages)</i>									
Interest-earning assets⁽²⁾									
Loans to customers	976,255	9.1	88,768	961,882	9.3	89,648	333,352	7.3	24,395
Due from credit institutions and cash equivalents	555,993	7.0	38,932	604,996	5.7	34,742	204,796	6.6	13,614
Securities ⁽³⁾	232,057	8.6	20,063	145,468	9.9	14,404	67,667	8.0	5,399
Total interest- earning assets	1,764,306	8.4	147,763	1,712,346	8.1	138,794	605,815	7.2	43,408
Interest-bearing liabilities									
Amounts due to credit institutions and the Bank of Russia	596,201	4.3	(25,841)	815,636	4.9	(39,575)	302,180	4.3	(12,843)
Amounts due to customers and the Russian Government	234,394	6.5	(15,329)	187,227	7.5	(14,012)	68,203	5.0	(3,412)
Debt securities issued ...	92,561	5.6	(5,168)	26,626	5.1	(1,363)	7,121	8.7	(617)
NWF	515,516	6.7	(34,752)	451,363	7.1	(31,908)	50,523	8.3	(4,186)
Total interest- bearing liabilities	1,438,672	5.6	(81,090)	1,480,852	5.9	(86,858)	428,028	4.9	(21,058)
Net interest income			66,673			51,936			22,350

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 8.4% in 2010 from 8.1% in 2009, after having increased from 7.2% in 2008. The increase in the average interest rate on interest-earning assets in 2010, as compared to 2009, was principally due to the impact of the increase in the average interest rate on amounts due from credit institutions and cash equivalents to 7.0% in 2010 from 5.7% in 2009 and the increase, as a percentage of total interest-earning assets, of securities, which bear interest at higher than average rates. The increase in the average interest rate on interest-earning assets in 2009, as compared to 2008, was mainly due to the 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 interest-earning assets, in Rouble-denominated and Ukrainian Hryvnia-denominated loans, which bear interest at higher rates.

The average interest rate on interest-bearing liabilities decreased to 5.6% in 2010 from 5.9% in 2009, after having increased from 4.9% in 2008. The decrease in the average interest rate on interest-bearing liabilities in 2010, as compared to 2009, generally reflected the continued diversification of VEB's funding sources. In

particular, the lower average rate in 2010, as compared to 2009, was mainly due to the decrease in the average interest rate on amounts due to credit institutions and the CBR to 4.3% in 2010 from 4.9% in 2009, as well as the decrease in interest rates on amounts due to customers and the Russian Government to 6.5% in 2010 from 7.5% in 2009, in each case, in line with the overall decrease in interest rates in the market. The increase in the average interest rate on interest-bearing liabilities in 2009, as compared to 2008, was mainly due to the increase in the average interest rate on amounts due to credit institutions and the Bank of Russia in 2009 from 4.3% in 2008 in line with the overall increase in interest rates in the market in 2009 due to the global financial crisis, 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 rate lower than the overall average rate on VEB's debt securities issued.

AMOUNTS DUE FROM CREDIT INSTITUTIONS

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

	As at 31 December		
	2010	2009	2008
		(RUB millions)	
Obligatory reserve with the central banks.....	1,499	1,826	473
Non-interest-bearing deposits with other banks.....	9,602	37,020	22,329
Subordinated loans issued to Russian credit institutions.....	347,090	388,208	225,210
Term interest-bearing deposits with Russian credit institutions	57,479	36,295	56,538
Term interest-bearing deposits with OECD-based credit institutions	508	3,460	5,832
Term interest-bearing deposits with non-OECD credit institutions	1,182	2,032	1,261
	417,360	468,841	311,643
Less allowance for impairment.....	(1,719)	(1,533)	(133)
Amounts due from credit institutions	415,641	467,308	311,510

As at 31 December 2010, 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 2010, VEB had subordinated loans outstanding to 16 Russian banks in an aggregate principal amount of RUB 346,880 million (as compared to RUB 387,998 million as at 31 December 2009), which loans mature between December 2014 and December 2020. As at 31 December 2010, 2009 and 2008, 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 (without matching funding and outside of the programme under the Financial System Support Law). This subordinated loan bears interest at an annual rate of 9.5% and matures in July 2012. In accordance with amendments made to the Financial System Support Law adopted on 27 July 2010, and the decision of VEB's Supervisory Board, the interest rates VEB charges on these subordinated loans were lowered from 8.0% to 6.5% and from 9.5% to 7.5%. At the time these rates were lowered, the interest rates for the deposits received from the Ministry of Finance of the Russian Federation (comprised of funds of the NWF) and comprising the matching funding for the subordinated loans were also lowered from 7.0% to 6.25% and 8.5% to 7.25%. As a result, overall, the net interest margin on VEB's subordinated loans to qualifying borrowers under the Financial System Support Law has decreased.

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 deposited with such credit institutions. The ability of the subsidiary banks to withdraw the reserve deposits is significantly restricted by statute. Pursuant to applicable legislation, VEB is not currently required to deposit 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.

LOANS TO CUSTOMERS

VEB's loans to customers (before allowance for impairment) decreased by 3.4% to RUB 932,137 million as at 31 December 2010 from RUB 964,699 million as at 31 December 2009, principally due to the repayment of all the back-to-back (recovery) finance loans provided to Russian corporate borrowers pursuant to the Financial System Support Law to refinance claims of foreign creditors, which was mostly offset by the overall growth in commercial and project financing. VEB's loans to customers (before allowance for impairment) increased by 30.8% in 2009 from RUB 737,486 million as at 31 December 2008, primarily as a result of 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. The average interest rate for VEB's loans to customers decreased to 9.1% for 2010 from 9.3% for 2009, after having increased from 7.3% in 2008.

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					
	2010		2009		2008	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
Commercial loans	485,398	52.1	307,082	31.8	138,894	18.8
Project finance	372,547	40.0	313,250	32.5	199,450	27.0
Financing of operations with securities.....	20,918	2.2	8,286	0.9	1,668	0.2
Promissory notes.....	19,606	2.1	7,881	0.8	4,000	0.6
Pre-export finance.....	18,595	2.0	80,712	8.4	110,520	15.0
Reverse repurchase agreements	3,899	0.4	4,606	0.5	57	—
Back-to-back finance	2,604	0.3	237,497	24.6	269,668	36.6
Other.....	8,570	0.9	5,385	0.5	13,229	1.8
Total.....	932,137	100.0	964,699	100.0	737,486	100.0

Commercial loans have increased year-on-year, both in absolute terms and as a percentage of total loans to customers, between 31 December 2008 and 31 December 2010. As at 31 December 2010, VEB had commercial loans of RUB 485,398 million, representing 52.1% of total loans to customers, as compared to RUB 307,082 million, representing 31.8% of total loans to customers, as at 31 December 2009 and RUB 138,894 million, representing 18.8% of total loans to customers, as at 31 December 2008. 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 to customers, primarily reflected VEB's acquisitions, increases in ownership and consolidation of VEB's banking subsidiaries and the continued overall growth in the activities of these banking subsidiaries as they returned to profitability and increased their lending activities. See "Description of VEB's Business—Principal Subsidiaries and Affiliates".

Project finance loans increased by 18.9% to RUB 372,547 million as at 31 December 2010, as compared to RUB 313,250 million as at 31 December 2009, after having increased by 57.1% in 2009 from RUB 199,450 million as at 31 December 2008. As a percentage of total loans to customers, project finance loans have continued to increase, representing 40.0%, 32.5% and 27.0% of total loans as at 31 December 2010, 2009 and 2008, respectively. The year-on-year increases in the volume of project finance loans, both in absolute terms and as a percentage of total loans to customers, 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 higher percentage of project finance loans as at 31 December 2010, as compared to 31 December 2009 and 31 December 2008, also reflected the reduction in absolute terms of back-to-back (recovery) finance loans during such period.

Pre-export finance decreased to RUB 18,595 million as at 31 December 2010, as compared to RUB 80,712 million as at 31 December 2009 and RUB 110,520 million as at 31 December 2008. These year-on-year decreases in pre-export finance loans in absolute terms, as well as the decrease in this type of finance as a percentage of total loans to customers, from 15.0% to 8.4% and further to 2.0% of total loans as at 31 December

2008, 2009 and 2010, respectively, primarily reflected the continued reduction in demand for this type of finance.

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 in the amounts of reverse purchase agreements between the reporting dates reflect the timing effect of particular transactions. Reverse repurchase agreements decreased to RUB 3,899 million as at 31 December 2010 from RUB 4,606 million as at 31 December 2009, after having increased in 2009 from RUB 57 million as at 31 December 2008. The decrease in reverse repurchase transactions as at 31 December 2010, as compared to 31 December 2009, primarily reflected an ordinary course of business decision to place temporary funds through the inter-bank lending market rather than through reverse purchase agreements. See “—*Amounts due from Credit Institutions*”. The increase in reverse repurchase agreements as at 31 December 2009 primarily reflected the renewed provision of this type of financing in 2009, as compared to 2008, 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.

Back-to-back finance principally represents recovery finance 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 finance loans decreased by 98.9% to RUB 2,604 million as at 31 December 2010 from RUB 237,497 million as at 31 December 2009, after having decreased from RUB 269,668 million as at 31 December 2008. As at 2 October 2010, all of the back-to-back (recovery) finance loans provided by VEB pursuant to the Financial System Support Law to refinance foreign loans of Russian corporate borrowers have been repaid. See “*Description of VEB’s Business—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System—Recovery Finance—Refinancing of Foreign Loans*”. Back-to-back finance, as at 31 December 2010, comprised a single loan to AHML, which was provided by VEB not for recovery finance purposes, but at the expense of the NWF.

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					
	2010		2009		2008	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
Private companies	731,254	78.4	710,045	73.6	497,798	67.5
State-controlled companies	153,395	16.4	214,072	22.2	225,343	30.6
Companies under foreign state control	27,566	3.0	16,280	1.7	5,194	0.7
Individuals	11,017	1.2	13,835	1.4	4,129	0.5
Regional authorities	7,051	0.8	6,562	0.7	3,773	0.5
Individual entrepreneurs	1,196	0.1	1,182	0.1	451	0.1
Foreign states	658	0.1	2,723	0.3	798	0.1
Total	932,137	100.0	964,699	100.0	737,486	100.0

Loans to customers have historically comprised principally 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. Fluctuations in the level of loans provided to different types of customers occur in the ordinary course of VEB’s business. Loans to private companies continue to comprise a significant portion of total loans to customers, increasing by 3.0% to RUB 731,254 million as at 31 December 2010 from RUB 710,045 million as at 31 December 2009, after having increased by 42.6% in 2009 from RUB 497,798 million as at 31 December 2008. The increase as at 31 December 2010, compared to 31 December 2009, was principally a result of the continued overall growth in the activities of VEB’s banking subsidiaries as these subsidiaries returned to profitability and increased their lending activities. The increase as at 31 December 2009, as compared to 31 December 2008, primarily reflected the consolidation of VEB’s banking subsidiaries in 2009.

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 “*Related Party Transactions*”. Loans to State-controlled companies decreased 28.3% to RUB 153,395 million as at 31 December 2010 from RUB 214,072 million as at 31 December 2009, after having decreased by 5.0% in 2009 from RUB 225,343 million as at

31 December 2008. These year-on-year decreases in loans to State-controlled companies were primarily attributable to the repayment of loans by State-controlled entities in accordance with their terms. As a percentage of total loans, this type of finance decreased to 16.4% of total loans as at 31 December 2010, from 22.2% as at 31 December 2009 and 30.6% as at 31 December 2008, primarily as a result of VEB's renewed focus on its core development bank activities and the related provision of significant financing for several large-scale infrastructure and investment projects.

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 decreased by 20.4% to RUB 11,017 million as at 31 December 2010 from RUB 13,835 million as at 31 December 2009, primarily reflecting the increased focus on corporate lending by VEB's subsidiaries. Loans to individuals increased by 235.1% in 2009 from RUB 4,129 million as at 31 December 2008, primarily reflecting the acquisition and consolidation of VEB's 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					
	2010		2009		2008	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
Real estate and construction	251,558	26.9	196,561	20.4	140,606	19.1
Manufacturing, heavy machinery and military	158,056	17.0	148,422	15.4	111,111	15.1
Finance companies	157,966	16.9	77,047	8.0	37,535	5.1
Trade	58,914	6.3	48,351	5.0	13,812	1.9
Transportation	57,117	6.1	23,978	2.5	15,477	2.1
Energy	51,832	5.6	37,922	3.9	10,719	1.5
Agriculture	51,137	5.5	41,527	4.3	15,122	2.1
Oil and gas	41,307	4.4	89,129	9.2	129,257	17.5
Metallurgy	28,223	3.0	174,319	18.1	163,623	22.2
Telecommunication	27,299	2.9	65,645	6.8	74,824	10.1
Individuals	11,017	1.2	13,835	1.4	4,129	0.5
Regional authorities	7,051	0.8	6,562	0.7	3,773	0.5
Logistics	5,295	0.6	5,988	0.6	2,564	0.3
Mining	3,287	0.4	5,364	0.6	203	0.0
Foreign state	658	0.1	2,723	0.3	798	0.1
Mass media	276	0.0	105	0.0	2,295	0.3
Other	21,144	2.3	27,221	2.8	11,638	1.6
Total loans	932,137	100.0	964,699	100.0	737,486	100.0

Loans to customers show significant concentrations in the real estate and construction, manufacturing, heavy machinery and military and finance sectors. As a percentage of total loans to customers, as at 31 December 2010, as compared to 31 December 2009, loans to customers in the real estate and construction, manufacturing, heavy machinery and military and finance sectors have increased, whilst loans to customers in the metallurgy, oil and gas and telecommunication sectors have decreased. 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 real estate and construction sector increased by 28.0% to RUB 251,558 million, representing 26.9% of total loans to customers, as at 31 December 2010 from RUB 196,561 million, representing 20.4% of total loans to customers, as at 31 December 2009, after having increased by 39.8% from RUB 140,606 million, representing 19.1% of total loans to customers, as at 31 December 2008. The year-on-year increases in loans to the real estate and construction sector, both in absolute terms and as a percentage of total loans, principally reflected this sector's breadth and its key position in the Russian economy, such that borrowers in this sector were both recipients of recovery finance provided by VEB in accordance with the Financial System Support Law in 2008 and 2009, as well as targets for lending in the ordinary course of VEB's business in 2009 and 2010 as VEB then refocused on its development bank activities, which involve the provision of significant financing for several large-scale infrastructure and investment projects that are included in the real estate and construction sector.

Loans to the manufacturing, heavy machinery and military sector increased by 6.5% to RUB 158,056 million, representing 17.0% of total loans to customers, as at 31 December 2010 from RUB 148,422 million, representing 15.4% of total loans to customers, as at 31 December 2009, after having increased by 33.6% in 2009 from RUB 111,111 million, representing 15.1% of total loans to customers, as at 31 December 2008. The continued year-on-year growth in loans to the manufacturing, heavy machinery and military sector, both in absolute terms and as a percentage of total loans to customers, was principally due to VEB's renewed focus, from late 2009, on its core development bank lending activities, which involve, in part, the provision of financing to large industrial companies.

Loans to finance companies increased by 105.0% to RUB 157,966 million, representing 16.9% of total loans to customers, as at 31 December 2010 from RUB 77,047 million, representing 8.0% of total loans to customers, as at 31 December 2009, after having increased by 105.3% from RUB 37,535 million, representing 5.1% of total loans to customers, as at 31 December 2008. The continued year-on-year growth in loans to finance companies, in both absolute terms and as a percentage of total loans, reflected the provision of an increasing level of project financing in line with VEB's overall growth and renewed focus, from late 2009, on its development bank activities in the ordinary course of business.

Loans to the metallurgy sector decreased by 83.8% to RUB 28,223 million, representing 3.0% of total loans to customers, as at 31 December 2010 from RUB 174,319 million, representing 18.1% of total loans to customers, as at 31 December 2009, after having increased by 6.5% from RUB 163,623 million, representing 22.2% of total loans to customers, as at 31 December 2008. The decrease in loans to the metallurgy sector as at 31 December 2010, as compared to 31 December 2009, both in absolute terms and as a percentage of total loans to customers, primarily reflected the repayment of recovery finance during 2010. The decrease in loans to the metallurgy sector as percentage of total loans to customers in 2009, notwithstanding the increase in absolute terms, partly reflected the consolidation of VEB's 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. 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.

Loans to the oil and gas sector decreased by 53.7% to RUB 41,307 million, representing 4.4% of total loans to customers, as at 31 December 2010 from RUB 89,129 million, representing 9.2% of total loans to customers, as at 31 December 2009, after having decreased by 31.0% from RUB 129,257 million, representing 17.5% of total loans to customers, as at 31 December 2008. The decrease in loans to this sector, both in absolute terms and as a percentage of total loans to customers, as at 31 December 2010, as compared to 31 December 2009, was principally due to the amortisation of a large loan by a State-controlled oil and gas company in accordance with its terms. In addition, in July and August 2010, Gazpromneft repaid in full the recovery finance loans provided to it by VEB in the aggregate amount of U.S.\$757 million, together with all accrued interest. The decrease in loans to this sector both in absolute terms and as a percentage of total loans to customers, as at 31 December 2009, as compared to 31 December 2008, primarily reflected the repayment of loans in this sector during 2009 in accordance with their terms.

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					
	2010		2009		2008	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
Rouble.....	464,764	49.9	321,711	33.3	205,728	27.9
U.S. Dollar.....	328,854	35.3	516,558	53.5	482,663	65.4
Euro	70,165	7.5	61,147	6.3	42,766	5.8
Other currencies.....	68,354	7.3	65,283	6.9	6,329	0.9
Total loans to customers.....	932,137	100.0	964,699	100.0	737,486	100.0

As at 31 December 2010, Rouble-denominated loans to customers comprised 49.9% of total loans to customers and U.S. Dollar-denominated loans to customers comprised 35.3% of total loans to customers. In contrast, Rouble-denominated loans to customers comprised 33.3% of total loans to customers as at 31 December 2009 and U.S. Dollar-denominated loans comprised 53.5% of total loans to customers, whilst, as at 31 December

2008, Rouble-denominated loans to customers comprised 27.9% of total loans to customers and U.S. Dollar-denominated loans comprised 65.4% of total loans to customers. The decrease in U.S. Dollar-denominated loans, both in absolute terms and as a percentage of total loans to customers, as at 31 December 2010, as compared to 31 December 2009, primarily reflected the repayment of back-to-back (recovery) finance loans in 2010. The increase of Rouble-denominated loans, both in absolute terms and as a percentage of total loans to customers, as at 31 December 2010, as compared to 31 December 2009, primarily reflected the growth in VEB's development bank lending activities in the Russian Federation, as well as the consolidation of VEB's Russian banking subsidiaries. The absolute increase in U.S. Dollar-denominated loans as at 31 December 2009, as compared to 31 December 2008, 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 were denominated in U.S. Dollars. The year-on-year decreases in U.S. Dollar-denominated loans as a percentage of total loans to customers also reflected the growing amount of Rouble-denominated loans in absolute terms during such period.

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					
	2010		2009		2008	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
Up to 1 month	22,001	2.8	24,368	2.9	9,692	1.3
1 to 6 months	88,535	11.2	88,636	10.5	89,836	12.4
6 to 12 months	114,832	14.6	285,608	33.9	303,689	41.9
Over 1 year	562,558	71.4	444,841	52.7	322,423	44.4
No stated maturity	—	—	85	0.0	—	—
Total loans to customers.....	787,926	100.0	843,538	100.0	725,640	100.0

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 71.4%, 52.7% and 44.4% of total loans to customers as at 31 December 2010, 2009, and 2008, respectively.

Borrower Concentration

Loans outstanding to VEB's three largest borrowers aggregated to RUB 210,585 million, RUB 311,696 million, and RUB 314,772 million and comprised 22.6%, 32.3%, and 42.7% of total loans to customers, as at 31 December 2010, 2009, and 2008, respectively. At 31 December 2010, an allowance of RUB 41,359 million was made for these loans, as compared to an allowance of RUB 37,583 million as at 31 December 2009 and RUB 1,747 million as at 31 December 2008.

As at 31 December 2010, the loans to VEB's three largest borrowers included (i) a group of loans to an associate of VEB, in the amount of RUB 135,415 million and comprising 14.5% of total 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; (ii) a loan, made by VEB in the ordinary course of its development bank activities, to a finance company to implement a development project in the metallurgy sector, in the amount of RUB 54,563 million and comprising 5.9% of total loans to customers; and (iii) a group of loans, also made by VEB in the ordinary course of its development bank activities, to implement a development project in the agriculture sector, in the amount of RUB 20,607 and comprising 2.2% of total loans to customers. As at 31 December 2010, VEB recorded allowance for impairment of these loans to its three largest borrowers in an aggregate amount of RUB 41,359 million, of which RUB 38,586 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. See "Description of VEB's Business—Key State-owned Vehicle for the Stabilisation of the Russian Economy and Financial System—Recovery Finance—Refinancing of Foreign Loans".

As at 31 December 2009, the loans to VEB's three largest borrowers included (i) a group of related loans to UC RUSAL in the aggregate amount of RUB 143,905 million and comprising 14.9% of total loans to customers; (ii) the group of loans to an associate of VEB, to finance such associate's purchase of real estate and other assets from certain borrowers of GLOBEXBANK, in the amount of RUB 121,760 million and comprising 12.6% of total loans to customers; 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 VEB's associate.

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 total 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 total 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 total 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.

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 147,587 million, RUB 240,050 million, and RUB 196,210 million, and comprising 15.8%, 24.9%, and 26.6% of total loans to customers, as at 31 December 2010, 2009, and 2008, respectively. As at 31 December 2010, 2009, and 2008, VEB had recorded allowance for impairment of these loans to its ten next largest borrowers in a total amount of RUB 12,878 million, RUB 7,946 million, and RUB 1,789 million, respectively. The increase in the recorded allowance for impairment of these loans as at 31 December 2010, as compared to 31 December 2009, primarily reflected an allowance particularly attributable to one of these loans as at 31 December 2010, as well as the generally higher perceived risk of VEB's loan portfolio following the repayment of back-to-back (recovery finance) loans as at 2 October 2010. By their nature, VEB's recovery finance loans tended to be characterised by a higher credit quality than VEB's ordinary course development bank loans.

Loans by Geographic Location

As at 31 December 2010, 2009, and 2008, 82.4%, 88.5%, and 97.0%, 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 28.1%, 21.7%, and 18.0% of VEB's total assets as at 31 December 2010, 2009, and 2008, 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. 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, held-to-maturity investments or loans and receivables. See Note 2 of the IFRS Financial Statements for the year ended 31 December 2010.

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:

	As at 31 December		
	2010	2009	2008
		(RUB millions)	
Trading securities.....	37,277	47,546	48,056
Trading securities pledged under repurchase agreements	—	—	3,444
Derivative financial assets	11,285	2,214	2,970
Financial assets designated as at fair value through profit or loss.....	27,582	1,747	1,063
Financial assets at fair value through profit or loss	76,144	51,507	55,533

As at 31 December 2010, financial assets at fair value through profit or loss were comprised 49.0% by trading securities, 36.2% by financial assets designated at fair value through profit or loss and 14.8% by derivative financial assets. As at 31 December 2009 and 2008, financial assets at fair value are predominantly comprised of trading securities.

Trading Securities

The following table sets forth a breakdown of VEB's trading securities as at the dates indicated:

	As at 31 December		
	2010	2009	2008
		(RUB millions)	
Debt securities:			
Corporate bonds.....	10,839	8,538	1,453
Municipal and sub-federal bonds, bonds of the Bank of Russia	2,501	2,690	—
Federal Loan Bonds (OFZ).....	513	640	783
	13,853	11,868	2,236
Eurobonds issued by the Russian Federation.....	10,481	13,374	19,153
Eurobonds of Russian and foreign issuers	1,875	3,145	2,679
Debt instruments issued by foreign government bodies.....	—	94	91
	26,209	28,481	24,159
Promissory notes.....	—	140	—
	26,209	28,621	24,159
Equity securities:			
Shares	11,068	18,925	23,897
Trading securities	37,277	47,546	48,056

As at 31 December 2010, trading securities were comprised 70.3% (as compared to 60.2% and 50.3% as at 31 December 2009 and 2008, respectively) by debt securities and 29.7% (as compared to 39.8% and 49.7% as at 31 December 2009 and 2008, respectively) by equity securities. Historically, debt trading securities, in turn, have included principally Russian sovereign Eurobonds, which comprised 40.0% of total debt securities as at 31 December 2010 (as compared to 46.7% and 79.3% as at 31 December 2009 and 2008, respectively), as well as corporate bonds, which comprised 41.4% of total debt securities as at 31 December 2010 (as compared to 29.8% and 6.0% as at 31 December 2009 and 2008, respectively).

Investments Available-for-Sale

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

	As at 31 December					
	2010		2009		2008	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
Debt Securities:						
Federal Loan Bonds (OFZs).....	135	0.1	200	0.1	229	0.3
Russian Eurobonds	1	0.0	1	0.0	1	0.0
Debt instruments issued by foreign government bodies	7,958	4.3	1,273	0.7	2,729	3.6
Eurobonds of Russian and foreign issuers	18,781	10.0	23,793	13.8	13,767	18.2
Municipal and sub-federal bonds	1,678	0.9	2,484	1.5	—	—
Russian MinFin bonds (OVGVZ)	—	—	317	0.2	—	—
Corporate bonds	147,824	79.1	134,070	77.8	57,456	76.1
Promissory notes	10,600	5.6	10,154	5.9	1,322	1.8
	186,977	100.0	172,292	100.0	75,504	100.0
Equity Securities:						
Shares	284,898		160,561		153,105	
Less: Allowance for impairment	(120)		(114)		(2)	
	284,778		160,447		153,103	
Securities pledged under repurchase agreements:						
Corporate bonds.....	2,245	46.5	951	7.1	—	—
Russian MinFin bonds (OVGVZ)	2,222	46.0	—	—	—	—
Eurobonds of Russian and foreign issuers	162	3.4	—	—	—	—
Shares	144	3.0	12,377	92.9	—	—
Municipal and sub-federal bonds	55	1.1	—	—	—	—
	4,828	100.0	13,328	100.0	—	—
Available-for-sale securities	476,583		346,067		228,607	

VEB's portfolio of available-for-sale securities also includes both debt and equity securities. As at 31 December 2010 and 2009, debt securities available-for-sale included predominantly corporate bonds whilst equity securities, as at 31 December 2010, 2009 and 2008, were largely comprised of shares of leading Russian corporates and banks.

Equity securities (before allowance for impairment and not including pledged securities) increased to RUB 284,898 million as at 31 December 2010, from RUB 160,561 million as at 31 December 2009, primarily reflecting the acquisition by VEB of strategic stakes in key Russian companies in 2010, including the acquisition of the 2.7% stake in Gazprom in December 2010 for a purchase price of approximately U.S.\$3.5 billion. See “—Primary Factors Affecting VEB's results of Operations—Fluctuations in the Value of Securities” and “Description of VEB's Business—Securities Markets and Treasury Operations”.

As at 31 December 2010, 2009 and 2008, VEB recognised losses of RUB 22,276 million, RUB 13,778 million and RUB 20,655 million, respectively, from impairment of available-for-sale securities by transferring the negative revaluation previously recorded in comprehensive income.

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.

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		
	2010	2009	2008
	<u>Book Value</u>	<u>Book Value</u>	<u>Book Value</u>
		(RUB millions)	
Eurobonds of Russian and foreign issuers	17,860	19,506	10,086
Corporate bonds	2,368	754	1,407
Municipal and sub-federal bonds	1,338	70	—
Federal Loan Bonds (OFZs)	51	51	52
Debt instruments issued by foreign government bodies	—	1,920	—
Promissory notes	—	342	302
Total	21,617	22,643	11,847
Less allowance for impairment	(81)	(277)	(95)
Held-to-maturity securities	21,536	22,366	11,752

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.

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 decrease in the portfolio of held-to-maturity securities as at 31 December 2010, as compared to 31 December 2009, was primarily due to the repayment of securities in 2010 at maturity in accordance with their terms.

SOURCES OF FUNDING

Overview

VEB's principal sources of funding include amounts due to credit institutions, amounts due to the Russian Government and the CBR, amounts due to customers and amounts derived from the issuance of debt securities. Whilst 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, VEB has continued to diversify its funding sources. 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 raise 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. In 2010, the Programme was established and, as at 28 April 2011, U.S.\$3,200 million in aggregate nominal amount of U.S. Dollar-denominated Notes and CHF 500 million in aggregate nominal amount of Swiss Franc-denominated Notes were outstanding under the Programme. VEB has also issued debt securities in the Russian domestic capital markets and entered into several significant bilateral and syndicated loans. See "*Bilateral and Syndicated Loans*" and "*Capitalisation*".

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		
	2010	2009	2008
		(RUB millions)	
Correspondent loro accounts from Russian credit institutions..	7,216	6,856	141,887
Correspondent loro accounts from other credit institutions	7,142	6,939	6,474
Loans and other placements from Russian credit institutions ...	62,450	42,391	27,523
Loans and other placements from OECD-based credit institutions	123,114	76,666	108,629
Loans and other placements from other credit institutions	21,987	67,295	86,282
Deposits from Russian credit organisations – fiduciaries	11	30	304
Repurchase agreements.....	13,107	960	2,361
Total due to credit institutions.....	235,027	201,137	373,460

Amounts due to credit institutions represented 15.2%, 13.6% and 26.1% of VEB's total liabilities as at 31 December 2010, 2009 and 2008, respectively. In absolute terms, amounts due to credit institutions increased by 16.8% to RUB 235,027 million as at 31 December 2010 from RUB 201,137 million as at 31 December 2009, after having decreased by 46.1% in 2009 from RUB 373,460 million as at 31 December 2008.

The increase in amounts due to credit institutions as at 31 December 2010, as compared to 31 December 2009, primarily reflected the increase by 47.3% in loans and other placements from Russian credit institutions, which, in turn, primarily reflected growth in VEB's direct lending activities and the increase by 60.6% in loans and other placements from OECD-based credit institutions, which were only partially offset by the 32.7% decrease in loans and other placements from other credit institutions. In contrast, the decrease in amounts due to credit institutions as at 31 December 2009, as compared to 31 December 2008, primarily reflected the decrease by 95.2% in correspondent loro accounts placed by Russian credit institutions, which was 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%. The amount of correspondent loro accounts as at 31 December 2008 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.

Bilateral and Syndicated Loans

Bilateral and syndicated loans are a key source of funding for VEB, with amounts outstanding under such loans representing 13.4%, 12.6% and 15.6% of total liabilities as at 31 December 2010, 2009 and 2008, 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 28 April 2011 with a number of international banks, including Barclays Capital, The Bank of Tokyo – Mitsubishi UFJ Limited, BNP Paribas SA, Citigroup, Commerzbank, Crédit Agricole Corporate and Investment Bank, Goldman Sachs, ING Bank N.V., JPMorgan, Mizuho Corporate Bank, Morgan Stanley, Société Générale SA, Sumitomo Mitsui Banking Corporation, West LB AG, The Royal Bank of Scotland plc, HSBC Bank PLC, Credit Suisse, Merrill Lynch and China Development Bank, to provide financing in the aggregate principal amount of U.S.\$2,450 million and with a final maturity of 28 April 2014, for VEB's current investment activities; as at 28 April 2011, VEB had not drawn any portion of the amounts available under this facility;
- a bilateral loan agreement dated 31 March 2011 with Sumitomo Mitsui Banking Corporation to provide financing, in the aggregate principal amount of EUR 255 million and with a final maturity of 31 March 2016, for the acquisition and subsequent modernisation of an oil refinery in the Republic of Serbia; as at 28 April 2011, the amount outstanding under this agreement was EUR 255 million;

- a bilateral loan agreement under Export Credit Agency coverage dated 26 April 2011 with HSBC Bank PLC, in the aggregate principal amount of EUR 160 million and with a final maturity of 2021, and a bilateral loan agreement dated 26 April 2011 with HSBC Bank PLC, in the aggregate principal amount of RUB 5,000 million and with a final maturity of 2012, each for the construction of a cement plant in the Kaluga region; as at 28 April 2011, VEB had not drawn any portion of the amounts available under these agreements;
- a bilateral loan agreement dated 27 April 2011 with WestLB AG to provide financing, in the aggregate principal amount of EUR 80 million and with a final maturity of 2016, for the establishment of a domestic housing construction business in the Rostov region; as at 28 April 2011, VEB had not drawn any portion of the amount available under this agreement;
- 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 and Sumitomo Mitsui Corporation Europe Limited, in the aggregate principal amount of U.S.\$534 million, to provide financing for the construction of facilities for the production of polypropylene in the city of Tobolsk in the Tyumen region; as at 28 April 2011; as at 28 April 2011, the amount outstanding under this facility was U.S.\$52 million;
- 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; as at 28 April 2011, the amounts outstanding under this facility were U.S.\$700 million and EUR 100 million, respectively;
- 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*"); as at 28 April 2011, the amount outstanding under this agreement was U.S.\$310 million;
- 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; as at 28 April 2011, the amount outstanding under this agreement was U.S.\$180 million;
- 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., J.P.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 EUR 335 million and with a final maturity of 24 October 2011, for VEB's current credit and investment activities; as at 28 April 2011, the amount outstanding under this facility was EUR 335 million;
- 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"; as at 28 April 2011, the amount outstanding under this agreement was U.S.\$94 million; and

- a bilateral loan agreement dated 3 November 2010 with WestLB AG to provide financing, in the aggregate principal amount of U.S.\$115 million and with a final maturity of 11 November 2013, within the Schuldschein (SSD) project for the purposes of financing the construction of arctic shuttle tankers; as at 28 April 2011, the amount outstanding under this agreement was U.S.\$115 million.

Since 31 December 2010, various subsidiaries of VEB have also incurred additional debt. See “*Capitalisation*”.

VEB and its subsidiaries are subject to a number of financial ratios and other restrictive covenants under certain of their respective 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 52.6%, 66.5% and 63.9% of total liabilities as at 31 December 2010, 2009 and 2008, 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:

	As at 31 December					
	2010		2009		2008	
	(RUB millions)	% of total	(RUB millions)	% of total	(RUB millions)	% of total
Interest-bearing loans and deposits from the Ministry of Finance of the Russian Federation...	594,028	72.9	501,455	50.8	404,187	44.2
Interest-bearing deposits from the Bank of Russia	211,647	26.0	446,151	45.2	482,140	52.8
Settlements related to redemption of Russian Government loans.....	7,438	0.9	38,005	3.8	25,245	2.8
Current accounts in precious metals	201	0.0	166	—	1,141	0.1
External debt payment funds	575	0.1	696	0.1	780	0.1
Special purpose funds	996	0.1	771	0.1	302	0.0
Current accounts of the Russian Government.....	16	0.0	319	—	94	—
Total.....	814,901	100.0	987,563	100.0	913,889	100.0

Amounts Due to the Ministry of Finance and the Russian Government

As at 31 December 2010, 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 372,270 million, RUB 410,554 million and RUB 404,187 million, respectively.

As at 31 December 2010, the Rouble-denominated deposits (comprised of funds of the NWF) placed with VEB had maturity dates ranging from December 2014 through December 2020. 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 December 2010, the Ministry of Finance provided VEB with the following funding:

- a Rouble-denominated deposit in the amount of RUB 3,000 million, which matures in May 2020 for further lending to OJSC “AHML”; and

- a U.S. Dollar-denominated loan in the amount of U.S.\$3,504 million, which matures in December 2012.

Amounts Due to the CBR

Interest-bearing deposits due to the CBR decreased by 52.6% to RUB 211,647 million as at 31 December 2010 from RUB 446,151 million as at 31 December 2009, after having decreased from RUB 482,140 million as at 31 December 2008.

As at 31 December 2010, interest-bearing deposits from the CBR included:

- special purpose Rouble-denominated deposits in the aggregate amount of RUB 86,682 million (as compared to RUB 87,835 million as at 31 December 2009), maturing in 2012, which VEB had the right to utilise to provide financial support to GLOBEXBANK and which VEB has fully utilised in accordance with its terms; and
- special purpose Rouble-denominated deposits in the aggregate amount of RUB 124,462 million (as compared to RUB 121,383 million as at 31 December 2009), maturing in 2012, which VEB had the right to utilise to provide financial support to Sviaz-Bank and which VEB has fully utilised in accordance with its terms.

As at 31 December 2009 and 2008, 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) respectively, 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 "*Description of VEB's Business—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. During 2010, upon repayment of the remaining back-to-back loans provided by VEB to such customers, VEB repaid the balance of the corresponding deposits received from the CBR, in an aggregate amount of U.S.\$7,947 million (with accrued interest), such that, as at 2 October 2010, all of the deposits received from the CBR corresponding to the back-to-back (recovery) finance loans advanced to Russian corporate borrowers to refinance the claims of foreign creditors under the Financial System Support Law had been repaid.

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:

	As at 31 December		
	2010	2009	2008
		(RUB millions)	
State and State-controlled companies	112,986	69,486	61,715
Private companies	89,696	64,315	36,157
Employees and other individuals	82,417	65,738	11,336
Companies under foreign State control	4,999	2,684	2,133
Total	290,098	202,223	111,341

Amounts due to customers increased by 43.5% to RUB 290,098 million as at 31 December 2010, as compared to RUB 202,223 million as at 31 December 2009, after having increased by 81.6% in 2009 from RUB 111,341 million as at 31 December 2008. The increase in amounts due to customers as at 31 December 2010, as compared to 31 December 2009, largely reflected the overall growth in VEB's business activities and those of its banking subsidiaries as these subsidiaries returned to profitability and increased their lending activities. 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.

In particular, amounts due to State-controlled companies increased by 62.6% to RUB 112,986 million as at 31 December 2010, as compared to RUB 69,486 million as at 31 December 2009, after having increased by 12.6% in 2009 from RUB 61,715 million as at 31 December 2008. Amounts due to private companies increased by 39.5% to RUB 89,696 million as at 31 December 2010, as compared to RUB 64,315 million as at 31 December 2009, after having increased by 77.9% as at 31 December 2009 from RUB 36,157 million as at 31 December 2008. These year-on-year increases, in each case, 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 banking subsidiaries acquired in 2009. Amounts due to employees and other individuals are largely amounts held through VEB's banking subsidiaries and the year-on-year increases in such amounts principally reflected the consolidation of these subsidiaries in 2009 and the overall growth in the business activities of these subsidiaries in 2009 and 2010.

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

	As at 31 December		
	2010	2010 (RUB millions)	2010
Customer current accounts.....	127,443	101,384	76,929
Term deposits	162,384	92,772	34,158
Repurchase agreements.....	271	8,067	254
Total due to customers	290,098	202,223	111,341

Customer current accounts increased by 25.7% to RUB 127,443 million as at 31 December 2010, as compared to RUB 101,384 million as at 31 December 2009, after having increased by 31.8% from RUB 76,929 million as at 31 December 2008. Similarly, term deposits increased by 75.0% to RUB 162,384 million as at 31 December 2010 from RUB 92,772 million as at 31 December 2009, after having increased by 171.6% from RUB 34,158 million as at 31 December 2008. 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 and the temporary placement by borrowers of the proceeds of loans from VEB in current accounts and term deposits with VEB prior to the pending application of the borrowed funds for the intended purposes under the respective financings.

As at 31 December 2010, 2009 and 2008, term deposits included deposits of individuals in the aggregate amounts of RUB 65,745 million, RUB 55,632 million and RUB 10,003 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.

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:

	As at 31 December		
	2010	2009 (RUB millions)	2008
Telecommunication	39,408	34,957	36,242
Infrastructure development.....	30,114	17,495	17,115
Transportation.....	16,592	—	—
Manufacturers of heavy machinery and military-related goods.....	11,786	3,773	7,305
Energy.....	7,254	—	—
Metallurgy	4,715	7,343	—
Financial organisations	—	8,067	6,019
Trade.....	—	4,685	3,767
Construction.....	—	2,937	—
Non-commercial organisations	—	2,716	4,407
Total due to customers	109,869	81,973	74,855

As at 31 December 2010, 2009 and 2008, amounts due to VEB's four largest customers were RUB 83,567 million, RUB 62,070 million and RUB 55,446 million and comprised 28.8%, 30.7% and 49.8% of the total amount due to customers, respectively.

Amounts due to customers in the telecommunications sector increased by 12.7% to RUB 39,408 million as at 31 December 2010 from RUB 34,957 million as at 31 December 2009, after having decreased by 3.5% from RUB 36,242 million as at 31 December 2008. The higher amounts due to the telecommunications sector as at 31 December 2010 and 31 December 2009, as compared to 31 December 2008, primarily reflected the consolidation of Sviaz-Bank, which has a high number of customers involved in the telecommunications sector.

Amounts due to infrastructure development companies increased by 72.1% to RUB 30,114 million as at 31 December 2010 from RUB 17,495 million as at 31 December 2009, after having increased by 2.2% in 2009 from RUB 17,115 million as at 31 December 2008. The increase in amounts due to infrastructure development in 2010, as compared to 2009, was primarily due to VEB's renewed focus on development banking activities.

Amounts due to customers in the transportation sector increased to RUB 16,592 million, as at 31 December 2010, from zero as at 31 December 2009 and 2008, reflecting ordinary course business activities.

Debt Securities Issued

In 2010, the Programme was established and, as at 28 April 2011, U.S.\$3,200 million in aggregate nominal amount of U.S. Dollar-denominated Notes and CHF 500 million in aggregate nominal amount of Swiss Franc-denominated Notes were outstanding under the Programme.

The Russian domestic capital markets are also a growing source of funding for VEB, representing 5.6%, 5.3% and 0.6% of total liabilities as at 31 December 2010, 2009 and 2008, 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		
	2010	2009	2008
		(RUB millions)	
Eurobonds.....	99,546	—	—
Bonds.....	71,423	60,425	2,023
Promissory notes.....	15,976	18,429	6,185
Certificates of deposit and saving certificates.....	2	42	17
Total debt securities issued	186,947	78,896	8,225

Debt securities issued increased by 137.0% to RUB 186,947 million as at 31 December 2010 from RUB 78,896 million as at 31 December 2009, after having increased by 859.2% from RUB 8,225 million as at 31 December 2008.

In line with VEB's strategy to increase its funding sources, the increase in debt securities issued as at 31 December 2010, as compared to 31 December 2009, was principally due to new issuances during 2010 of debt securities by VEB, its subsidiaries and the Issuer, including U.S. Dollar-denominated Notes issued under the Programme (Series 1, 2 and 3) in an aggregate nominal amount of U.S.\$3,200 million, which were placed in the international capital markets, Rouble-denominated non-convertible documentary bearer bonds issued by VEB with a variety of fixed and floating rates in an aggregate nominal amount of RUB 25,000 million, which were placed in the domestic capital market and U.S. Dollar-denominated non-convertible interest-bearing documentary bearer bonds in an aggregate nominal amount of U.S.\$1,000 million.

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 MICEX 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 2010, 2009 and 2008, bonds also included bonds issued by VEB's banking subsidiaries.

Debt securities issued as at 31 December 2010 also included interest-bearing promissory notes denominated in Roubles, U.S. Dollars and Euros maturing in 2049 with interest rates ranging from 0.1% to 7.8% for Rouble-denominated promissory notes (as compared to a rate of 9.5% as at 31 December 2009 and rates ranging from

5.0% to 10.0% as at 31 December 2008), from 0.2% to 4.9% for U.S. Dollar-denominated promissory notes (as compared to rates ranging from 0.2% to 7% as at 31 December 2009 and from 2.3% to 5.7% as at 31 December 2008) and from 2.4% to 4.9% for Euro-denominated promissory notes (as compared to rates ranging from 1% to 7% as at 31 December 2009 and from 1.5% to 3.5% as at 31 December 2008). As at 31 December 2008, debt securities issued also included Sterling-denominated interest-bearing promissory notes bearing interest at annual rates ranging from 2.7% to 3.5%.

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 (although, as at the date of this Base Prospectus, no new recovery finance is being provided); (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*". Beginning in late 2009 and in 2010, as the global economic crisis has eased and the Russian economy has shown signs of improvement and increased stability, VEB has refocused on its development bank activities and has ceased to provide new recovery finance. VEB expects that the related change in the mix of its business will continue at least in the near to medium term.

VEB has four banking subsidiaries in the Russian Federation (SME Bank, 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. In late 2010, VEB acquired FCPF, which is primarily engaged in VEB's programme of providing financial assistance for the implementation of projects aimed at regional and urban development in Russia with the participation of regional and municipal authorities and, in November 2010, VEB established NCDC, whose principal activities include supporting investment projects implemented (or to be implemented) in the North Caucasus and advising regional authorities in connection therewith. See "*Principal Subsidiaries and Associates*". On 28 July 2010, VEB's Supervisory Board approved the establishment of the Russian Export Credit Agency as a wholly owned subsidiary of VEB with an expected capitalisation of RUB 30 billion. The stated objective of the Russian Export Credit Agency, whose activities will be supplemental and complementary to, and not intended to replace, VEB's existing export finance activities, is to promote the Russian export market by providing credit insurance and guarantees to Russian exporters with the support of the State. The Russian Export Credit Agency will be established only after adoption of certain amendments to existing federal laws to existing Russian federal laws to authorise the functions necessary for the implementation of the Agency's stated objectives, including authority for the State to issue supporting guarantees. VEB expects to fund its capital contribution to the Russian Export Credit Agency out of gains on the sale of securities from VEB's securities portfolio.

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 the principal development bank of the Russian Federation 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 and projects focusing on technological and industrial innovation, 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 90.0% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009; and a 98.9% interest in GLOBEXBANK in 2009, which

was subsequently increased to 99.2% in 2010. See “—*VEB as the Development Bank of the Russian Federation*”.

From October 2008 through early 2010, VEB was also 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 provided 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*”. Although a number of VEB’s recovery finance programmes continue in effect, as the global economic crisis has eased and the Russian economy has shown signs of improvement and increased stability, VEB has ceased to provide new recovery finance and reduced its exposure to borrowers who had received recovery finance pursuant to programmes established by VEB under the Financial System Support Law. Whilst the subordinated loans that VEB extended to Russian banks pursuant to such programmes, as well as some amounts extended under certain other recovery finance programmes, remain outstanding as at the date of this Base Prospectus, as at 2 October 2010, all of the back-to-back (recovery) finance loans which VEB had extended to Russian corporate borrowers to refinance claims of foreign creditors have been repaid and, consequently, VEB has repaid all of the deposits which it received from the CBR to provide such recovery finance.

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, as well as those who have selected VEB as their pension fund manager. See “—*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 “—*Depositary Operations*”.

VEB operates out of its principal office in Moscow, five representative offices within the Russian Federation (in St. Petersburg, Khabarovsk, Krasnoyarsk, Pyatigorsk (opened in 2010) and Ekaterinburg (opened in 2010)) and ten representative offices outside the Russian Federation (in the United States of America, France (opened in 2010), India (two), Switzerland (opened in January 2011), Italy, China, the Republic of South Africa, Germany, 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 2010, VEB had total assets of RUB 2,043,472 million and total loans of RUB 1,203,567 million, whilst VEB had net interest income of RUB 66,673 million and net income of RUB 28,247 million for the year ended 31 December 2010.

VEB continues to receive the largest portion 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 2010, VEB had charter capital of RUB 382,571 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 211,647 million (as compared to RUB 446,151 million as at 31 December 2009) and RUB 594,028 million (as compared to RUB 501,455 million as at 31 December 2009), respectively. As at 31 December 2010, total funding from the Russian Government and the CBR as a percentage of VEB’s total equity and liabilities was 39.9% (as compared to 50.9% as at 31 December 2009). Following the repayment of back-to-back (recovery) finance loans extended by VEB to qualifying borrowers under the Financial System Support Law, VEB has repaid deposits in an aggregate amount of U.S.\$12,212 million (including all accrued interest), which it received from the CBR to provide such recovery finance. See “*Certain Statistical Data and Other Information—Sources of Funding—Amounts Due to the CBR*”. 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. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources*”. 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 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 2010, the VEB Group had 1,819 employees excluding its subsidiaries and 17,832 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” (which is now SME Bank) and State-owned shares of the CJSC “State-Specialised Russian Export-Import Bank”, 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 (“**Roscombank**”), which was founded on 18 August 1922 as a joint stock company providing short-term financing. Roscombank 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.

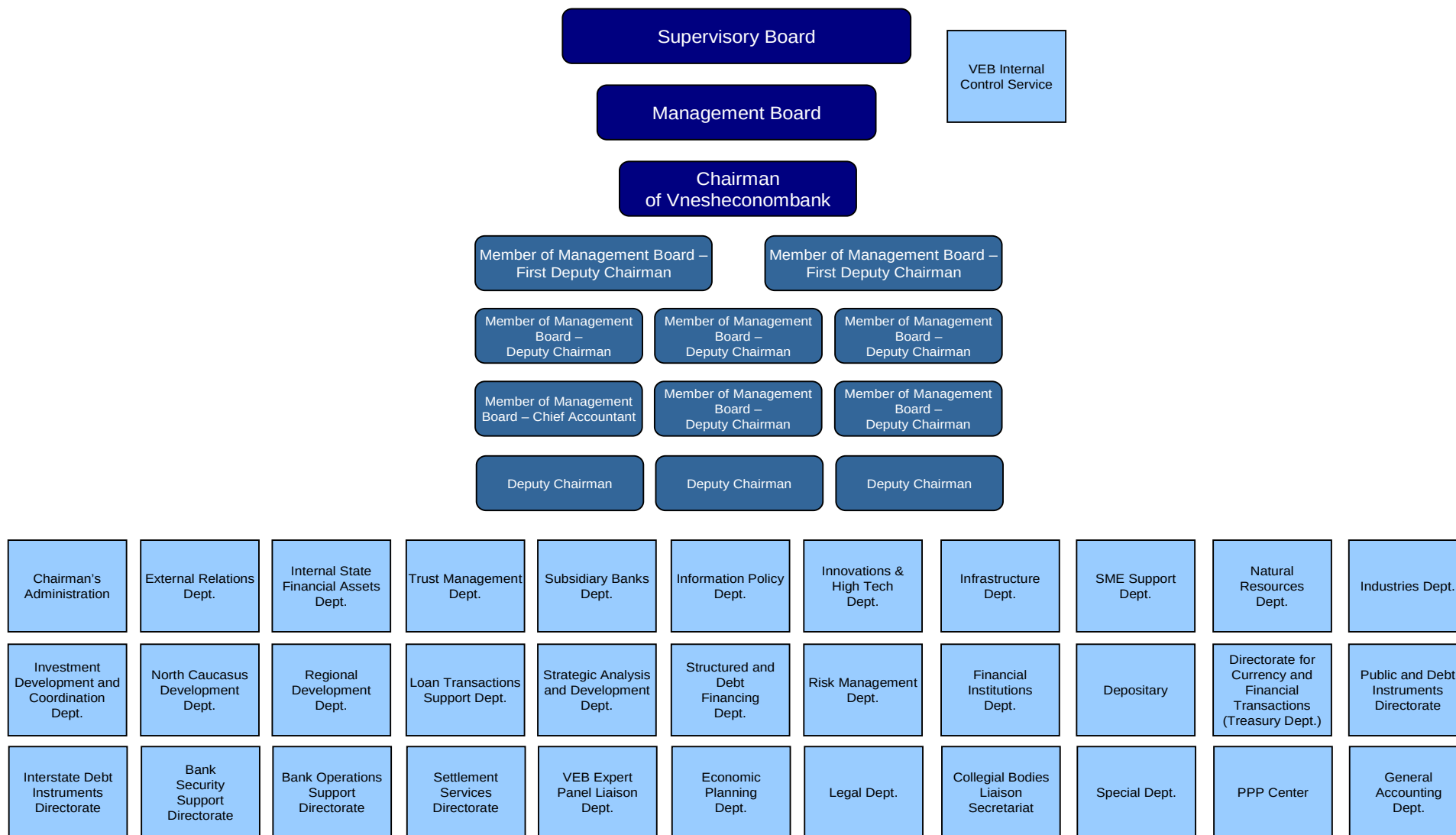
On 17 May 2007, the State Corporation Bank for Development and Foreign Economic Affairs (“**Vnesheconombank**”) was established pursuant to the Development Bank Law. See “*Status as a State Corporation and Regulatory Environment*”. VEB was registered with the Unified State Register of Legal Entities 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 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. The 2007 Memorandum, which was originally due to expire on 27 July 2010, was extended by Directive 1170-r on 15 July 2010 on its existing terms for an additional three years, expiring in July 2013.

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 98.0% in March 2010 (including 32.4% through two

subsidiaries); a 90.0% 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 January 2009, which was subsequently increased to 93.8% in October 2009; and a 98.9% interest in GLOBEXBANK in 2009, which was subsequently increased to 99.2% in 2010. 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. In late 2010, VEB acquired (by way of a capital contribution from the State to VEB's charter capital) a 100% interest in FCPF, which is primarily engaged in VEB's programme of providing financial assistance for the implementation of projects aimed at regional and urban development in Russia with the participation of regional and municipal authorities and, in November 2010, VEB established NCDC, whose principal activities include supporting investment projects implemented (or to be implemented) in the North Caucasus and advising regional authorities in connection therewith. See "*Principal Subsidiaries and Associates*".

On 24 June 2010, the Programme was established; as at 28 April 2011, U.S.\$3,200 million in aggregate nominal amount of U.S. Dollar-denominated Notes and CHF 500 million in aggregate nominal amount of Swiss Franc-denominated Notes were outstanding under the Programme. See "*Certain Statistical Data and Other Information—Sources of Funding—Debt Securities Issued*".

The following chart outlines the corporate organisational and management structure of VEB as at 28 April 2011:



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 (although, as at the date of this Base Prospectus, no new recovery finance is being provided); (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 continue 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 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, SME Bank), 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 (including in cooperation with the Russian Export Credit Agency, once established) 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. See “*Description of VEB’s Business—Overview*”.

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. Although, as at 2 October 2010, all of the back-to-back (recovery) finance loans provided by VEB pursuant to the Financial System Support to refinance foreign loans of Russian corporate borrowers have been repaid and VEB has ceased to provide new recovery finance, VEB aims to continue to support Russian banks, through the provision of subordinated loans. 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. These entities returned to profitability in late 2009 and 2010 and VEB intends to 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 2013, VEB intends to apply up to RUB 100,000 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 continuing to:

- improve its institutional structure and corporate organisation and continuing to develop its internal decision-making policies and procedures;
- build more efficient internal models for the selection, appraisal, financing and monitoring of investments in its core business;

- develop 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
- expand 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, SME Bank); and (iii) support foreign trade activities and the Russian export sector (including through the Russian Export Credit Agency, once established). 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: technology and innovation, 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 2009 and 2010, 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. As at 31 December 2010, the number of investment projects approved by VEB was 141 with a total value of RUB 2,018,865 million, of which VEB had committed to fund 80 projects with a total value of RUB 810,900 million. As at the same date, the number of infrastructure projects approved by VEB was 54 with a total value of RUB 817,856 million, of which VEB had committed to fund 25 with a total value of RUB 227,467 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 acquisition of six An-148 aircraft. VEB has committed to lend six tranches each of RUB 500 million over a period of five years beginning 30 July 2010, 5 August 2010, 11 August 2010, 18 August 2010, 25 October 2010 and 1 February 2011, respectively, to provide finance in respect of such acquisition; as at 28 April 2011, the aggregate outstanding principal amount was RUB 2,973 million;
- the construction of an energy and metallurgical complex in the Boguchan region of the Krasnoyarsk territory as part of a wider programme to develop the Nizhneye Priangariye area comprising:
 - the construction of a power plant at a total anticipated cost of RUB 72,500 million, of which VEB has committed to lend RUB 28,100 million over a period of 16 years and one month beginning 1 December 2010; as at 28 April 2011, the outstanding principal amount was RUB 3,370 million; and
 - the construction of an aluminium smelter at a total anticipated cost of RUB 33,000 million, of which VEB has committed to lend U.S.\$699 million over a period of 14 years and one month beginning 3 December 2010; as at 28 April 2011, the outstanding principal amount was U.S.\$19 million;
- the construction of a cattle farm, slaughterhouse and meat processing plant in the Bryansk region, at a total anticipated cost of U.S.\$789 million, of which VEB has committed to lend U.S.\$110 million over a period of eight years beginning 3 December 2010 and US\$37 million over a period of 10 years beginning 29 December 2010; as at 28 April 2011, the outstanding principal amount was U.S.\$28 million;
- the construction of a pig farm in the Voronezh region, at a total anticipated cost of RUB 5,808 million, of which VEB has committed to lend RUB 4,554 million over a period of eight years beginning 14 December 2010; as at 28 April 2011, the outstanding principal amount was RUB 466 million;
- the construction of a polypropylene production plant in the city of Omsk, at a total anticipated cost of RUB 11,350 million, of which VEB has committed to lend RUB 3,957 million over a period of seven years and 10 months beginning 21 January 2011 and U.S.\$198 million over a period of 10 years beginning 11 April 2008; as at 28 April 2011, the outstanding principal amounts were RUB 1,098 million and U.S.\$195 million, respectively;
- the construction of a liquid cargo complex in the Leningrad region, at a total anticipated cost of U.S.\$885 million, of which VEB has committed to lend U.S.\$199 million over a period of three years and five months beginning 3 March 2011; as at 28 April 2011, the outstanding principal amount was U.S.\$100 million;
- the development of a multi-purpose helicopter in the Primorsky territory, at a total anticipated cost of RUB 4,003 million, of which VEB has committed to lend RUB 2,974 million over a period of eight years beginning 18 March 2011; as at 28 April 2011, there was no outstanding principal amount;

- the establishment of a domestic housing construction business in the Rostov region, at a total anticipated cost of RUB 4,172 million. VEB has committed to lend RUB 3,339 million and EUR 14 million over a period of seven years and six months beginning 6 April 2011; as at 28 April 2011, the outstanding principal amounts were RUB 1 million and EUR 4 million;
- the reconstruction and modernisation of the Khabarovsk Oil Refinery in the Far Eastern Federal District at a total anticipated cost of U.S.\$1,300 million, of which VEB has committed to lend U.S.\$239 million over a period of 11 years and 10 months, U.S.\$240 million over a period of 12 years and six months and EUR 218 million over a period of 11 years and 10 months, in each case beginning 30 July 2008; as at 28 April 2011, the outstanding principal amounts were U.S.\$125 million and EUR 84 million;
- the construction of a polypropylene production plant in the city of Tobolsk, at a total anticipated cost of U.S.\$2,430 million, of which VEB has committed to lend U.S.\$1,220 million over a period of 13 years and six months and U.S.\$221 million over a period of nine years and six months, in each case beginning 27 July 2010; as at 28 April 2011, the outstanding principal amount was U.S.\$201 million;
- the construction of a timber processing plant in the Khabarovsk region, at a total anticipated cost of EUR 414 million, of which VEB has committed to lend EUR 277 million over a period of nine years and three months beginning 30 July 2010; as at 28 April 2011, the outstanding principal amount was EUR 201 million;
- the construction and reconstruction of water supply and drainage facilities in Rostov-on-Don, at a total anticipated cost of RUB 13,724 million, of which VEB has committed to lend RUB 4,180 million over a period of 12 years and two months beginning 27 September 2010; as at 28 April 2011, the outstanding principal amount was RUB 2,410 million;
- the construction of a “combined cycle” power generation plant in the Kolpinsky district of St. Petersburg, at a total anticipated cost of RUB 6,313 million, of which VEB has committed to lend RUB 4,900 million over a period of 14 years and two months beginning 8 October 2010; as at 28 April 2011, the outstanding principal amount was RUB 1,161 million; and
- the construction of an ammonia, methanol and carbamide production complex in Tatarstan, at a total anticipated cost of U.S.\$ 1,973 million of which VEB has committed to lend U.S.\$1,650 million. On 15 June 2011, VEB entered into agreements with OJSC Ammonium to provide finance in the amount of U.S.\$1,052 million over a period of 14 years and six months and U.S.\$220 million over the period of 12 years and six months. VEB also finances this project through equity through its acquisition of 4,346,047 shares in OJSC Ammonium for an aggregate total value of RUB 1,481 million, resulting in an ownership interest of 20% minus one share. As at the date of the Base Prospectus, the transfer of these shares has not been completed.

VEB has also continued to support the development of infrastructure projects through equity participations, in addition to its equity investment in the ammonia, methanol and carbamide project in Tatarstan referred to above. The most significant project currently being financed by VEB through equity is the construction of a new airport complex at Vladivostok International Airport, which VEB financed through its purchase of 440,000,000 ordinary registered shares of CJSC “Terminal Vladivostok” for an aggregate total amount of RUB 440 million in an additional share issue, resulting in an ownership interest of 48.62%.

Financing the 2014 Winter Olympics

VEB is one of the key providers of financing for the construction of infrastructure facilities to support Russia’s hosting of the 2014 Winter Olympics, including the development of transport and energy infrastructure. As at the date of this Base Prospectus, VEB has commitments with respect to eight infrastructure projects related to the 2014 Winter Olympics for a total investment amount of RUB 87,724 million through 2014 and VEB is currently considering participation in three further related projects. The maturities of financing provided by VEB for the 2014 Winter Olympics projects range from five to fifteen years, with loan amounts generally subject to draw down over the life of a project as stages of the relevant project are completed.

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

- 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 50,150 million, of which VEB has committed to lend RUB 21,000 million; as at 28 April 2011, VEB had funded RUB 7,704 million;
- the construction of the “Mountain Carousel” sports and tourism complex, at a total anticipated cost of RUB 16,892 million, of which VEB has committed to lend RUB 14,600 million; as at 28 April 2011, VEB had funded RUB 1,565 million;
- the construction of the Olympic village, at a total anticipated cost of RUB 22,067 million, of which VEB has committed to lend RUB 18,100 million; as at 28 April 2011, VEB had funded RUB 717 million;
- the construction of a hotel in Sochi to accommodate representatives of the International Olympic Committee, at a total anticipated cost of RUB 6,800 million, of which VEB has committed to lend RUB 4,900 million; as at 28 April 2011, VEB had funded RUB 923 million;
- the construction of a new terminal at Sochi International Airport, at a total anticipated cost of RUB 8,165 million, of which VEB has committed to lend RUB 7,300 million; as at 28 April 2011, VEB had funded RUB 5,540 million;
- 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; as at 28 April 2011, VEB had funded RUB 2,828 million; and
- the construction of the second phase of the Sochi Thermal Power Plant, at a total anticipated cost of RUB 28,000 million, of which VEB has committed to lend RUB 19,450 million; as at 28 April 2011, VEB had funded RUB 8,480 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. In December 2010, VEB also created an endowed academic chair in the Financial University under the Government of the Russian Federation to help promote education in PPPs and VEB has launched an internet site about the development of PPP in Russia (www.pppinrussia.ru).

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 and with Ukrainian PPC Centre 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. Since 17 August 2010, VEB has been acting as a single provider of services on investment consulting for the Russian constituent entities in respect of investment projects using the PPP model (Government Order No 1372-r of 17 August 2010).

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 by the State 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 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.

During 2010, the Ministry for Regional Development of Russia requested that VEB assess five additional regional investment PPP projects. Three of these five projects were approved by VEB and all of these three projects were subsequently approved by the above-mentioned Governmental Commission.

VEB acts only in an advisory capacity with respect to this function and does not provide related financing. VEB charges fees in respect of this advice and, as at the date of this Base Prospectus, has been performing advisory services in respect of a project for the construction of schools in the Khanty-Mansiysk region, a project for the construction of a bridge over the Volga in the Nizhny Novgorod region and a project for the construction of waste water treatment plants in the Karelia region.

Direct Infrastructure Investment Funds

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

Macquarie Renaissance Infrastructure Fund (MRIF)

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. The Eurasian Development Bank joined VEB as an investor in MRIF in February 2011.

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.

Sovereign Investment Fund

In June 2011, VEB established a new wholly owned fund management company (the Management Company of the Russian Direct Investments Fund) and VEB contributed to the management company a charter capital of RUB 300 million. It is intended that the management company will manage Russia's new sovereign investment fund. It is expected that the fund will receive more than U.S.\$2 billion from the State budget by the end of 2011 to provide co-financing, along with sovereign funds of other States, credit institutions and other leading investment funds for projects with a Russian focus.

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 28 April 2011, VEB had extended loans in an aggregate amount of RUB 99.9 billion to 119 Russian banks and 104 other financial institutions, such as leasing companies, micro-finance companies and other specialist SME lending institutions, in 81 regions of the Russian Federation for on-lending to SMEs.

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 28 April 2011, management estimates that approximately one-fifth of VEB's SME lending comprised loans to, or for on-lending to, SMEs engaged in manufacturing, 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.

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), 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. In order to supplement its existing support for the Russian export sector and promote the Russian export market by providing credit insurance and guarantees to Russian exporters with the support of the State, VEB also intends to establish the Russian Export Credit Agency, subject to the adoption of certain amendments to existing federal laws.

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 2010, the main beneficiaries of pre-export financing provided by VEB were companies in the technology and manufacturing sectors.

For the year ended 31 December 2010, VEB had extended loans to support Russian foreign trade activities and Russian exports in an aggregate amount of RUB 18,595 million (as compared to RUB 80,712 million as at 31 December 2009) and provided 76 guarantees (as compared to 115 as at 31 December 2009) (which are accounted for off-balance sheet) for an additional aggregate amount of RUB 60.7 billion (as compared to RUB 31.9 billion as at 31 December 2009).

Establishment of Export Credit Agency

On 28 July 2010, VEB's Supervisory Board approved the establishment of the Russian Export Credit Agency as a wholly owned subsidiary of VEB with an expected capitalisation of RUB 30 billion. The stated objective of the Russian Export Credit Agency is to promote the Russian export market by providing credit insurance and guarantees to Russian exporters with the support of the State. The Russian Export Credit Agency, whose activities will be supplemental and complementary to, and not intended to replace or compete with, VEB's existing export finance activities, will be established only after adoption of certain amendments to existing federal laws to authorise the functions necessary for the implementation of the Agency's stated objectives, including authority for the State to issue supporting guarantees. VEB expects to fund its capital contribution to the Russian Export Credit Agency out of gains on the sale of securities from VEB's securities portfolio.

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 non-binding memorandum on co-operation entered into in 2010 with the State financial development and export-import banks of the BRIC countries (Brazil, Russia, India and China) providing for co-operation between such parties in relation to the financing of projects in the fields of technology and energy conservation;
- a non-binding memorandum of understanding with the Export-Import Bank of the United States of America in 2010, in relation to the support of financing of foreign trade contracts between American exporters and Russian importers for the supply of medical equipment and energy efficiency equipment, as well as other goods and services;
- a non-binding co-operation agreement with Latin American Association of Development Financing Institutions (ALIDE) in 2010, aimed at strengthening and promoting long-term cooperation between VEB and Latin American financial development institutions in relation to co-financing of investment projects in the infrastructure and the fuel and energy sector;
- a non-binding co-operation agreement with the Andean Development Corporation in 2010, aimed at strengthening and promoting long-term cooperation between the Russian Federation and member countries of Andean Development Corporation, including in relation to export financing, credit support and co-financing of investment projects;
- a non-binding co-operation agreement with Caisse de Depot et de Gestion Group (the Moroccan State investment fund) in 2010, intended to promote co-operation in relation to the financing long-term investment projects implemented by Moroccan and Russian companies;
- a non-binding memorandum of understanding with BNP Paribas in 2010, providing for cooperation in relation to the financing of two projects implemented by OJSC "Evraziyskiy" and the French Degremont S.A., for the construction of a sludge incineration plant in the city of Sochi and in the city of Rostov-on-Don;
- an agreement with Eurasian Development Bank and AO "Stantsia Ekibatuzskaya GRES-2", pursuant to which VEB has committed to lend RUB 12,000 million over a period of 15 years,

to finance the construction of a third power-generating unit of Ekibastuzsk power station (No. 2) in Kazakhstan, which is being built pursuant to an agreement between the Government of Kazakhstan and the Russian Government;

- 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.

Agreement with Kazakhstan

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, 2009 and 2010, VEB signed co-operation agreements with governmental authorities and administrations in the Russian Federation's constituent regions, including the Republics of Komi, Chechnia, Buryatia, Karelia, Karachaevo-Cherkessia and Dagestan, the territories of the Altay, Krasnoyarsk, Khabarovsk and Yamalo-Nenetsk, the regions of the Volgograd, Lipetsk, Novgorod, Rostov, Omsk, Tambov, Irkutsk, Kaliningrad, Sverdlovskaya and Oryol 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 has a right to enter 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 28 April 2011, has funded U.S.\$35.7 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

Since the onset of the global economic crisis in 2008, VEB has played a role in assisting in the recovery of certain Russian banks and financial institutions and corporate entities, whose financial sustainability was 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. As the global financial crisis has eased and the Russian economy has shown signs of improvement and increased stability, although a number of VEB's recovery finance programmes continue in effect, VEB has ceased to provide new recovery finance, while also reducing its exposure to borrowers who had received recovery finance pursuant to programmes established by VEB under the Financial System Support Law. VEB has also repaid a significant portion of the matching funding, which had been provided by the CBR and the Russian Government (including funds of the NWF) to support VEB in its role as one of the key State-owned vehicles for the stabilisation of the Russian economy and financial system under the Financial System Support Law as described in "*—Refinancing of Foreign Loans*" below and "*Certain Statistical Data and Other Information—Sources of Funding—Amounts Due to the CBR.*"

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 Bank; (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*”.

As at the date of this Base Prospectus, VEB continues to hold these unsecured subordinated loans on a fully matched basis. In accordance with amendments to the Financial System Support Law adopted on 27 July 2010, and the respective decision of VEB’s Supervisory Board, however, the interest rates VEB charges on these subordinated loans were lowered from 8.0% to 6.5% and from 9.5% to 7.5%, whilst, at the same time, the interest rates for the deposits received from the Ministry of Finance of the Russian Federation (comprised of funds of the NWF) and comprising the matching funding for the subordinated loans were lowered from 7.0% to 6.25% and 8.5% to 7.25%. As a result of the smaller reduction on the funding rates, as compared to the loan rates, the overall net interest margin on VEB’s subordinated loans to qualifying borrowers under the Financial System Support Law has decreased.

VEB has also made financing available on a subordinated basis in 2010 to certain of its existing borrowers, including the following:

- On 20 August 2010, VEB restructured an outstanding U.S.\$1,000 million loan to Prominvestbank, which was scheduled to mature in 2012, into two separate loans, including a loan in the amount of U.S.\$300 million on a subordinated basis due 2020 and a loan in the remaining amount of U.S.\$700 million under a multicurrency revolving credit facility due 2013; and
- On 29 September 2010, VEB restructured an outstanding RUB 9.0 billion loan to SME Bank into a subordinated loan due 2020.

Refinancing of Foreign Loans

Pursuant to the Financial System Support Law, VEB was 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 providing 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.

As at 2 October 2010, all of the back-to-back (recovery) finance loans provided by VEB pursuant to the Financial System Support Law have been repaid and, upon repayment of these remaining back-to-back (recovery) finance loans, VEB has repaid the corresponding deposits received from the CBR.

Equity Investments

As part of its recovery finance activities in support of the financial sector, VEB acquired a 90.0% interest in Sviaz-Bank in 2008, which was subsequently increased to 99.5% in 2009 and a 98.9% interest in GLOBEXBANK in 2009, which was subsequently increased to 99.2% in 2010. These 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—Results of Operations for the Years Ended 31 December 2010, 2009 and 2008—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. For a discussion of provision for impairment in respect of these entities see *“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the years ended 31 December 2010, 2009 and 2008—Provisions for Impairment”*. VEB intends to 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)”* and *“—Principal Subsidiaries and Associates—CJSC GLOBEXBANK”*.

In addition, VEB has, upon the proposal of the Russian Government, acquired shares in certain Russian entities considered to have strategic importance to the Russian economy, including, during the first half of 2010, UC RUSAL (in its initial public offering), JSC “United Aircraft Corporation” and JSC “Inter RAO UES” and, in 2009, OJSC “Rostelecom”. VEB intends to hold these securities as long-term investments.

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. As at the date of this Base Prospectus, the securities acquired, to the extent not sold, are now held in VEB’s investment securities portfolio for VEB’s own account.

As the Russian securities market has continued to improve and prices on corporate shares of Russian blue-chip companies have begun to recover and stabilise with the easing of the global financial crisis, subject to market conditions and its responsibility not to disrupt the normal operations of the securities market, and in line with VEB’s mandate to focus on its core development banking activities rather than securities trading and investment operations, VEB has sold down many of its equity positions in Russian blue-chip companies. Subject to market conditions and its responsibility not to disrupt the normal operations of the securities market, VEB intends to continue to sell down its securities positions over a period of time to focus on its banking activities rather than securities trading and investment operations, although VEB intends to continue to hold the portfolio of bonds it acquired in connection with its activities to support the Russian securities market, as well as certain strategic investments, in the longer term. As a result, 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”*.

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 28 April 2011, VEB had drawn down RUB 3,000 million of the RUB 40,000 million deposit from NWF to extend loans to the AHML.

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, 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 through the end of 2013. 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.

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 the 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, 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. None of the sovereign external debt obligations of the Russian Federation (other than London Club debt obligations) or foreign financial assets owned by the Russian Federation serviced by VEB are reflected in VEB's consolidated statement of financial position.

In 2010, VEB received fees from the Ministry of Finance as compensation for these agency services in the aggregate amount of RUB 534 million.

Settlement of Sovereign External Debt Obligations

VEB is responsible for record-keeping, reconciliation, service and settlement with respect to virtually all (U.S.\$35,980 million, or approximately 92% of the total amount of all such obligations, as at 31 December 2010) of sovereign external debt obligations of the Russian Federation, including sovereign bonds, inter-governmental debt obligations, export credits and foreign bank 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 2010, 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 17 creditor countries, the largest of which (by volume of claims) are South Korea, Kuwait and China. Pursuant to the relevant inter-governmental 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.

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 partially settled as at 31 December 2010 in accordance with Decree of the Government of the Russian Federation No. 1047-p dated 30 July 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. 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. Such obligations have been partially settled by the Russian Government. 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. 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 54 of Russia's debtor-countries under the State loans extended in accordance with inter-governmental 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 inter-governmental 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 inter-governmental 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 from payments due from debtor countries to the Russian Federation. VEB also organises regular auctions for trading of amounts received from debtors in clearing and soft currencies on terms approved by the Ministry of Finance of the 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 2010, VEB effected settlements in respect of such debt obligations of more than U.S.\$6,200 million.

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 have selected VEB as their pension fund manager. As at 31 December 2010, 2009 and 2008 VEB had pension funds under management of RUB 740,219 million, 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 domestic corporations that are traded on a regulated securities market and have a minimum rating of at least BBB; 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 236 million and RUB 211 million for the years ended 31 December 2010 and 2009, respectively. STMC did not generate 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 depositary for Russian and foreign securities eligible for depositary 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 2010, VEB held securities in custody with an aggregate face amount of U.S.\$ 5,881.4 million in 1,159 depositary 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 depositary operations had revenue of U.S.\$2.17 million, U.S.\$1.94 million and U.S.\$3.25 million for the years ended 31 December 2010, 2009 and 2008, respectively.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

VEB’s principal subsidiaries and associates include: SME Bank, ROSEXIMBANK, Sviaz-Bank, GLOBEXBANK, Belvnesheconombank (Belarus), Prominvestbank (Ukraine), VEB Capital, VEB-Leasing, VEB Engineering LLC, FCPF and NCDC.

Domestic Banking Subsidiaries

OJSC “Russian Bank for Small and Medium Enterprises Support” (SME Bank)

VEB owns 100.0% of the share capital of SME Bank (formerly OJSC “Russian Bank for Development”). In August 2008, the Russian Government transferred 100% of the shares held by it in SME Bank to VEB as a contribution to VEB’s charter capital. SME Bank 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, SME Bank 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. SME Bank is the principal subsidiary through which VEB carries out its SME development finance activities.

SME Bank had total assets of RUB 78,128 million as at 31 December 2010 and net interest income of RUB 2,636 million and net profit of RUB 1,022 million for the year then ended. As at 31 December 2010, SME Bank had 304 employees.

SME Bank’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 7,890 million as at 31 December 2010 and net interest income of RUB 302 million and net profit of RUB 130 million for the year then ended. As at 31 December 2010, ROSEXIMBANK had 145 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 (as increased in 2009 from 90.0% 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. Sviaz-Bank returned to profitability in late 2009 and 2010 and VEB intends to sell its ownership interest when market conditions are considered to be favourable.

At the time of its acquisition by VEB, Sviaz-Bank was the 18th largest bank in the Russian Federation by net assets. Sviaz-Bank had total assets of RUB 165,836 million as at 31 December 2010 and net interest income of RUB 4,742 million and net loss of RUB 118 million for the year then ended. As at 31 December 2010, Sviaz-Bank had 3,226 employees.

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

CJSC "GLOBEXBANK"

VEB owns 99.2% of the share capital of GLOBEXBANK (as increased in 2010 from 98.9% in 2009). 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. GLOBEXBANK returned to profitability in late 2009 and into 2010 and VEB intends to sell its ownership interest when market conditions are considered to be favourable.

GLOBEXBANK had total assets of RUB 113,912 million as at 31 December 2010 and net interest income of RUB 4,029 million and net profit of RUB 677 million for the year then ended. As at 31 December 2010, GLOBEXBANK had 1,320 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 (formerly LLC “Investment Company of Vnesheconombank”). 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 6,118 million as at 31 December 2010 and net loss of RUB 204 million for the period from 24 December 2009 to 31 December 2010. As at 31 December 2010, VEB Capital had 98 employees.

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

OJSC “VEB-Leasing”

VEB owns 98.0% (including 32.4% through two subsidiaries) 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 75,224 million as at 31 December 2010 and net profit of RUB 891 million for the year then ended. As at 31 December 2010, VEB-Leasing had 348 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, with 24.5% of the share capital being 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 total assets of RUB 180 million as at 31 December 2010 and a net loss of RUB 21 million for the year then ended. As at 31 December 2010, VEB Engineering had 30 employees.

VEB Engineering’s registered office is at 29/141 Vereiskaya Street, Moscow, 121357, Russian Federation.

OJSC “Federal Centre for Project Finance” (FCPF)

In late 2010, pursuant to Resolution of the Russian Government No 603-r dated 21 April 2010, the Russian Government contributed the entire issued share capital (with a value of RUB 82 million) to the charter capital of VEB. FCPF is primarily engaged in VEB’s programme of providing financial assistance for the implementation of projects aimed at regional and urban development in Russia with the participation of regional and municipal authorities. It is proposed that FCPF will invest in the equity of project companies established by regional and municipal administrations for the support of PPP.

FCPF had total assets of RUB 93 million as at 31 December 2010 and net loss of RUB 8 million for the year then ended. As at 31 December 2010, FCPF had 36 employees.

FCPF’s registered office is at Smolensky boulevard, 3/5, bld. 1, 119121, Moscow, Russian Federation.

OJSC “Corporation for the Development of North Caucasus” (NCDC)

On 30 September 2010, VEB’s Supervisory Board approved the establishment of NCDC. In March 2011, the report on issue of shares of the North Caucasus Development Corporation was officially registered. Vnesheconombank contributed RUB 500 million to the charter capital of the subsidiary (100% shares). NCDC’s strategic objectives include supporting investment projects implemented (or to be implemented) in the North Caucasus and advising regional authorities. It is intended that NCDC may also provide co-financing to certain projects out of its own funds.

As NCDC was incorporated on 30 November 2010, its first financial year will end on 31 December 2011. As at 31 December 2010, NCDC had 2 employees.

NCDC’s registered office is at Krainego Street, Piatigorsk, Stavropolsky krai, 357500, Russian Federation.

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 36,990 million as at 31 December 2010 and net interest income of RUB 1,591 million and net profit of RUB 1,019 million for the year then ended. As at 31 December 2010, Belvnesheconombank had 2,338 employees. VEB intends to hold Belvnesheconombank as a long-term strategic investment.

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

PSC Prominvestbank (Ukraine)

VEB owns a 93.8% in Prominvestbank (as increased in October 2009 from 75.0% plus three shares earlier that year). 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 extended a U.S.\$1,000 million loan to Prominvestbank. On 20 August 2010, VEB restructured this loan, which was scheduled to mature in 2012, into two separate loans, including a loan in the amount of U.S.\$300 million on a subordinated basis due 2020 and a loan in the remaining amount of U.S.\$700 million under a multicurrency revolving credit facility due 2013. 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 127,176 million as at 31 December 2010 and net interest income of RUB 5,834 million and a net loss of RUB 4,521 million for the year then ended. As at 31 December 2010, Prominvestbank had 7,572 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 28 April 2011:

Full Legal Name	VEB's Ownership	Industry	Location	Date of Acquisition
CJSC State Specialised Russian Export-Import Bank (Eximbank of Russia)	100.0%	Banking Activity	Russia	2003-2008
OJSC Russian Bank for Development (SME Bank)	100.0%	Banking Activity	Russia	2008-2009
CJSC Kraslesinvest	100.0%	Timber processing	Russia	2007
LLC Investment Company of VEB (VEB-Capital)	100.0%	Other Financial Intermediation	Russia	2009-2010
Assistenza Finanziaria e Commerciale (S.r.l.) (A.F.C. S.r.l.) ...	100.0%	Consultancy Services	Italy	2006
OJSC Interregional Bank for Settlements of the Telecommunications and Postal Services (Sviaz-Bank)	99.5%	Banking Activity	Russia	2008-2009
GLOBEX Commercial Bank	99.16%	Banking Activity	Russia	2009-2010
Belvnesheconombank	97.4%	Banking Activity	Belarus	2007-2009
Public Stock Company Joint - Stock Commercial Industrial & Investment Bank	93.84%	Banking Activity	Ukraine	2009
OJSC VEB-Leasing	98.6%	Leasing	Russia	2008-2011 ⁽¹⁾
LLC VEB Engineering	51.0%	Engineering	Russia	2010
OJSC Federal Centre for Project Finance (FCPF)	100.0%	Consultancy Services	Russia	2010
Mutual hedge Fund MRIF	Share of assets 99.92%	Investments	Russia	2009
Mutual hedge Fund MRIF-II	Share of assets 99.9975%	Investments	Russia	2009-2010
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%	Financial Intermediation	Russia	2008
CJSC CentreEnergostroyMontazh	25.0%	Building Construction	Russia	2007
OJSC Krasnoyarsk Region Development Corporation	25.0%	Financial Intermediation	Russia	2006
LLC Prominvest	25.0%	Financial Intermediation	Russia	2001
OJSC Ilyushin Finance Co. (Ilyushin Finance Co.)	21.4%	Leasing	Russia	2006
LLC VEB-Invest	19.0%	Investments	Russia	2008
CMIF Bioprocess Capital Ventures	Share of assets 50.0%	Investments	Russia	2008
OJSC "Corporation for the Development of North Caucasus" (NCDC)	100.0%	Investments and Consultancy Services	Russia	2010

Note:

- (1) In March 2011, VEB acquired 2,000,000 additional ordinary shares in VEB-Leasing for RUB 5,000 million, as a result of which VEB's interest in VEB-Leasing increased to 98.6%. VEB has agreed to acquire an additional 2,000,000 ordinary shares of VEB-Leasing at the same price, although, as at the date of this Base Prospectus, the completion of this purchase remains pending.

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 were 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". As at the date of this Base Prospectus, VEB's securities markets and treasury operations also cover a number of ordinary course activities, including: (i) borrowing and placing loans in the financial market; (ii) buying and selling foreign currency; (iii) implementing derivative transactions; and (iv) conducting other securities operations including making certain strategic investments in key Russian companies, often at the direction of the Russian Government, but also for liquidity management purposes. These strategic investments include the acquisition by VEB of a 2.7% stake in Gazprom for approximately U.S.\$3.5 billion in December 2010. See "Certain Statistical Data and Other Information—Securities Portfolio—Investments Available-for-Sale" and "Certain Statistical Data and Other Information—Sources of Funding—Amounts Due to the Ministry of Finance and the Russian Government" and ". Subject to market conditions and its responsibility not to disrupt the normal operations of the securities market, VEB intends to continue to sell down its securities positions over a period of time to focus on its banking activities rather than securities trading and investment operations, although VEB intends to hold its portfolio of corporate bonds, as well as such strategic investments, in the longer term. As a result, 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 bank-to-bank loan 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 five 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 continuing 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.

In 2011, VEB has budgeted IT capital expenditure of RUB 130 million. In 2011 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 12,241 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 with the total value of the additionally-acquired shares equal to approximately U.S.\$500 million. 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.

Based on the above declaration by the Commercial Court, in April 2010, the State Commission on Securities and Stock Market (the “**Commission**”) cancelled the Prominvestbank issuance of new shares to VEB. In May 2010, Prominvestbank filed a claim with the District Administrative Court in Kiev to annul the aforementioned decision of the Commission. This claim was rejected in the first instance. In February 2011, however, the Kiev Administrative Court of Appeal ruled against the Commission and declared its decision unlawful. The Commission then filed its own appeal against the decision of the Kiev Administrative Court of Appeal with Ukraine’s Highest Administrative Court on 27 February 2011, which as of the date of this Base Prospectus remains pending. If the Highest Administrative Court rules against Prominvestbank, Prominvestbank may face unfavourable consequences, including, *inter alia*, new court proceedings and an obligation to repay U.S.\$500 million in capital contributed by VEB for the forfeited shares.

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. 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:

Required Level of Approval	Amount Involved (as a percentage of VEB's Equity (sobstvennie sredstva))
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.

VEB's Supervisory Board has the right to impose additional limits.

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 a 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 2010, VEB held collateral with an aggregate fair value of RUB 125,465 million in respect of total impaired loans of RUB 265,457 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 2010, VEB recorded allowance for impairment of loans to customers in the aggregate amount of RUB 144,211 million, which represented 83.7% of VEB’s individually impaired loans and 15.5% of VEB’s loans to customers.

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 2010 (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	345,856	45.0	1,024	0.3	—	—	—	—	—	—	346,880
Subordinated loans	210	0.0	—	—	—	—	—	—	—	—	210
Inter-bank loans under small and medium-sized business support program	43,306	5.6	5,276	1.3	1,211	1.0	258	0.1	—	—	50,051
Other amounts due from credit institutions	16,939	2.3	815	0.2	1,116	0.8	58	0.0	1,291	1.9	20,219
	406,311	52.9	7,115	1.8	2,327	1.8	316	0.1	1,291	1.9	417,360
Loans to customers											
Commercial loans	175,636	22.9	149,215	38.0	53,094	40.3	58,666	29.3	48,787	70.4	485,398
Project finance	2,462	0.3	167,283	42.6	50,065	37.8	140,477	70.2	12,260	17.7	372,547
Financing of operations											
with securities	13,808	1.8	4,839	1.2	215	0.2	27	0.0	2,029	2.9	20,918
Pre-export finance	5,835	0.8	4,586	1.2	6,175	4.7	109	0.1	1,890	2.7	18,595
Promissory notes	49	0.0	11,064	2.8	8,416	6.4	—	—	77	0.1	19,606
Reverse repurchase agreements	983	0.1	2,570	0.6	—	—	16	0.0	330	0.5	3,899
Back-to-back finance	2,604	0.3	—	—	—	—	—	—	—	—	2,604
Other	3,362	0.4	50	0.0	2,314	1.8	327	0.2	2,517	3.7	8,570
	204,739	26.6	339,607	86.4	120,279	91.2	199,622	99.8	67,890	98.0	932,137
Debt investment securities:											
- available-for-sale	137,413	17.9	44,933	11.4	9,194	6.9	113	0.1	8	0.0	191,661
- held-to-maturity	20,058	2.6	1,406	0.4	72	0.1	—	—	81	0.1	21,617
	157,471	20.5	46,339	11.8	9,266	7.0	113	0.1	89	0.1	213,278
Total	768,521	100.0	393,061	100.0	131,872	100.0	200,051	100.0	69,270	100.0	1,562,775

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	0.4	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
Total	1,030,823	100.0	274,552	100.0	72,626	100.0	166,402	100.0	85,023	100.0	1,629,426

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	11,554	1.5	179,196	52.6	94	0.4	6,279	46.8	2,327	62.4	199,450
Commercial loans	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
Total	751,689	100.0	340,871	100.0	26,768	100	13,425	100.0	3,727	100.0	1,136,480

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 three years indicated:

	Project finance 2010	Commercial loans 2010	Pre- export finance 2010	Financing of operations with securities 2010	Promissory notes 2010	Reverse repurchase agreements 2010	Back- to-back finance 2010	Other 2010	Total 2010
31 December 2009	62,054	54,347	1,847	669	183	501	—	1,560	121,161
(Charge) / reversal	14,947	26,696	31	2,067	561	(281)	96	1,432	45,549
Write-offs	(2)	(14,198)	—	(153)	—	—	—	(16)	(14,369)
Interest accrued on impaired loans	(7,029)	(990)	(111)	—	—	—	—	—	(8,130)
31 December 2010	69,970	65,855	1,767	2,583	744	220	96	2,976	144,211
Individual impairment	61,965	52,106	1,471	2,043	77	213	—	2,844	120,719
Collective impairment	8,005	13,749	296	540	667	7	96	132	23,492
	69,970	65,855	1,767	2,583	744	220	96	2,976	144,211
Individually impaired loans before impairment allowance	152,739	103,789	1,999	2,056	77	346	—	2,844	263,850

At 31 December 2010, no allowance was made for back-to-back finance.

	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)
31 December 2009	62,054	54,347	1,847	669	183	501	1,560	121,161
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
	62,054	54,347	1,847	669	183	501	1,560	121,161
Individually impaired loans before impairment allowance ...	145,257	80,809	3,135	1,150	48	976	2,687	234,062

At 31 December 2009, no allowance was made for back-to-back finance, reverse repurchase agreements and financing of operations with securities.

	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)
31 December 2008	620	7,705	3,397	118	6	11,846
Individual impairment	66	3,861	2,420	40	—	6,387
Collective impairment	554	3,844	977	78	6	5,459
	620	7,705	3,397	118	6	11,846
Individually impaired loans before impairment allowance ...	1,465	8,606	6,978	40	—	17,089

At 31 December 2008, no allowance was made for back-to-back finance, 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 or Supervisory Board, as 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.

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 VEB to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Group's credit risk assessment methodology is currently being amended to harmonise approaches to credit risk assessment within the Group and in order to ensure each of VEB's subsidiaries adopts the same standards as are applied by VEB

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 May 2011, a new working group was established with the objective of co-ordinating the management of liquidity and related risks across the Group. The Liquidity Risk Working Group's duties include the consideration and development of proposals in respect of the Group's risks and liquidity management policies and standards.

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. In 2010, VEB adopted the advanced VaR methodology, which uses a weighing procedure for statistical data of risk factors depending on their historical distance from the date of calculation and a recalculation of VaR values was made in accordance with this methodology.

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 2010 showed 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 2010. 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 2010.

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 advanced 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 Assets and Liabilities Committee, the Liquidity Risk Working Group, 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 (as described below) 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 and a package of measures was subsequently implemented in 2010.

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*".

The Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is a permanent collective body of VEB with the objective of providing advice and recommendations on matters relating to the management of assets and liabilities, including managing VEB's market and structural risks against losses.

The Liquidity Risk Working Group

The Liquidity Risk Working Group was established in May 2011, with the objective of co-ordinating the management of liquidity and risks within the Group. The Liquidity Risk Working Group's duties include the consideration and development of proposals in respect of the Group's risks and liquidity management policies and standards.

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;
- exercising controls over, and monitoring compliance with, 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;
- controlling automated information systems and monitoring 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 monitoring information flow to 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) analyses, 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 the Law 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 2007 Memorandum, which was originally due to expire on 27 July 2010, was extended by Directive 1170-r on 15 July 2010 on its existing terms for an additional three years, expiring in July 2013.

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
- Federal Law No 224-FZ "On Prevention of the Illegitimate Use of Inside Information and Market Manipulation and on Amendments to Certain Laws of the Russian Federation" dated 27 July 2010 (the "**Law on Insider Information**");
- 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 (as amended) (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 2010, VEB's reserve fund (which is calculated in accordance with Russian accounting standards) was RUB 9,406 million, as compared to RUB 3,214 million as at 31 December 2009. 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 2010, the accumulation fund (which is calculated in accordance with Russian accounting standards) totalled RUB 62,647 million, as compared to RUB 37,881 million as at 31 December 2009.

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 long-term strategy, annual budget, high-level policies and the use of VEB's profits, 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, and in accordance with the Law on Non-Commercial Organisations, 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 SME Bank, ROSEXIMBANK and FCPF 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 SME Bank, valued 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 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;
- 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; and
- in December 2010, the Russian Government contributed 100% of the State-owned shares in FCPF valued at RUB 82 million, to the charter capital of VEB.

As at 31 December 2010, VEB's charter capital was RUB 382,571 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 Law on Non-Commercial Organisations and 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 the information on performance of VEB’s strategy, 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.

The Law on Insider Information sets out general rules for and restrictions applicable to VEB as an issuer, shareholder and professional member of the financial market to prevent illegitimate use of inside information and market manipulation.

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 2010 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 strategy, 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>
Vladimir Putin	Chairman of Supervisory Board
Viktor Zubkov	Member
Viktor Khristenko	Member
Sergei Ivanov	Member
Dmitry Kozak	Member
Alexei Kudrin	Member
Elvira Nabiullina	Member
Igor Levitin	Member
Vladimir Dmitriev	Chairman of VEB, Member ex officio

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>
Vladimir Dmitriev	Chairman of VEB
Anatoly Tikhonov	First Deputy Chairman of VEB
Nikolay Kosov	First Deputy Chairman of VEB
Sergey Vasiliev	Deputy Chairman of VEB
Sergey Lykov	Deputy Chairman of VEB
Mikhail Kopeikin	Deputy Chairman of VEB
Anatoly Ballo	Deputy Chairman of VEB
Petr Fradkov	Deputy Chairman of VEB
Vladimir Shaprinsky	Chief Accountant of VEB

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 2011 was RUB 118.2 million based on the results of 2010. 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 2010, VEB had 1,798 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 plc (the “**Issuer**”) (formerly VEB Finance Limited) was incorporated in Ireland on 1 March 2010, with registered number 481529 as a private company with limited liability and re-registered as a public limited company on 22 December 2010 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 40,000 divided into 40,000 ordinary shares of par value EUR 1 each (the “**Shares**”). The Issuer has issued 40,000 Shares, which are fully paid and are 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 Shares on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the 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 3 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.

On 9 July 2010, the Issuer issued U.S.\$1,000,000,000 6.902 per cent. Loan Participation Notes due 2020 under the Programme and a further issue of U.S.\$600,000,000 6.902 per cent. Loan Participation Notes due 2020 on 22 July 2010 for the purpose of financing a loan to VEB (together, the “**Series 1 Notes**”).

On 22 November 2010, the Issuer issued (i) U.S.\$600,000,000 5.45 per cent. Loan Participation Notes due 2017 under the Programme for the purpose of financing a loan to VEB (the “**Series 2 Notes**”); and (ii) U.S.\$1,000,000,000 6.80 per cent. Loan Participation Notes due 2025 under the Programme for the purpose of financing a loan to VEB (the “**Series 3 Notes**”).

On 17 February 2011, the Issuer issued CHF 500,000,000 3.75 per cent. Loan Participation Notes due 2016 under the Programme for the purpose of financing a loan to VEB (the “**Series 4 Notes**”).

Save for the issue of the Series 1 Notes, the Series 2 Notes, the Series 3 Notes and the Series 4 Notes, since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration

as a private company and re-registration as a public limited company under the Companies Acts and those related to the establishment of the Programme and the issue of 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. Other than the issue of Notes under the Programme, 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

No financial statements of the Issuer have been prepared as at the date of this Base Prospectus. In compliance with its statutory reporting requirements, the Issuer intends to publish its first financial statements in respect of the period ending on 31 December 2010 on or before 30 September 2011. 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:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D2” 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 D1 is greater than 29, in which case D2 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:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D2” 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 D2 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:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” 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 D1 will be 30; and

“D2” 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 D2 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 (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 soglasenie) 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 2nd 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)]
- (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 retirement shall not become effective unless there remains a trustee in office after such retirement.

11 Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking 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 depositary 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 depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. 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 depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in 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 depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by 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 - 2010 (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 Central Bank of Ireland; 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 Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland.

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 Central Bank of 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 income payable on 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 of tax laws and regulations 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 (including any individual and any legal entity or an organisation) 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 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 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, and VEB is aware of a court case confirming this position; 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 generally 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 acquisition price of the Notes is below the lower margin of the fair market value calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may be subject to Russian personal income tax at the rate of 30% (arguably subject to reduction or elimination under the applicable double tax treaty). 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.

The acquisition of the Notes by Non-Resident Noteholder-Legal Entities should not constitute a taxable event and there should be no Russian tax implications for the Non-Resident Noteholder-Legal Entities associated with acquisition of the Notes.

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 the Russian Federation, provided that the proceeds from 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 withholding 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 Noteholder-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 Russian 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 deductions (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-Individual, may be subject to withholding tax at a rate of 30%, even if the disposal results in a capital loss.

In certain circumstances, gains received and losses incurred by a Non-Resident Noteholder-Individual as a result of the sale or other disposal of the Notes and other securities of the same category occurring within the same tax year may be aggregated for Russian personal income tax purposes, which could affect the total amount of income of the Non-Resident Noteholder-Individual subject to taxation in Russia.

If the disposal proceeds are paid to the Non-Resident Noteholder-Individual by a licensed broker or an asset manager that is a Russian legal entity or an organisation or any other person located in Russia (including a foreign company with a permanent establishment or any registered presence in Russia or an individual entrepreneur located in Russia), carrying out operations for the benefit of the Non-Resident Noteholder-Individual under an asset management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement, the applicable Russian personal income tax at the rate of 30% (or such other rate as may be in force at the time of payment) will be withheld at source by that person considered as the tax agent. The amount of tax withheld would be calculated after taking into account documented deductions for the purchase value of the Notes 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 Russian personal income tax should be withheld at source by these persons and the Non-Resident Noteholder-Individual would be liable to file a tax return individually, report his or her income realised to the Russian tax authorities and apply for a deduction of acquisition expenses, based on the provision of the 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 advisors with respect to the tax consequences of 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. The tax authorities require that the certificate should confirm that the respective Non-Resident Noteholder-Legal Entity is the tax resident of the relevant double tax treaty country in a particular calendar year during which the income is paid. 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. However, the payer of income in practice may request additional documents confirming the eligibility of the Non-Resident Noteholder-Legal Entity to the benefits of the double tax treaty. There can be no assurance that advance treaty relief will be available in practice.

A Non Resident Noteholder-Individual, in order to use the benefits of the tax treaties, must provide to the Russian 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, consequently, 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 required to be fulfilled for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received in connection with the acquisition and disposition of the 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 that was excessively withheld at source can be filed with Russian tax authorities 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 personal income tax on income derived from Russian sources was withheld at source, a claim for a refund of such tax which was withheld may be filed with the Russian tax authorities within one year after the end of the tax period in which the tax was withheld.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming a Non-Resident Noteholder's right to obtain relief under an applicable double tax treaty. Such documentation may not be explicitly required by the Tax Code.

Obtaining a refund of Russian taxes excessively 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 required to be fulfilled for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received in connection with the acquisition and disposition of the Notes.

Resident Noteholders

A Resident Noteholder will be subject to all applicable Russian taxes in respect of income derived in connection with the acquisition, holding, disposition or redemption of the Notes by them. Resident Noteholders should consult their own tax advisors with respect to the effect that acquisition, 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 having no registered presence and/or permanent establishment in Russia are subject to Russian

withholding tax at a rate of 20%, subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, VEB believes that payments of interest to the Issuer on each Loan should not be subject to Russian 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 if the concept of “beneficial ownership” or other anti-avoidance measures are introduced into 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 Russian 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 under the relevant Loan Agreement as may be necessary so that the net payments received by the Issuer and 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 under any Loan agreement, it may (without premium or penalty), 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 as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- (a) the Notes are Quoted Eurobonds i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish or Luxembourg Stock Exchanges) and which carry a right to interest; and

- (b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:
- (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or
 - (ii) the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and
- (c) one of the following conditions is satisfied:
- (i) the Noteholder is resident for tax purposes in Ireland; or
 - (ii) the Noteholder is a pension fund, government body or other person (other than a person described in paragraph (c)(iv) below), who is resident in a relevant territory and who, under the laws of that territory, is exempted from tax that generally applies to profits, income or gains in that territory; or
 - (iii) the Noteholder is subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a relevant territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or
 - (iv) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:
 - (A) from whom the Issuer has acquired assets;
 - (B) to whom the Issuer has made loans or advances; or
 - (C) with whom the Issuer has entered into a swap agreement,

where the aggregate value of such assets, loans, advances or swap agreements represents not less than 75 per cent. of the assets of the Issuer,

where for these purposes, the term:

“relevant territory” means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

“swap agreement” means any agreement, arrangement or understanding that—

- (I) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and
- (II) transfers to a person who is a party to the agreement, arrangement or understanding or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in an asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange, are held in DTC, Euroclear and/or Clearstream, Luxembourg, and one of the conditions set out in paragraph (c) above is met, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on

account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland and one of the conditions set out in paragraph (c) above is met.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of section 110 of the TCA, the recipient is not resident in Ireland and is resident in a relevant territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a relevant territory which imposes a tax that generally applies to interest receivable in that relevant territory by companies from sources outside that relevant territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a relevant territory. For these purposes, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 25 per cent. if either (i) the disponent or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponent is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e., if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

EU Directive on the Taxation of Savings Income

Ireland has implemented the EC Council Directive 2003/48/EC on the taxation of savings income into national law. Accordingly, any Irish paying agent making an interest payment on behalf of the Issuer to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State will have to provide details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address) to the Irish Revenue Commissioners who in turn are obliged to provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned.

The Issuer shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in Directive 2003/48/EC and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer or any other person to the relevant tax authorities.

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 adviser 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 or the Medicare tax on "net investment income", 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 has a valid election in effect 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.

U.S. Dollar Notes

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 in computing the foreign tax credit allowable to U.S. Holders under U.S. Federal income tax laws.

Original Issue Discount

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 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). If this excess is not sufficient to cause the Note to be a Discount Note, then the excess constitutes "**de minimis OID**". 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, in the case of a variable rate debt instrument, at a rate or combination of rates meeting certain requirements discussed below under "*Variable Interest Rate Notes*".

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. As discussed below under "*Variable Interest Rate Notes*", special rules apply in the case of a Discount Note that pays a variable rate of interest or a combination of rates (a "**Variable Interest Rate Note**").

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 at such time, 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 on such date.

Amortisable Bond Premium

A U.S. Holder that purchases a Note for an amount in excess of its stated 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 “—*Election to Treat All Interest as Original Issue Discount*”.

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 a U.S. Holder. In the case of a Market Discount Note that is not an instalment obligation, 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 made on a note-by-note basis and is irrevocable unless the IRS consents to a revocation. In the case of a Market Discount Note that is an instalment obligation, a holder may elect to accrue market discount on a constant yield basis or based on an approximate method based on the amount of OID accrued by or interest paid to the U.S. Holder. Rather than recognising accrued market discount not previously included in income by a U.S. Holder upon a disposition of, the maturity of or the receipt of a partial principal payment on a Market Discount Note, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently (in accordance with the applicable accrual method discussed above) over the life of the Note. This election generally will 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, subject to certain exceptions including one for Short Term Notes. 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 paid or accrued during a taxable year 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 for such taxable year, 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 during such taxable year.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in income all interest that accrues on a Note using the constant yield method described above under “—*Original Issue Discount*” with certain modifications. For purposes of this election,

interest includes stated interest, acquisition discount, OID, de minimis OID, market discount and de minimis market discount, as adjusted by any amortisable bond 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 in the taxable year and in any subsequent taxable year. U.S. Holders should consult their tax advisers concerning the availability and advisability of this election.

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 applicable Treasury Regulations. 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) resulting in more than de minimis OID. 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. The qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest that was accrued under the foregoing approach.

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 generally 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 does not qualify as a “variable rate debt instrument”, then the Variable Interest Rate Note will be treated as a contingent payment debt instrument. The proper U.S. Federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt instruments will be more fully described in the applicable Final Terms.

Short Term Notes

Short Term Notes will be treated as having been issued with OID because all interest payments on a Short Term Note are included in the Short Term Note’s stated redemption price at maturity. In general, an individual or other cash basis U.S. Holder of a Short Term Note is not required to currently accrue OID for U.S. Federal income tax purposes unless it elects to do so (but will 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 currently 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. An election by a U.S. Holder to include OID on a Short Term Note in income currently 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.

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 amounts properly attributable to accrued but unpaid interest which will be taxable as such) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will be its cost to the U.S. Holder increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note (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 stated interest on the Note. Except to the extent described above under "—Market Discount" or "—Short Term Notes" or attributable to accrued but unpaid interest or changes in exchange rates (as described 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. Currency Notes

The following overview describes special rules that apply in addition to or, as applicable, in replacement of, the rules discussed above, to Notes that are denominated in, or provide for payments determined by reference to, a currency or currency unit other than the U.S. Dollar ("**Non-U.S. Currency Notes**").

Interest

The amount of stated interest paid with respect to a Non-U.S. Currency Note that is includible in income by a cash basis U.S. Holder generally will be the U.S. Dollar value of the interest payment, based on the spot exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. Dollars. No exchange gain or loss will be recognised with respect to the receipt of such payment.

An accrual basis U.S. Holder may determine the amount that must be included in income with respect to a stated interest payment on a Non-U.S. Currency Note in accordance with either of two methods. Under the first method, the amount that must be included in income 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 accrual basis U.S. Holder may elect to determine the amount that must be included in income 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 on a Non-U.S. Currency Note (including a payment attributable to accrued but unpaid interest upon the sale, exchange or

retirement of such Note), the accrual basis 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.

OID

OID for each accrual period on a Discount Note that is a Non-U.S. Currency Note will be determined in the non-U.S. currency and then translated into U.S. Dollars in the same manner as stated interest included in income 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.

Amortisable Bond Premium and Acquisition Premium

Amortisable bond premium and acquisition premium on a Non-U.S. Currency Note will be computed in units of the non-U.S. currency, and any such premium that is taken into account currently will reduce interest income in units of such currency. On the date amortisable bond premium or acquisition 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 amortisable bond premium into account currently will recognise a market loss when the Note matures.

Market Discount

Market Discount on a Non-U.S. Currency Note will be computed in units of the foreign 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. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount that was currently included in income, 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, upon the disposition or maturity of the Non-U.S. Currency Note, translate the accrued market discount to 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.

Purchase, Sale, Exchange or Retirement

A U.S. Holder who purchases a Non-U.S. Currency Note with previously owned non-U.S. currency will recognise ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the non-U.S. currency and the U.S. Dollar value of the non-U.S. currency used to purchase the Note, determined on the date of purchase.

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 adjusted tax basis in the Note. A U.S. Holder's initial tax basis in a Non-U.S. Currency Note will be determined by reference to the U.S. Dollar cost of the Note, which generally will be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of a Non-U.S. Currency Note that is traded on an established securities market, as defined in the applicable U.S. Treasury Regulations, and purchased by a cash basis U.S. Holder (or an accrual basis holder that so elects), on the settlement date for the purchase. 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. The amount of any subsequent adjustments to such U.S. Holder's tax basis in the Non-U.S. Currency Note will be the U.S. Dollar value of the non-U.S. currency amount of the adjustment, determined on the date of such adjustment. The amount realised on a sale, exchange or retirement of a Non-U.S. Currency Note 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, and sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that made the election described in the preceding paragraph), on the settlement date for the sale.

A U.S. Holder will recognise exchange gain or loss (taxable as ordinary income or loss) on the sale, exchange or retirement of a Non-U.S. Currency Note equal to the difference, if any, between (i) the U.S. Dollar value of the non-U.S. currency principal amount of the Note on the date the principal payment is received or the Note is disposed of and (ii) the U.S. Dollar value of the non-U.S. currency principal amount of the Note on the date the U.S. Holder acquired the Note. Any such exchange gain or loss will be realised only to the extent of total gain or loss realised on the sale, exchange or retirement (as determined above).

Disposition of Non-U.S. Currency

Non-U.S. currency received as interest on a Non-U.S. Currency Note or on the sale, exchange or retirement of the 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 advisers 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 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 SIMILAR RESTRICTIONS (“**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 TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON. 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 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 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") 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 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 SIMILAR RESTRICTIONS (“**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. 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.

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 plc
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 [●] June 2011 [and the supplemental Base Prospectus dated [●]]¹ 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.]

1	(i) Issuer:	VEB Finance plc
	(ii) Borrower:	State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”
2	Series Number:	[●]
	[Tranche Number:	[●]
	(if fungible with an existing Series, details of that Series, including the date the Notes become fungible).]	
3	Specified Currency:	[●]
4	Aggregate Nominal Amount of Notes:	
	Series:	[●]
	[Tranche:	[●]]

¹ 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 [insert date] (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]/●] ²
	(ii) Calculation Amount:	[●]
7	(i) Trade Date	[●]
	(ii) Issue Date:	[●]
	(iii) Interest Commencement Date:	[●]
8	Maturity Date:	[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year] ³
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:	[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]
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]]
		[N.B. Only relevant where Board (or similar) authorisation is required for the particular Series of Notes]
14	Method of distribution:	[Syndicated/Non-syndicated]
15	Financial Centres (Condition 7):	[●]

PROVISIONS RELATING TO THE LOAN INTEREST BASIS

16	Fixed Rate Note Provisions:	[Applicable/Not Applicable]

² 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).

³ 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.

(if not applicable, delete the remaining subparagraphs of this paragraph)

- (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 [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/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): [●]

[Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in U.S. Dollars]
- (vi) Determination Date(s) (Condition 5): [●] 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 coupon]⁴
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]

17 Floating Rate Note Provisions: [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (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 (give details)]
- (iv) Business Centre(s): [●]
- (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]

⁴ Only to be completed for an issue where Day Count Fraction is Actual/Actual-ICMA.

- (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) [Summarise Early Termination Provisions in applicable Swap Agreement(s)]

(v) Consequences of Early Termination of Swap Agreement(s)	[Summarise consequences of Early Termination under relevant Swap Agreement(s)]

PROVISIONS RELATING TO REDEMPTION

19	Final Redemption Amount of each Note:	[•] per Calculation Amount
20	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
21	Call Option	[Applicable/Not Applicable] [if not applicable, delete the remaining sub-paragraphs of this paragraph]
	(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	[•]
22	Put Option	[Applicable/Not Applicable] [if not applicable, delete the remaining sub-paragraphs of this paragraph]
	(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

23	Form of the Notes:	Registered Notes
24	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 plc 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 (<i>specify</i>)/None]
(ii)	Admission to trading:	[Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on [its regulated market]/[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]: [●]]
	<i>(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)</i>
	[[Insert credit rating agency/agencies] [is]/[are] established in the European Union and [has]/[have each] applied for registration under Regulation (EC) No. 1060/2009, although the result of such application has not yet been determined.]

3 [NOTIFICATION]

The Central Bank of Ireland 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.”]

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)]

[(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 Depositary/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 of VEB on 25 May 2010 and by the Board of Directors of the Issuer on 23 June 2010. The update of the Programme was approved by the Board of Directors of the Issuer on 29 June 2011. 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 2010 (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 2010 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; and

copies 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

*For the year ended 31 December 2010
Together with Independent Auditors Report*

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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 2010, 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 information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



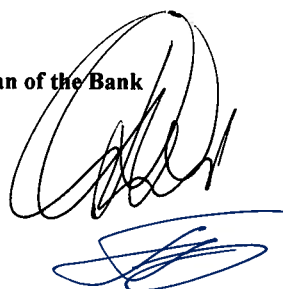
29 April 2011

Consolidated Statement of Financial Position**As of 31 December 2010***(in millions of Russian rubles)*

	Notes	2010	2009
Assets			
Cash and cash equivalents	9	196,672	168,916
Precious metals		293	248
Financial assets at fair value through profit or loss	10	76,144	51,507
Due from credit institutions	11	415,641	467,308
Loans to customers	13	787,926	843,538
Investment securities:	14		
- available-for-sale		471,755	332,739
- held-to-maturity		21,536	22,366
Investment securities available for sale pledged under repurchase agreements	14	4,828	13,328
Due from the Russian Government	15	119	207
Receivable from the Russian Government under London Club Arrangement	7	1,123	1,115
Investments in associates	16	5,638	5,462
Property and equipment	17	23,550	20,404
Income tax assets	18	2,350	856
Other assets	20	35,897	11,220
Total assets		2,043,472	1,939,214
Liabilities			
Due to credit institutions	21	235,027	201,137
Financial liabilities at fair value through profit or loss	12	5,416	2,599
Due to the Russian Government and the Bank of Russia	7	814,901	987,563
Due to London Club creditors	7	1,123	1,115
Amounts due to customers	22	290,098	202,223
Debt securities issued	23	186,947	78,896
Income tax liabilities	18	1,042	1,948
Provisions	19	203	2,467
Other liabilities	20	13,611	6,030
Total liabilities		1,548,368	1,483,978
Equity	24		
Charter capital		382,571	382,489
Retained earnings / (accumulated deficit)		25,043	(3,809)
Unrealized gains on investment securities available for sale		85,679	73,940
Foreign currency translation reserve		373	382
Equity attributable to the Russian Government		493,666	453,002
Non-controlling interests		1,438	2,234
Total equity		495,104	455,236
Total liabilities and equity		2,043,472	1,939,214

Signed and authorized for release on behalf of the Chairman of the Bank

Vladimir A. Dmitriev



Chairman of the Bank

Lubov M. Bylova

Acting Chief Accountant

29 April 2011

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 2010
(in millions of Russian rubles)

	Notes	2010	2009
Continuing operations			
Interest income			
Loans to customers		88,768	89,648
Amounts due from credit institutions and cash equivalents		38,932	34,742
Investment securities		17,997	12,298
		145,697	136,688
Financial assets at fair value through profit or loss		2,066	2,106
		147,763	138,794
Interest expenses			
Amounts due to credit institutions and the Bank of Russia		(25,841)	(39,575)
Amounts due to customers and the Russian Government		(50,081)	(45,920)
Debt securities issued		(5,168)	(1,363)
		(81,090)	(86,858)
Net interest income		66,673	51,936
Provision for impairment of interest-earning assets	11, 13	(45,735)	(114,837)
Net interest income/(expense) after provision for impairment of interest-earning assets		20,938	(62,901)
Net fee and commission income	26	6,030	7,189
Gains less losses arising from financial instruments at fair value through profit or loss		10,178	27,524
Gains less losses from investment securities available for sale	27	13,129	42,940
Gains less losses from foreign currencies:			
- dealing		3,547	12,603
- translation differences		(1,078)	(2,100)
Gains less losses on initial recognition of financial instruments		(2,400)	9,087
Share in net income of associates	16	204	56
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		2,260	2,620
Other operating income		1,754	1,715
Non-interest income		27,594	118,277
Payroll and other staff costs		(12,365)	(10,152)
Occupancy and equipment		(4,336)	(4,123)
Depreciation	17	(1,456)	(1,421)
Taxes other than income tax		(1,582)	(804)
Provision for other impairment and provisions	19	(221)	(1,327)
Other operating expenses	28	(7,833)	(6,006)
Non-interest expense		(27,793)	(23,833)
Net income from continuing operations before income tax		26,769	38,732
Net income tax benefit/(expense)	18	1,306	(417)
Net income for the year from continuing operations		28,075	38,315
Discontinued operations			
Net income for the year from discontinued operations	29	172	—
Net income for the year		28,247	38,315
Attributable to:			
- the Russian Government		28,342	41,443
- non-controlling interests		(95)	(3,128)
		28,247	38,315

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 2010
(in millions of Russian rubles)

	Notes	2010	2009
Net income for the year		28,247	38,315
Other comprehensive income			
Change in unrealized gains/(losses) on investment securities available for sale	24	11,817	78,622
Income tax relating to components of other comprehensive income	18	(68)	(43)
Currency translation differences		2	(464)
Other comprehensive income for the year, net of tax		11,751	78,115
Total comprehensive income for the year		39,998	116,430
Attributable to:			
- the Russian Government		40,069	119,755
- non-controlling interests		(71)	(3,325)
		39,998	116,430

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 2010
(in millions of Russian rubles)

	Attributable to the Russian Government				Total	Non-controlling interests	Total equity
	Charter capital	Retained earnings / (accumulated deficit)	Unrealized gains/(losses) on investment securities available for sale	Foreign currency translation reserve			
31 December 2008	261,489	(43,981)	(4,639)	856	213,725	1,571	215,296
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 24)	121,000	–	–	–	121,000	–	121,000
31 December 2009	382,489	(3,809)	73,940	382	453,002	2,234	455,236
Total comprehensive income for the year	–	28,342	11,739	(12)	40,069	(71)	39,998
Contribution of the Russian Government (Note 24)	82	–	–	–	82	–	82
Establishment of a subsidiary	–	–	–	–	–	48	48
Increase in interest in subsidiaries (Note 5)	–	510	–	3	513	(770)	(257)
Dividends of subsidiaries (Note 24)	–	–	–	–	–	(3)	(3)
31 December 2010	382,571	25,043	85,679	373	493,666	1,438	495,104

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 2010
(in millions of Russian rubles)

	Notes	2010	2009
Cash flows from operating activities			
Net income for the year		28,247	38,315
Adjustments for:			
Change in interest expense accrued on special purpose financing from the Ministry of Finance and the Bank of Russia		2,354	2,041
Impairment allowance and other provisions		45,956	116,164
Changes in unrealized revaluation of trading securities and derivative financial instruments		(7,806)	(30,322)
Gains less losses from investment securities available for sale, net of impairment loss		(35,405)	(56,718)
Impairment loss on investment securities available for sale		22,276	13,778
Changes in translation differences		1,078	2,100
Gains less losses on initial recognition of financial instruments		2,400	(9,087)
Share in income of associates		(204)	(56)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets over cost		–	(23,832)
Depreciation and amortization		1,804	1,698
Deferred income tax		(2,533)	(277)
Net income from discontinued operations		(172)	–
Other changes		8,839	8,605
Cash flows from operating activities before changes in operating assets and liabilities		66,834	62,409
<i>Net (increase)/decrease in operating assets</i>			
Precious metals		(11)	(22)
Financial assets at fair value through profit or loss		(14,124)	25,264
Amounts due from credit institutions		7,054	5,398
Loans to customers		5,043	(108,074)
Due from the Russian Government		88	630
Other assets		(22,308)	(4,281)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions, net of long-term interbank financing		14,119	(141,856)
Due to the Russian Government and the Bank of Russia, net of long-term special purpose financing		(57,575)	(15,084)
Amounts due to customers		88,264	3,026
Securities issued, net of bonds		(2,022)	7,378
Other liabilities		2,339	(1,212)
Net cash flows from / (used in) operating activities		87,701	(166,424)

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 2010 (continued)
(In millions of Russian rubles)

	Notes	2010	2009
Cash flows from investing activities			
Purchase of investment securities		(359,083)	(229,719)
Proceeds from sale and redemption of investment securities		251,906	215,574
Purchase of property and equipment		(5,504)	(2,088)
Proceeds from sale of property and equipment		202	642
Subordinated loans issued		–	(163,045)
Acquisition of subsidiaries, net of cash acquired		–	36,079
Proceeds from sale of assets held for sale		–	168
Net cash used in investing activities		(112,479)	(142,389)
Cash flows from financing activities			
Long-term interbank financing raised		92,952	20,984
Long-term interbank financing repaid		(69,326)	(98,044)
Long-term special purpose financing raised from the Ministry of Finance		133,170	94,510
Long-term financing raised from the Bank of Russia		–	7,266
Long-term financing repaid to the Bank of Russia		(209,815)	(34,913)
Placement of bonds		168,077	63,422
Redemption of bonds		(62,541)	(3,099)
Purchase of bonds issued by the Group		(744)	–
Proceeds from sale of previously purchased bonds		743	–
Increase in interest in subsidiaries and purchase by subsidiaries of treasury shares from non-controlling shareholders		(257)	(1,742)
Dividends of subsidiaries paid to minority shareholders		(3)	–
Contribution to charter capital from the Russian Government		–	121,000
Contribution to the share capital of subsidiary from minority shareholders		48	78
Net cash from financing activities		52,304	169,462
Effect of changes in foreign exchange rates against the ruble on cash and cash equivalents		230	26,594
Net increase/(decrease) in cash and cash equivalents		27,756	(112,757)
Cash and cash equivalents, beginning		168,916	281,673
Cash and cash equivalents, ending	9	196,672	168,916
Supplemental information:			
Income tax (paid)/recovered		(1,107)	442
Interest paid		(73,978)	(78,744)
Interest received		140,141	118,977
Dividends received		2,260	2,621

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" (the "Federal Law"), by means of reorganization of Bank of Foreign Economic Affairs 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 subject to certain specifics.

The main principles and areas of the Bank's activity are set out in 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 the 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, and 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 detailed in Note 24, 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" and OJSC "Federal Center for Project Finance" to the charter capital.

Vnesheconombank performs the functions of an agent of the Russian Government for the purpose of servicing and repaying the foreign national debt, state foreign financial assets, collecting debts from legal entities, constituent entities of the Russian Federation and municipal governments under cash liabilities to the Russian Federation, providing and executing state guarantees of the Russian Federation and monitoring projects implemented by the Russian Federation with involvement of international financial institutions.

Vnesheconombank performs the functions of an agent of the Russian Government under the Agreement entered into with the Russian Ministry of Finance on 25 December 2009 and Additional Agreement dated 23 December 2010. In 2011, the Russian Ministry of Finance expects to enter into a new additional agreement.

(In millions of Russian rubles)

1. Principal activities (continued)

In 2010, Vnesheconombank received a lump-sum consideration in the amount of RUB 534 million for the agency services provided pursuant to Federal Law No. 308-FZ "On the Federal Budget for 2010 and the 2011 and 2012 Planned Period" dated 2 December 2009. This consideration was recorded within fee and commission income of the Group under agency agreements (Note 26).

As described in greater detail in Note 7, at 31 December 2010 and 31 December 2009, the Russian Government owed Vnesheconombank RUB 1,123 million and RUB 1,115 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 the Bank as the management company.

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 provides 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 portfolios in accordance with the investment declarations approved by Resolution of the Russian Government No. 842 dated 24 October 2009.

During 2010, the Bank, as a state management company, mainly invested in state securities denominated in Russian rubles. At 31 December 2010 and 31 December 2009, total funds of the State Pension Fund of the Russian Federation placed in management to the state management company amounted to RUB 737,821 million and RUB 480,075 million in the extended investment portfolio and RUB 2,398 million and RUB 765 million in the portfolio of government securities, respectively.

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 detailed in Notes 11 and 13, the Bank extended loans to organizations for repaying and servicing loans received from foreign institutions and extended unsecured subordinated loans to Russian banks, and starting from the end of December 2010, the Bank acts as lender for operations to enhance affordability of mortgage loans through extending loans to OJSC Agency for Housing Mortgage Lending (AHML).

The Bank's head office is located in Moscow, Russia. The Bank has representative offices in St. Petersburg (Russia), Khabarovsk (Russia), Yekaterinburg (Russia), Pyatigorsk (Russia), the United States of America, the UK, Italy, Germany, the Republic of South Africa, India, the People's Republic of China and the French Republic. The Bank's principal office is located at 9 Prospect Akademika Sakharova, Moscow.

At 31 December 2010 and 31 December 2009, the Group had 17,832 and 19,189 employees, respectively.

(In millions of Russian rubles)

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 and prepare financial statements 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.

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 foreign subsidiary OJSC "Belvnesheconombank" uses the Belarusian Ruble ("BYR") as its functional currency. Public Stock Company "Joint-Stock Commercial Industrial and Investment Bank" ("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 2010 and 31 December 2009.

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 2010 and 31 December 2009.

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. Balances of respective assets and liabilities 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 (hereinafter, the "Guidelines") approved by the Board of Directors of Vnesheconombank of the USSR and the Ministry of Finance in 1997.

(In millions of Russian rubles)

2. Basis of preparation (continued)

General (continued)

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.

Subsidiaries

The main subsidiaries of the Group are OJSC "Russian Bank for Development", CJSC ROSEXIMBANK, OJSC "Belvnesheconombank" (Belarus), OJSC "VEB-Leasing", OJSC "Sviaz-Bank", PSC "Prominvestbank" (Ukraine) and CJSC "GLOBEXBANK", LLC "VEB Capital", LLC "VEB Engineering" and OJSC "Federal Center for Project Finance".

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 core activity of OJSC "Russian Bank for Development" is to provide financial support to small and medium-sized businesses. Activities of OJSC "Russian Bank for Development" include 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 starting from 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 2010 and 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 CJSC 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 CJSC ROSEXIMBANK for RUB 4 million. In October 2008, 4,970 state-owned shares (5.23%) of CJSC ROSEXIMBANK were contributed to the charter capital of Vnesheconombank pursuant to Federal Law No. 82-FZ, "On Bank for Development", dated 17 May 2007.

(In millions of Russian rubles)

2. Basis of preparation (continued)

General (continued)

At 31 December 2010 and 31 December 2009, the Group owned 97.42% of the equity of OJSC "Belvnesheconombank". The Group owns 5,894,290,315 ordinary shares of OJSC "Belvnesheconombank" with par value of 100 Belarusian rubles (about RUB 1). 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 also 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 a par value of BYR 100 per share for the total amount of RUB 2,864 million. At 31 December 2010 and 31 December 2009, the total cost of all shares purchased amounted to 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 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 2010, the Group owned 97.97% in the equity of OJSC "VEB-Leasing" (31 December 2009: 78.07%). The Group purchased 2,086,002 ordinary shares in April 2008. The cost of the purchased shares was RUB 2,246 million. In November 2009, the Group also purchased 1,171,000 shares of OJSC "VEB-Leasing" in the secondary market to total RUB 1,742 million. In February and March 2010, the Group additionally purchased 830,229 ordinary registered shares of OJSC "VEB-Leasing" to total RUB 1,240 million. These shares were purchased from the subsidiary and previously were recorded as treasury shares. OJSC "VEB-Leasing" is a legal successor of CJSC "Oboronpromleasing" whose establishment in 2003 was initiated by FGUP "Rosoboronexport" for the purpose of providing leasing services to military and civil production enterprises. The company is primarily engaged in finance lease of high-technology equipment produced by leading world manufacturers, rolling-stock, helicopters and related equipment to lessees in the Russian Federation.

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 2010. All shares were acquired at nominal value. In December 2009, the subsidiary bank aligned the charter capital with equity by reducing the charter 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 a Public Joint Stock Company, hereinafter – PSC Prominvestbank), the Group became owner of 97,513,128 shares with a par value of UAH 10 each (around RUB 38.3). The cost of acquisition was RUB 6,904 million. In 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.

(In millions of Russian rubles)

2. Basis of preparation (continued)

General (continued)

At 31 December 2010, the Group owned 99.16% of the equity of CJSC "GLOBEXBANK" (31 December 2009: 98.94%). The Group owns 249,579,325 ordinary shares. 199,547,920 ordinary shares were purchased in April through May 2009. Additionally, the Group purchased in the secondary market 32,000 shares of additional issue in June 2010, and 49,999,405 shares in July 2010. At 31 December 2010, the aggregate cost of all purchased shares was RUB 5,003 million (31 December 2009: RUB 4,929 million). 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 2010 and 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 Equity 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 Equity Fund ("Mutual Equity Fund MRIF-II") managed by LLC "Management Company "Renaissance Capital". In December 2010, the Bank purchased additional units of the Closed-end Mutual Equity Fund MRIF-II for the amount of RUB 770 million, thus increasing its interest in the Fund to 99.9975%. At 31 December 2010, the Bank invested RUB 25 million and RUB 795 million in Mutual Hedge Fund MRIF and Mutual Equity Fund MRIF-II, respectively. 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 "Investment Company of Vnesheconombank "VEB Capital" (LLC "VEB Capital"), was established for the purpose of managing the Group's certain assets efficiently. In 2009, the Bank contributed RUB 400 million to the charter capital of the subsidiary (100% interest). In December 2010, Vnesheconombank made additional contributions to the charter capital of LLC "VEB Capital" for the total amount of RUB 5,634 million. Primary areas of operation of the newly established subsidiary include transactions in financial markets, management of the assets, including construction projects and production facilities, management of industrial and financial groups and holding companies.

LLC "VEB Engineering", an engineering company, was registered in March 2010, and Vnesheconombank is among the founders of the company. The Bank's interest in the charter capital of LLC "VEB Engineering" is 51% and amounts to RUB 100 million. One of the core areas of the company's business is the performance of work and services relating to implementation of investment projects.

In December 2010, pursuant to Resolution of the Russian Government No. 603-r dated 21 April 2010, 100% (27,800) shares of state-owned OJSC "Federal Center for Project Finance" were contributed to the charter capital of Vnesheconombank. The company is an operator for the program of financing regional and urban development projects. Financial statements of OJSC "Federal Center for Project Finance" have been consolidated into the Group's financial statements since December 2010 using the pooling of interest method since this transaction involved entities under common control of the Russian Government.

Other subsidiaries of the Bank included in the consolidated financial statements at 31 December 2010 and 31 December 2009 are A.F.C. s.r.l. (100%), CJSC "Kraslesinvest" (before February 2009 – LLC "Kraslesinvest", 100%).

The list of associated companies and more details on their activities are provided in Note 16.

At 31 December 2010, the Group owns 100% shares of AMURMETAL HOLDING LIMITED, a company holding shares of the entity, which is the owner of a group of metallurgical enterprises. The financial statements of this entity have not been included in the consolidated financial statements of the Group at 31 December 2010 as the Group lost control over the entity as a result of an option agreement for sale of its interest (Note 29).

(In millions of Russian rubles)

2. Basis of preparation (continued)

General (continued)

In Q4 2010, the Group acquired 100% shares in Machinery & Industrial Group N.V., a holder of shares of a group of machine building. The Group did not obtain control over this entity due to concurrent entering into an option agreement for sale of its interest. Due to absence of control, the financial statements of Machinery & Industrial Group N.V. have not been included in the consolidated financial statements of the Group at 31 December 2010.

Reconciliation of equity and net income for the reporting year before adjustments and reclassifications and per IFRS

Equity and net income for the reporting year before adjustments and reclassifications are reconciled to IFRS as follows:

	2010		2009	
	Equity	Net income for the reporting year	Equity	Net income for the reporting year
Before adjustments and reclassifications	517,474	28,851	497,583	30,957
Effect of consolidation of subsidiaries	(9,503)	700	(10,173)	(6,380)
Currency translation differences	(413)	158	(571)	35
Effect of accrued interest	(10,073)	2,879	(12,952)	(12,462)
Effect of recording financial assets at amortized cost	(1,793)	(6,461)	4,668	2,276
Initial recognition of financial instruments	6,687	(2,400)	9,087	9,087
Impairment of financial assets	–	(22,276)	–	(13,762)
Provisions for losses	30,843	20,794	10,049	3,687
Revaluation of trading securities and securities designated as at fair value through profit or loss	(113)	1,266	(34)	16,975
Fair value revaluation of investment securities available for sale	(7)	–	59	–
Derivative financial instruments	4,926	5,995	(1,069)	8,850
Goodwill written off	(41,841)	–	(41,841)	–
Other	(1,083)	(1,259)	430	(948)
International Financial Reporting Standards	495,104	28,247	455,236	38,315

3. Summary of significant accounting policies

Changes in accounting policies

The Group has adopted the following revised and amended IFRS and new IFRIC Interpretations during the reporting year. The principal effects of these changes are as follows:

IFRS 3 Business Combinations (revised), and IAS 27 Consolidated and Separate Financial Statements (revised)

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. The 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 are applied prospectively.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The 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 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 amendments did not affect the Group's consolidated financial statements as the Group has not entered into any such hedges.

Amendment to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and become effective for annual periods beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Group's consolidated 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. 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. 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. This interpretation did not have any impact on the Group's consolidated financial statements.

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" had 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.

- ▶ 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 Group's chief operating decision maker does review segment assets, the Group continued to disclose 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 had no impact on the Group's financial statements as the annual impairment test is performed before aggregation.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Basis of consolidation

Basis of consolidation from 1 January 2010

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.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2010

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- ▶ Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interests had a binding obligation to cover these.
- ▶ Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date when control was lost.

Business combinations

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Business combinations (continued)

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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 that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit 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.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the acquisition method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interests (formerly known as minority interest) were measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

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.

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.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

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 the value of 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.

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. Derivatives are also classified as held for trading. 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 financial instruments at fair value through profit or loss.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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 with gains and losses from changes in fair value being recognized in other comprehensive income until the investment is derecognized or until the investment is 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.

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.

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.

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.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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, National Bank of Ukraine, 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 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.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

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 recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from financial instruments at fair value through profit or loss or gains less 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 cash and cash equivalents, 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.

Government grants and government assistance

Government grants are recognized where there is reasonable assurance that the grant will be received and all related conditions will be complied with. Where the grant relates to an expense item, it is recognized as income in the same periods as the respective expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Government grants and government assistance (continued)

Government grants provided at below market interest rates are recognized in accordance with IAS 39. 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.

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 operating leases are recognized as expenses on a straight-line basis over the lease-term and included into expenses for premises and equipment.

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 statement of income on a straight-line basis over the lease term as other operating 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.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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.

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. Loans together with the associated allowance for impairment are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. 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.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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.

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.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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.

The accounting treatment of such restructuring is as follows:

- ▶ If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the statement of financial position;
- ▶ If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses the same approach as for financial liabilities described below;
- ▶ If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan is not impaired after restructuring, the Group derecognizes the initial asset and a new asset is recorded with recognition of the difference in the carrying value of the assets in the consolidated statement of income.

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.

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.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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, 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 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.

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 legislation 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 in taxes other than income tax in the consolidated statement of income.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

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:

	Years
Buildings	15-60
Equipment	2-10
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.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. 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 acquiree 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* before aggregation.

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. Impairment losses relating to goodwill cannot be reversed in future periods.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

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.

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 salaries are earned 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.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

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.

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.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

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.

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 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 2010 and 2009 were RUB 30.4769 and RUB 30.2442 to 1 USD, respectively.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

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 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 32 Financial instruments: Presentation – Classification of Rights Issues

In October 2009, the IASB issued amendments to IAS 32. Entities shall apply these amendments for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendments alter 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 and 2010, 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 early adopt the first phase. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. 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. There is a new requirement for financial liabilities recognized through profit or loss using a fair value option that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income. The Group now evaluates the impact of the adoption of new standard and considers the initial application date.

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 is now evaluating the impact of adopting this standard.

(In millions of Russian rubles)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The Interpretation clarifies the accounting 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. The Group expects that this interpretation will have no impact on the Group's consolidated financial statements.

Improvements to IFRS

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 May 2010 "Improvements to IFRS" will have 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 NCI 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. As the amendment should be applied from the date the Group applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Group expects that other amendments to IFRS 3 will have no impact on the Group's consolidated financial statements.
- ▶ *IFRS 7 Financial Instruments: Disclosures*: introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be 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.

Amendments to IFRS 7 Financial Instruments: Disclosures

In October 2010, the IASB issued the amendments to IFRS 7 effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Group expects that these amendments will have no impact on the Group's financial position or performance.

Amendments to IAS 12 Income Taxes – Deferred tax: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group now evaluates the impact of adoption of these amendments.

(In millions of Russian rubles)

4. Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments and estimates related to the reported amounts. These judgments and 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 most significant use of judgments and estimates are as follows:

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 September 2010, the Group management revised the estimates of expected future cash flows from certain loans. Change in the accounting estimate resulted in the increase in the allowance for loan impairment by RUB 5,766 million.

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 2010, the carrying value of goodwill amounted to RUB 1,381 million (31 December 2009: RUB 1,381 million). More details are provided in Note 20.

5. Business combinations

Changes in ownership interest in subsidiaries in 2010

Acquisition of an additional interest in OJSC "VEB-Leasing"

In February and March 2010, the Group additionally purchased 830,229 ordinary registered shares of OJSC "VEB-Leasing" to total RUB 1,240 million. These shares were purchased from the subsidiary and previously were recorded as treasury shares. The increase in the Group's interest in OJSC "VEB-Leasing" from 78.07% to 97.97% resulted in decrease in a non-controlling interest by RUB 531 million, the amounts of RUB 529 million and RUB 2 million were recognized in the retained earnings with the Group's equity and in the foreign currency translation reserve, respectively.

(In millions of Russian rubles)

5. Business combinations (continued)

Changes in ownership interest in subsidiaries in 2010 (continued)

Acquisition of additional interest in CJSC "GLOBEXBANK"

In June 2010, the Group acquired 0.01% voting shares of CJSC "GLOBEXBANK" from non-controlling shareholders, having increased its interest up to 98.95%. The carrying value of the net assets attributable to the shareholders of CJSC GLOBEXBANK amounted to RUB 19,734 million. Cash consideration for the interest acquired amounted to RUB 3 million, which is slightly different from its carrying value. The value of non-controlling interests therefore decreased by RUB 3 million.

In July 2010, the Group additionally purchased 0.21% voting shares of CJSC "GLOBEXBANK" of the additional issue increasing its interest up to 99.16%. The cost of acquisition was RUB 5,000 million. As a result of additional issue the carrying value of the net assets of CJSC "GLOBEXBANK" increased by RUB 5,000 million. Since the above growth exceeds the value of non-controlling interests transferred to the Group as a result of acquisition of the additional issue, the non-controlling interest increased by RUB 1 million. Therefore, the retained earnings recognized within the Group's equity decreased by RUB 1 million.

Purchase of treasury shares of Prominvestbank from non-controlling shareholders

In Q4 2010, Prominvestbank purchased 1,092,147 shares from non-controlling shareholders for total consideration of RUB 44 million. The reallocation of interests between Vnesheconombank and the remaining non-controlling shareholders resulted in decrease in the value of non-controlling interests and retained earnings of the Group by RUB 28 million and RUB 17 million concurrently with increase in the foreign currency translation reserve by RUB 1 million, respectively.

Purchase of treasury shares of CJSC "GLOBEXBANK" from non-controlling shareholders

In December 2010, CJSC GLOBEXBANK purchased 2,100,000 shares from non-controlling shareholders for total consideration of RUB 210 million. The reallocation of interests between Vnesheconombank and the remaining non-controlling shareholders resulted in decrease in the value of non-controlling interests and retained earnings of the Group by RUB 209 million and RUB 1 million, respectively.

Acquisitions in 2009

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 shares of Prominvestbank were acquired during additional issue in January 2009. The cost of acquisition was RUB 6,904 million.

(In millions of Russian rubles)

5. Business combinations (continued)

Acquisitions in 2009 (continued)

The fair value of the identifiable assets and liabilities acquired and the excess of net assets over the cost of acquisition were as follows:

	Fair value recognized on acquisition 2009	Carrying value 2009
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 17)	11,588	11,588
Other assets	833	737
	103,583	103,487
Amounts due to credit institutions	27,270	27,270
Amounts due to customers	57,211	57,211
Deferred tax liability (Note 18)	1,569	1,545
Provisions (Note 19)	533	533
Other liabilities	1,360	1,360
	87,943	87,919
Net assets	15,640	15,568
Less: minority interests	(3,910)	
Net assets acquired	11,730	
Less: excess of net assets over the cost of acquisition	(4,826)	
Cost of acquisition	6,904	

Cash outflow on acquisition of the subsidiary:

Net cash acquired with the subsidiary	6,442
Less: cash consideration transferred in 2008	(1,998)
Net cash inflow	4,444

From the date of acquisition of Prominvestbank, the Group's profit has been reduced by RUB 12,250 million in 2009.

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.

(In millions of Russian rubles)

5. Business combinations (continued)

Acquisitions in 2009 (continued)

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 17)	1,930	1,930
Other assets	825	282
	55,208	54,665
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 18)	355	246
Provisions (Note 19)	31	31
Other liabilities	111	111
	35,998	35,889
Net assets	19,210	18,776
Less: minority interests	(204)	
Net assets acquired	19,006	
Less: excess of net assets over the cost of acquisition	(19,006)	
Cost of acquisition	0	

Cash outflow on acquisition of the subsidiary:

Net cash acquired with the subsidiary	31,635
Less: cash paid on acquisition	(0)
Net cash inflow	31,635

From the date of acquisition of CJSC "GLOBEXBANK", the Group's profit has increased by RUB 194 million in 2009. If the acquisition had taken place at the beginning of 2009, interest and non-interest income and profit of the Group for 2009 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.

6. Segment information

For the management purposes 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 OJSC "VEB-Leasing", LLC "VEB Capital", LLC "VEB Engineering", OJSC "Federal Center for Project Finance", Mutual Hedge Fund MRIF, Mutual Equity Fund MRIF-II and other subsidiaries.

(In millions of Russian rubles)

6. Segment information (continued)

Management monitors the operating results of each segment 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. Income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between segments are set on a commercial basis in a manner similar to transactions with third parties.

In 2010 and 2009, the Group received no income from transactions with one external client or counterparty, which amounted to 10% or more percent of the Group's total income, except for income from transactions with companies under control of the Russian Federation disclosed in Note 32. Such income was mainly received from transactions within Segments 1 and 2.

Information on income, profit, assets and liabilities by the Group's operating segments is presented below:

2010	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Total before intersegment (income)/ losses	Intersegment (income)/ losses	Total
Income								
External clients								
Interest income	102,780	18,928	19,509	2,521	4,025	147,763	–	147,763
Fee and commission income	3,869	1,652	1,253	709	32	7,515	–	7,515
Gains less losses arising from financial instruments at fair value through profit or loss	10,011	256	–	–	(89)	10,178	–	10,178
Gains less losses from investment securities available for sale	11,988	1,479	(343)	1	4	13,129	–	13,129
Gains less losses from foreign currencies	403	298	928	655	185	2,469	–	2,469
Share in income of associates	208	–	–	16	(20)	204	–	204
Other income/(expenses)	801	466	(675)	575	447	1,614	–	1,614
Total external income	130,060	23,079	20,672	4,477	4,584	182,872	–	182,872
Intersegment income								
Interest income	5,055	239	–	(2)	17	5,309	(5,309)	–
Other intersegment income less expenses	524	761	(139)	126	105	1,377	(1,377)	–
Total intersegment income	5,579	1,000	(139)	124	122	6,686	(6,686)	–
Total income	135,639	24,079	20,533	4,601	4,706	189,558	(6,686)	182,872
External expenses								
Interest expense	(63,895)	(7,513)	(7,594)	(728)	(1,360)	(81,090)	–	(81,090)
Fee and commission expense	(783)	(422)	(155)	(109)	(16)	(1,485)	–	(1,485)
Allowance for loan impairment	(30,460)	(4,064)	(10,898)	(249)	(64)	(45,735)	–	(45,735)
Personnel expenses	(3,956)	(4,095)	(2,536)	(1,076)	(702)	(12,365)	–	(12,365)
Depreciation	(399)	(436)	(460)	(102)	(59)	(1,456)	–	(1,456)
Other impairment provision (charges)/reversal	(96)	(138)	100	(29)	(58)	(221)	–	(221)
Other expenses	(4,975)	(4,259)	(2,317)	(712)	(1,488)	(13,751)	–	(13,751)
Total external expense	(104,564)	(20,927)	(23,860)	(3,005)	(3,747)	(156,103)	–	(156,103)
Intersegment expenses								
Interest expense	(456)	(2,335)	(1,654)	(192)	(637)	(5,274)	5,274	–
Other intersegment (expenses)/income	(1,437)	(82)	–	(3)	3	(1,519)	1,519	–
Total intersegment expenses	(1,893)	(2,417)	(1,654)	(195)	(634)	(6,793)	6,793	–
Total expenses	(106,457)	(23,344)	(25,514)	(3,200)	(4,381)	(162,896)	6,793	(156,103)
Segment results	29,182	735	(4,981)	1,401	325	26,662	107	26,769
Income tax expense/(benefit)								1,306
Profit after taxation for the year from continuing operations								28,075
Profit/(loss) from discontinued operations								172
Profit for the year								28,247
Segment assets	1,631,391	274,192	126,863	36,994	87,082	2,156,522	(113,050)	2,043,472
Other segment information								
Capital expenditure	246	561	974	598	3,423	5,802	–	5,802
Investments in associates	155	–	1	40	5,442	5,638	–	5,638

(In millions of Russian rubles)

6. Segment information (continued)

In 2010, the Group recognized a RUB 21,971 million loss from impairment of available-for-sale securities of Segment 1 and a RUB 305 million loss from impairment of securities of Segment 2 by transferring the negative revaluation previously recorded in comprehensive income to gains less losses from investment securities available for sale.

2009	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Total before intersegment (income)/ losses	Intersegment (income)/ losses and other adjustments	Total
Income								
External clients								
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
Gains less 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
Total external income	189,996	26,653	18,710	3,781	2,961	242,101	–	242,101
Intersegment income								
Interest income	4,579	24	–	–	–	4,603	(4,603)	–
Other intersegment income less expenses	491	44	–	11	–	546	(546)	–
Total intersegment income	5,070	68	–	11	–	5,149	(5,149)	–
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
Total income	195,066	26,721	18,710	3,792	2,961	247,250	18,683	265,933
External expenses								
Interest expense	(70,563)	(6,104)	(8,921)	(889)	(381)	(86,858)	–	(86,858)
Allowance for loan impairment	(18,302)	(82,009)	(14,104)	(345)	(77)	(114,837)	–	(114,837)
Fee and commission expense	(958)	(496)	(129)	(84)	(6)	(1,673)	–	(1,673)
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)
Total external expense	(97,653)	(95,258)	(29,479)	(2,964)	(1,847)	(227,201)	–	(227,201)
Intersegment expenses								
Interest expense	(24)	(2,314)	(2,072)	(100)	(477)	(4,987)	4,987	–
Other intersegment expenses	(1,036)	(7)	(1)	–	(3)	(1,047)	1,047	–
Total intersegment expenses	(1,060)	(2,321)	(2,073)	(100)	(480)	(6,034)	6,034	–
Total expenses	(98,713)	(97,579)	(31,552)	(3,064)	(2,327)	(233,235)	6,034	(227,201)
Segment results	96,353	(70,858)	(12,842)	728	634	14,015	24,717	38,732
Income tax expense/(benefit)								(417)
Profit for the year								38,315
Segment assets	1,668,005	186,259	106,136	21,645	19,394	2,001,439	(62,225)	1,939,214
Other segment information								
Capital expenditure	1,064	430	504	360	17	2,375	–	2,375
Investments in associates	5,436	–	–	26	–	5,462	–	5,462

In 2009, the Group recognized a RUB 13,778 million loss from impairment of available-for-sale securities of Segment 1 by transferring the negative revaluation previously recorded in comprehensive income to gains less losses from investment securities available for sale.

(In millions of Russian rubles)

6. Segment information (continued)

Geographical information

Allocation of the Group's interest income from transactions with external clients and non-current assets based on the location of these clients and assets as at 31 December 2010 and 2009 and for the years then ended is presented in the tables below:

	2010				2009			
	Russia	Ukraine	Other countries	Total	Russia	Ukraine	Other countries	Total
Interest income from external clients	125,733	19,509	2,521	147,763	119,812	16,619	2,363	138,794
Non-current assets	13,678	10,700	1,791	26,169	10,777	10,584	1,417	22,778

Non-current assets include property and equipment and intangible assets.

7. Operations with the Russian Government, its authorized institutions and the Bank of Russia

Amounts due to the Russian Government, its authorized intuitions' and the Bank of Russia consisted of the following:

	2010	2009
Interest-bearing loans and deposits from the Ministry of Finance of the Russian Federation	594,028	501,455
Interest-bearing deposits from the Bank of Russia	211,647	446,151
Settlements related to redemption of Russian Government loans	7,438	38,005
Special purpose funds	996	771
External debt payment funds	575	696
Current accounts of the Russian Government	16	319
Current accounts in precious metals	201	166
Due to the Russian Government, its institutions and the Bank of Russia	814,901	987,563

At 31 December 2010 and 2009, interest-bearing deposits from the Russian Ministry of Finance mainly include funds of the National Welfare Fund of the Russian Federation ("NWF") denominated in Rubles and deposited with Vnesheconombank pursuant to Federal Law No. 173-FZ in the amount of RUB 372,270 million (31 December 2009: RUB 410,554 million). These deposits were raised at annual rates of 6.25% and 7.25% (31 December 2009: 7% and 8.5%) and have maturity dates from December 2014 through December 2020.

In addition, at 31 December 2010 and 31 December 2009, interest-bearing deposits from the Russian Ministry of Finance included RUB-denominated funds intended 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 financial support. At 31 December 2010, the amount of financing was RUB 27,642 million (31 December 2009: RUB 30,408 million). The funds are denominated in Russian rubles, bear interest at 6.25% p.a. (31 December 2009: 8.5%) and mature in December 2017.

Pursuant to amendments to Federal Law No. 173-FZ and Regulation of the Russian Government No. 18 dated 19 January 2008, the interest rate on the above deposits was significantly lowered in August 2010. According to IFRS requirements, the Group derecognized initial liabilities and recognized new liabilities. As the new terms of financing were considered to be non-market, gains on initial recognition of financial instruments in the amount of RUB 42,192 million were recognized in the consolidated statement of income.

(In millions of Russian rubles)

7. Operations with the Russian Government, its authorized institutions and the Bank of Russia (continued)

Pursuant to Federal Law No. 173-FZ, in December 2010 the Russian Ministry of Finance deposited funds at the interest rate 6.25% p.a. maturing in May 2020 for further lending to OJSC "AHML" (Note 13). This loan was raised at the rate below the market level, and the loss on initial recognition of financial instruments in the amount of RUB 416 million was recognized in the consolidated statement of income. At 31 December 2010, the amount of the deposit was RUB 2,585 million.

In addition to the above, at 31 December 2010 and 31 December 2009, the interest-bearing deposits from the Russian Ministry of Finance include funds intended to finance investment projects. The funds are denominated in US dollars, are raised on market conditions and mature in July 2011. At 31 December 2010, the amount of financing was RUB 60,959 million (31 December 2009: RUB 60,493 million). At 31 December 2010, the interest-bearing deposits from the Russian Ministry of Finance include funds denominated in USD equal to RUB 129,957 million and maturing in October 2011 and December 2012.

At 31 December 2010 and 31 December 2009, the interest-bearing deposits from the Bank of Russia include special RUB-denominated deposits for the purposes of implementing the program of financial support to OJSC "Sviaz-Bank" (31 December 2010 and 31 December 2009: RUB 124,462 million and RUB 121,383 million, respectively) and CJSC "GLOBEXBANK" (31 December 2010 and 31 December 2009: RUB 86,682 million and RUB 87,835 million, respectively) to ensure activities on development of business of the above entities. Deposits raised in favor of OJSC "Sviaz-Bank" and CJSC "GLOBEXBANK" were extended by 1 year in 2010 at interest rates below the market level. According to IFRS requirements, the Group derecognized initial liabilities and recognized new liabilities. Gains on initial recognition of financial instruments in the amount of RUB 3,080 million were recognized in the consolidated statement of income.

At 31 December 2009, the interest-bearing deposits from the Bank of Russia also included USD-denominated deposits to total RUB 236,548 million received by the Group for the purposes of implementing measures aimed at supporting the financial system of the Russian Federation pursuant to Federal Law No. 173-FZ. The amount was placed on deposit with Vnesheconombank in 2008 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. In 2010, the above deposits were repaid due to repayment of compensatory loans by the clients (Note 13).

Settlements related to redemption of Russian Government loans represent funds received from borrowers as repayment of loans granted by the Russian Government. These funds and the processing of payments are managed and conducted by the Bank in accordance with Agency Agreements. At 31 December 2010 and 31 December 2009, these amounts are classified as due to the Russian Government.

At 31 December 2010 and 31 December 2009, 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 the statement of financial position of 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.

(In millions of Russian rubles)

7. Operations with the Russian Government, its authorized institutions and the Bank of Russia (continued)

London Club

As a legal successor of the Vnesheconombank of the USSR, the Bank is a party to certain rescheduling agreements with various foreign credit institutions (the "London Club"). The London Club debt represents liabilities of the former USSR due to foreign banks and financial institutions. These liabilities were reconciled and restructured under a series of agreements and other legal documentation between the Bank and foreign creditors signed on 6 October 1997. These agreements required the original debts and the accrued interest thereon, denominated in various currencies, to be converted into Restructured Loans ("PRINs") denominated in base currencies (Swiss Francs, Japanese Yens, Deutsche Marks, European Currency Units and US Dollars) and Interest Arrears Notes ("IANs") denominated in 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.

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 consolidated statement of financial position to the extent that the bondholders have presented their PRINs and IANs for exchange.

The Group's consolidated statement of financial position includes liabilities only to those PRIN and IAN holders, who have not exchanged these instruments for the Russian Federation Eurobonds maturing in 2010 and 2030 under the agreement between the Russian Government and representatives of the London Club of creditors reached on 11 February 2000.

The London Club debt comprises:

	2010	2009
IAN	1,020	1,012
PRIN	16	16
Interest accrued on the PRINs and IANs, including overdue and default interest	87	87
Due to London Club	1,123	1,115

Pursuant to Resolution of the Russian Government No. 1047-p dated 30 July 2009 concerning final settlement of the external debt obligations of the Russian Government and former USSR to London Club of 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 eliminated from the consolidated statement of financial position of Vnesheconombank based on the instructions of the Ministry of Finance. At 31 December 2010, no respective instructions were received by the Bank.

(In millions of Russian rubles)

8. Agency operations

Agency operations of Vnesheconombank

At 31 December 2010 and 2009, 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 Group's consolidated statement of financial position.

9. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	2009
Cash on hand	12,450	11,037
Current accounts with the Bank of Russia	19,127	12,785
Correspondent nostro accounts with credit institutions and current stock broker accounts:		
- of the Russian Federation	11,981	13,549
- of other countries	45,361	31,306
Interest-bearing loans and deposits maturing within 90 days:		
- due from the Bank of Russia	195	8,127
- due from credit institutions	83,748	78,672
Reverse repurchase agreements with credit institutions for up to 90 days	23,810	13,440
Cash and cash equivalents	196,672	168,916

At 31 December 2010, reverse repurchase agreements included loans of RUB 23,350 million (31 December 2009: RUB 12,945 million) issued to credit institutions and secured by corporate bonds with the fair value of RUB 25,490 million (31 December 2009: RUB 14,143 million), as well as loans in the amount of RUB 460 million (31 December 2009: RUB 495 million) issued to credit institutions and secured by corporate shares with the fair value of RUB 648 million (31 December 2009: RUB 664 million).

10. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2010	2009
Trading securities	37,277	47,546
Derivative financial assets (Note 12)	11,285	2,214
Financial assets designated as at fair value through profit or loss	27,582	1,747
Financial assets at fair value through profit or loss	76,144	51,507

(In millions of Russian rubles)

10. Financial assets at fair value through profit and loss (continued)

Trading securities held by the Group comprise:

	2010	2009
Debt securities:		
Corporate bonds	10,839	8,538
Municipal and sub-federal bonds, bonds of the Bank of Russia	2,501	2,690
Federal Loan Bonds (OFZ)	513	640
	13,853	11,868
Eurobonds issued by the Russian Federation	10,481	13,374
Eurobonds of Russian and foreign issuers	1,875	3,145
Debt instruments issued by foreign government bodies	–	94
	26,209	28,481
Promissory notes	–	140
	26,209	28,621
Equity securities:		
Shares	11,068	18,925
	37,277	47,546
Trading securities		

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:

	Held-for-trading financial assets were reclassified to	
	Available-for- sale financial assets	Held-to- maturity financial assets
Carrying amount of the reclassified assets at 31 December 2010	68	125
Fair value of the reclassified assets at 31 December 2010	68	131
Gains from changes in fair value of reclassified assets that would have been recognized for the year ended 31 December 2010 if the financial assets had not been reclassified	5	6
Gain recognized after reclassification in the statement of income for the year ended 31 December 2010	10	–
Carrying amount of the reclassified assets at 31 December 2009	373	165
Fair value of the reclassified assets at 31 December 2009	373	167
Gains from changes in fair value of reclassified assets that would have been recognized for the year ended 31 December 2009 if the financial assets had not been reclassified	82	25
Losses recognized in the statement of income for the year ended 31 December 2009	(5)	–

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.

Financial assets designated as at fair value through profit or loss

At 31 December 2010 and 31 December 2009, financial assets designated as at fair value through profit or loss were represented primarily by shares of Russian and foreign companies. At 31 December 2010, such shares include ordinary registered shares of Russian companies with fair value of RUB 557 million, and interests in a foreign company with fair value of RUB 770 million acquired in 2010. At 31 December 2010 and 31 December 2009, financial assets designated as at fair value through profit or loss also included units in the closed-end mutual real estate fund held by a subsidiary bank.

(In millions of Russian rubles)

10. Financial assets at fair value through profit and loss (continued)

Financial assets designated as at fair value through profit or loss (continued)

The Group entered into an option agreement which is economically related to its purchase of Russian company's shares in 2010; changes in the fair value of that agreement are recorded in the consolidated statement of income as gains less losses arising from financial instruments at fair value through profit or loss. To avoid "accounting mismatch", these securities were classified as designated at fair value through profit or loss, thus excluding inconsistency in recognition of the respective gains and losses. At 31 December 2010, the fair value of these shares and gains from its change during the period (as recorded in the statement of income) amount to RUB 24,825 million and RUB 3,546 million, respectively.

Other securities included in this category 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.

11. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2010	2009
Obligatory reserve with the central banks	1,499	1,826
Non-interest-bearing deposits with other banks	9,602	37,020
Subordinated loans	347,090	388,208
Term interest-bearing deposits with credit institutions	59,169	41,787
	417,360	468,841
Less allowance for impairment	(1,719)	(1,533)
Amounts due from credit institutions	415,641	467,308

Obligatory reserve with the central banks includes cash non-interest-bearing 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 the statutory legislation. Pursuant to law, Vnesheconombank creates no obligatory reserve to be maintained with the CBR.

At 31 December 2010, non-interest-bearing deposits include non-interest-bearing deposits in clearing currencies in the amount of RUB 8,113 million (31 December 2009: RUB 36,978 million), gross. The use of these deposits is subject to certain restrictions as stipulated by 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 of tenders organized by the Group under the supervision of the Russian Ministry of Finance.

At 31 December 2010 and 31 December 2009, subordinated loans issued to Russian credit institutions comprised loans in the amount of RUB 346,880 million and RUB 387,998 million, respectively, issued to 16 Russian credit institutions in accordance with Federal Law No. 173-FZ carrying interest from 6.5% to 7.5% p.a. (31 December 2009: from 8.0% and 9.5% p.a.) and maturing from December 2014 to December 2020.

(In millions of Russian rubles)

11. Amounts due from credit institutions (continued)

Pursuant to amendments to Federal Law No. 173-FZ introduced in July 2010, the interest rate on the above deposits was lowered in August 2010. According to the adopted accounting policies, the Group derecognized initial receivables and recognized new subordinated loans. The new terms of placement were considered to be non-market. The Bank discounted these loans using a relevant market rate of placement, and the loss on initial recognition of financial instruments in the amount of RUB 42,073 million was recognized in the consolidated statement of income.

The movements in the allowance for impairment of amounts due from credit institutions were as follows:

	2010	2009
1 January	1,533	133
Charge	186	1,400
31 December	1,719	1,533

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.

	2010			2009		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and swaps – foreign	170,568	2,952	786	79,781	885	792
Forwards and swaps – domestic	44,956	308	529	31,057	471	120
Securities forward contracts						
Units	368	719	–	684	276	–
Russian Eurobonds	–	–	–	865	1	0
Interest rate swaps						
Foreign contracts	21,378	8	1,691	23,494	479	1,436
Domestic contracts	4,746	66	72	1,800	102	71
Option contracts	41,070	7,232	2,090	–	–	–
Cross-currency interest rate swap	6,889	–	248	739	–	180
Total derivative assets/ liabilities		11,285	5,416		2,214	2,599

In the table above foreign exchange contracts are understood as contracts concluded with non-residents of the Russian Federation, while domestic contracts are contracts concluded with residents of the Russian Federation.

Derivative financial assets are included in financial assets at fair value through profit or loss (Note 10).

At 31 December 2010, 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.

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.

At 31 December 2010, the Group's options included asset related to a put option with a fair value of RUB 7,232 million for shares of a Russian company recognized within the Group's investment securities available-for-sale.

At 31 December 2010, the Group's options included liability related to a call option issued with a fair value of RUB 2,090 million for shares of a Russian company recognized in the Group's securities designated as at fair value through profit or loss to avoid accounting mismatch.

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:

	2010	2009
Commercial loans, including loans to individuals	485,398	307,082
Project finance	372,547	313,250
Financing of operations with securities	20,918	8,286
Pre-export finance	18,595	80,712
Promissory notes	19,606	7,881
Reverse repurchase agreements	3,899	4,606
Back-to-back finance	2,604	237,497
Other	8,570	5,385
Gross loans to customers	932,137	964,699
Less: Allowance for impairment	(144,211)	(121,161)
Loans to customers	787,926	843,538

In 2010, back-to-back finance represented an unsecured loan issued to Open Joint-Stock Company "The Agency for Housing Mortgage Lending", using funds deposited by the Ministry of Finance of the Russian Federation with Vnesheconombank, in accordance with Federal Law No. 173-FZ (Note 7). This loan was placed at the rate below the market level, and the loss on initial recognition of financial instruments in the amount of RUB 399 million was recognized in the consolidated statement of income.

In 2009, back-to-back finance represented 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 (Note 7). In 2009 and 2008, the Bank issued loans for a period of one year. Part of the loans was extended for another year. In 2010, all of these loans were repaid by the customers.

(In millions of Russian rubles)

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:

	Project finance 2010	Commercial loans 2010	Pre-export finance 2010	Financing of operations with securities 2010	Promissory notes 2010	Reverse repurchase agreements 2010	Back-to-back finance 2010	Other 2010	Total 2010
1 January 2010	62,054	54,347	1,847	669	183	501	–	1,560	121,161
(Charge)/reversal	14,947	26,696	31	2,067	561	(281)	96	1,432	45,549
Write-offs	(2)	(14,198)	–	(153)	–	–	–	(16)	(14,369)
Interest accrued on impaired loans	(7,029)	(990)	(111)	–	–	–	–	–	(8,130)
31 December 2010	69,970	65,855	1,767	2,583	744	220	96	2,976	144,211
Individual impairment	61,965	52,106	1,471	2,043	77	213	–	2,844	120,719
Collective impairment	8,005	13,749	296	540	667	7	96	132	23,492
	69,970	65,855	1,767	2,583	744	220	96	2,976	144,211
Individually impaired loans before impairment allowance	152,739	103,789	1,999	2,056	77	346	–	2,844	263,850

(In millions of Russian rubles)

13. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	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
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)
31 December 2009	62,054	54,347	1,847	669	183	501	1,560	121,161
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
	62,054	54,347	1,847	669	183	501	1,560	121,161
Individually impaired loans before impairment allowance	145,257	80,809	3,135	1,150	48	976	2,687	234,062

At 31 December 2009, no allowance was made for back-to-back finance.

(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 2010 is RUB 125,465 million (31 December 2009 – RUB 119,063 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 in 2009 – 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 2010, reverse repurchase agreements were in respect of marketable corporate bonds and Federal Loan Bonds (OFZs), whose fair value was RUB 4,631 million. At 31 December 2009, the Group had a reverse repurchase in respect of marketable shares in a Russian credit institution. The fair value of the shares was RUB 4,674 million.

Concentration of loans to customers

At 31 December 2010, the total outstanding amount of loans to three major borrowers / groups of related borrowers is RUB 210,585 million, equivalent to 22.6% of the Group's gross loan portfolio (31 December 2009 – RUB 311,696 million or 32.3%). At 31 December 2010, an allowance of RUB 41,359 million was made for these loans (31 December 2009 – RUB 37,583 million). At 31 December 2010, the above loans included loans to an associate of the Group involved in the real estate business, which accounted for 14.4% of the gross loan portfolio (31 December 2009 – 12.6%).

At 31 December 2010 and 2009, 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 147,587 million and RUB 240,050 million or 15.8% and 24.9% of the gross loan portfolio, respectively. At 31 December 2010 and 2009, an allowance was made for those loans in a total amount of RUB 12,878 million and RUB 7,946 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:

	2010	2009
Private companies	731,254	710,045
State-controlled companies	153,395	214,072
Companies under foreign state control	27,566	16,280
Individuals	11,017	13,835
Regional authorities	7,051	6,562
Individual entrepreneurs	1,196	1,182
Foreign state	658	2,723
	932,137	964,699

Loans are made principally in the following industry sectors:

	2010	%	2009	%
Real estate and construction	251,558	27	196,561	20
Manufacturing, heavy machinery and military-related goods production	158,056	17	148,422	15
Finance companies	157,966	17	77,047	8
Trade	58,914	6	48,351	5
Transportation	57,117	6	23,978	2
Energy	51,832	6	37,922	4
Agriculture	51,137	5	41,527	4
Oil and gas	41,307	4	89,129	9
Metallurgy	28,223	3	174,319	18
Telecommunication	27,299	3	65,645	7
Individuals	11,017	1	13,835	2
Regional authorities	7,051	1	6,562	1
Logistics	5,295	1	5,988	1
Mining	3,287	0	5,364	1
Foreign state	658	0	2,723	0
Mass media	276	0	105	0
Other	21,144	3	27,221	3
	932,137	100	964,699	100

At 31 December 2010, loans and similar debt included a total of RUB 768,330 million granted to companies operating in Russia, which is a significant concentration. At 31 December 2009, loans and similar debt included a total of RUB 854,068 million granted to companies operating in Russia, which is a significant concentration.

Finance lease receivables

Included in the corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2010 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	11,786	38,317	20,523	70,626
Unearned future finance income on finance leases	(900)	(11,841)	(9,969)	(22,710)
Net investment in finance leases	10,886	26,476	10,554	47,916

(In millions of Russian rubles)

13. Loans to customers (continued)

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)
Net investment in finance leases	2,850	8,001	2,223	13,074

14. Investment securities

Investment securities available for sale

Investment securities available for sale comprise:

	2010	2009
Debt securities		
Corporate bonds	147,824	134,070
Eurobonds of Russian and foreign issuers	18,781	23,793
Promissory notes	10,600	10,154
Debt instruments issued by foreign government bodies	7,958	1,273
Municipal and sub-federal bonds	1,678	2,484
Federal Loan Bonds (OFZs)	135	200
Eurobonds issued by the Russian Federation	1	1
Russian MinFin bonds (OVGVZ)	0	317
	186,977	172,292
Equity securities		
Shares	284,898	160,561
Less: Allowance for impairment (Note 19)	(120)	(114)
	284,778	160,447
Investment securities available for sale	471,755	332,739
 Securities pledged under repurchase agreements		
Corporate bonds	2,245	951
Russian MinFin bonds (OVGVZ)	2,222	–
Eurobonds of Russian and foreign issuers	162	–
Shares	144	12,377
Municipal and sub-federal bonds	55	–
Investment securities available for sale pledged under repurchase agreements	4,828	13,328

At 31 December 2009, investment securities available for sale included debt instruments issued by foreign government bodies with a fair value of RUB 71 million pledged as additional collateral under currency swap agreement with a foreign counterparty.

For the reporting year ended 31 December 2010, the Group recognized a RUB 22,276 million loss from impairment of available-for-sale securities (31 December 2009 – RUB 13,778 million) by transferring the negative revaluation earlier recorded in comprehensive income to gains less losses from investment securities available for sale of the consolidated statement of income (Note 24).

(In millions of Russian rubles)

14. Investment securities (continued)

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.

Investment securities held to maturity

Investment securities held to maturity comprise:

	2010	2009
Eurobonds of Russian and foreign issuers	17,860	19,506
Corporate bonds	2,368	754
Municipal and sub-federal bonds	1,338	70
Federal Loan Bonds (OFZs)	51	51
Debt instruments issued by foreign government bodies	—	1,920
Promissory notes	—	342
	21,617	22,643
Less: Allowance for impairment (Note 19)	(81)	(277)
Investment securities held to maturity	21,536	22,366

15. Due from the Russian Government

At 31 December 2010, amounts due from the Russian Government include primarily claims to the Russian Ministry of Finance of RUB 119 million (31 December 2009 – RUB 207 million) to unfreeze correspondent accounts.

16. Investments in associates

Associates

The following Group's associates are accounted for under the equity method:

2010

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 "CentrEnergoStroyMontazh"	25	Russia	Construction	March 2007
LLC "PROMINVEST"	25	Russia	Finance intermediary	November 2001
LLC "Managing Company "Bioprocess Capital Partners"	25.1	Russia	Finance intermediary	April 2008
LLC "VEB-Invest"	19	Russia	Investments	December 2008
CMIF "Bioprocess Capital Ventures"	Share of assets: 50	Russia	Investments	April 2008

(In millions of Russian rubles)

16. Investments in associates (continued)

Associates (continued)

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 "CentrEnergoStroyMontazh"	25	Russia	Construction	March 2007
LLC "PROMINVEST"	25	Russia	Finance intermediary	November 2001
LLC "Managing Company "Bioprocess Capital Partners"	25.1	Russia	Finance intermediary	April 2008
LLC "VEB-Invest"	19	Russia	Investments	December 2008
CMIF "Bioprocess Capital Ventures"	Share of assets: 50	Russia	Investments	April 2008

Movement in investments in associates was as follows:

	2010	2009
Balance, beginning of the period	5,500	5,747
Share of net income	204	56
Write-off	(38)	(1)
Translation differences	(2)	(7)
Loss of significant control over the associate	–	(286)
Other	(26)	(9)
	5,638	5,500
Less: Allowance for impairment (Note 19)	–	(38)
Investments in associates, end of the period	5,638	5,462

At 31 December 2010, unrecognized Group's share in loss of its associates amounted to RUB 2,560 million (31 December 2009: RUB 392 million). At 31 December 2010, unrecognized Group's share in loss of the associates totaled RUB 3,001 million (31 December 2009: RUB 441 million).

The following table illustrates summarized financial information of the associates:

Aggregated assets and liabilities of associates	2010	2009
Assets	180,055	178,529
Liabilities	172,967	161,886
Net assets	7,088	16,643
Aggregated revenue and loss of associates	2010	2009
Revenue	11,965	14,827
Losses	(12,204)	(1,965)

(In millions of Russian rubles)

17. Property and equipment

The movements in property and equipment were as follows:

	Buildings	Land	Equipment	Motor vehicles	Leasehold improvements	Assets under construction and warehoused property and equipment	Total
Cost							
31 December 2009	16,021	215	4,337	682	499	3,938	25,692
Additions	251	16	822	1,404	75	3,234	5,802
Disposals	(386)	–	(332)	(84)	(230)	(335)	(1,367)
Reclassification of property and equipment to investment property	(143)	–	–	–	–	–	(143)
Transfers	87	–	127	–	(9)	(205)	–
31 December 2010	15,830	231	4,954	2,002	335	6,632	29,984
Accumulated depreciation and impairment							
31 December 2009	2,790	–	2,064	351	81	2	5,288
Depreciation charge	365	–	835	186	70	–	1,456
Depreciation of property and equipment reclassified to investment property	(3)	–	–	–	–	–	(3)
Disposals	(54)	–	(244)	(76)	(24)	–	(398)
Transfers	–	–	(8)	–	8	–	–
Impairment	–	–	15	76	–	–	91
31 December 2010	3,098	–	2,662	537	135	2	6,434
Net book value:							
31 December 2009	13,231	215	2,273	331	418	3,936	20,404
31 December 2010	12,732	231	2,292	1,465	200	6,630	23,550

(In millions of Russian rubles)

17. Property and equipment (continued)

	Buildings	Land	Equipment	Motor vehicles	Leasehold improvements	Assets under construction and warehoused property and equipment	Total
Cost							
31 December 2008	4,869	–	3,117	560	327	2,658	11,531
Additions	325	–	464	118	136	1,332	2,375
Acquisition through business combinations (Note 5)	11,159	215	1,079	147	383	535	13,518
Disposals	(373)	–	(425)	(143)	(343)	(489)	(1,773)
Reclassification from investment property	41	–	–	–	–	–	41
Transfers	–	–	102	–	(4)	(98)	–
31 December 2009	16,021	215	4,337	682	499	3,938	25,692
Accumulated depreciation and impairment							
31 December 2008	1,747	–	1,433	302	23	–	3,505
Depreciation charge	367	–	811	165	78	–	1,421
Disposals	(14)	–	(180)	(116)	(134)	–	(444)
Impairment	690	–	–	–	114	2	806
31 December 2009	2,790	–	2,064	351	81	2	5,288
Net book value:							
31 December 2008	3,122	–	1,684	258	304	2,658	8,026
31 December 2009	13,231	215	2,273	331	418	3,936	20,404

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)

18. Taxation

Income tax expense comprises:

	2010	2009
Current tax expense/(benefit)	1,227	694
Deferred tax (benefit)/expense – origination and reversal of temporary differences in the statement of income	(2,533)	(277)
Income tax expense/(benefit)	(1,306)	417

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 2010 and 2009. The tax rate for companies other than banks was also 20% for 2010 and 2009. 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 2010 and 2009 was 26.28%. The aggregate income tax rate effective in Ukraine for 2010 and 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 2010 and 2009 are not included into taxable base for income tax purposes, which had a significant impact on the Group's effective income tax rate for 2010 and 2009.

At 31 December, the Group's income tax assets and liabilities comprise:

	2010	2009
Current income tax assets	712	776
Deferred income tax assets	1,638	80
Income tax assets	2,350	856
Current income tax liabilities	27	13
Deferred income tax liabilities	1,015	1,935
Income tax liabilities	1,042	1,948

(In millions of Russian rubles)

18. Taxation (continued)

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:

	2010	2009
Income before tax from continuing operations	26,769	38,732
Loss before tax from discontinued operations	(184)	—
Income before tax	26,585	38,732
Statutory tax rate	20%	20%
Theoretical income tax expense/(benefit) at the statutory rate	5,317	7,746
Non-taxable income on state securities/income taxed at different rates	(181)	(62)
Income taxed at different rate	(200)	(466)
Non-deductible expenses	475	3,751
Currency translation differences	(20)	(132)
Vnesheconombank's income and expenses not included in tax base for income tax purposes	(5,477)	(8,943)
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 and other changes in the Ukrainian legislation	(1,835)	—
Change in unrecognized deferred tax assets	179	3,043
Other	80	246
Income tax (benefit)/expense	(1,662)	417
Income tax (benefit)/expense recognized in the consolidated statement of income	(1,306)	417
(Benefit)/expense related to the income tax from discontinued operations	(356)	—
	(1,662)	417

(In millions of Russian rubles)

18. Taxation (continued)

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				
		In the statement of income	In other comprehensive income	Effect of business combination	Currency translation effect		In the statement of income	In other comprehensive income	Currency translation effect	
	2008					2009				2010
Tax effect of deductible temporary differences:										
Allowance for loan impairment	242	180	–	81	(17)	486	236	–	(2)	720
Change in fair value of securities	1,499	(1,437)	(18)	54	–	98	178	(52)	–	224
Initial recognition of financial instruments at fair value	–	–	–	–	–	–	907	–	–	907
Tax losses carried forward	1,376	3,472	–	–	–	4,848	(197)	–	–	4,651
Accrued income and expense	15	(3)	–	–	–	12	(12)	–	–	–
Derivative financial instruments	4	8	–	–	(1)	11	5	–	–	16
Property and equipment	69	29	–	10	(16)	92	108	–	(4)	196
Other	68	(1,037)	19	2,574	39	1,663	474	(11)	94	2,220
	3,273	1,212	1	2,719	5	7,210	1,699	(63)	88	8,934
Unrecognized deferred tax assets	(2,547)	(3,043)	16	–	11	(5,563)	(179)	–	4	(5,738)
	726	(1,831)	17	2,719	16	1,647	1,520	(63)	92	3,196
Tax effects of taxable temporary differences:										
Securities	(8)	(294)	(60)	213	7	(142)	78	(5)	(1)	(70)
Loans to customers	(428)	(78)	–	–	–	(506)	59	–	–	(447)
Initial recognition of financial instruments at fair value	–	–	–	–	–	–	(914)	–	–	(914)
Allowances for losses	(6)	(110)	–	(261)	11	(366)	263	–	(2)	(105)
Customers' accounts	(70)	70	–	–	–	–	–	–	–	–
Accrued income and expense	(60)	(33)	–	–	14	(79)	(14)	–	3	(90)
Derivative financial instruments	–	(110)	–	(60)	–	(170)	(104)	–	–	(274)
Property and equipment	(211)	375	–	(2,175)	32	(1,979)	1,992	–	(29)	(16)
Other	(124)	2,288	–	(2,360)	(64)	(260)	(347)	–	(50)	(657)
	(907)	2,108	(60)	(4,643)	–	(3,502)	1,013	(5)	(79)	(2,573)
Deferred tax asset	79	42	(37)	–	(4)	80	1,543	(63)	78	1,638
Deferred tax liability	(260)	235	(6)	(1,924)	20	(1,935)	990	(5)	(65)	(1,015)

(In millions of Russian rubles)

19. 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
	available for sale	held to maturity					
31 December 2008	2	95	39	592	–	1,362	2,090
Charge	112	182	–	335	184	514	1,327
Amounts arising on business combination (Note 5)	–	–	–	–	–	564	564
Write-off	–	–	(1)	–	(157)	–	(158)
31 December 2009	114	277	38	927	27	2,440	3,823
Charge/(reversal)	6	(164)	–	429	24	(74)	221
Write-off	–	(32)	(38)	(49)	–	(2,214)	(2,333)
31 December 2010	120	81	–	1,307	51	152	1,711

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.

20. Other assets and liabilities

Other assets comprise:

	2010	2009
Advances issued to leasing equipment suppliers	11,421	2,588
Settlements with suppliers and other debtors	6,002	2,744
Prepaid expenses	4,581	409
Intangible assets	2,619	2,374
Equipment purchased for leasing purposes	2,047	934
Accrued commissions	1,110	1,369
Prepaid securities	1,110	–
Settlements on outstanding operations with securities	634	586
Cash transactions	11	20
Other	7,669	1,123
	37,204	12,147
Less allowance for impairment of other assets (Note 19)	(1,307)	(927)
Other assets	35,897	11,220

Included in other assets are intangible assets in the amount of RUB 3,211 million (31 December 2009: RUB 2,736 million), net of accumulated depreciation of RUB 592 million (31 December 2009: RUB 362 million). In 2010, the Group disposed of intangible assets in the amount of RUB 128 million (2009: RUB 159 million), net of accumulated depreciation of RUB 118 million (2009: RUB 142 million). The respective depreciation charges for 2010 and 2009 were RUB 348 million and RUB 277 million, respectively, which are included in other operating expenses.

(In millions of Russian rubles)

20. Other assets and liabilities (continued)

At 31 December 2010 and 2009, 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:

	2010	2009
Future period income	7,831	1,763
Advances received from lessees	1,906	840
Other settlements with credit institutions	1,204	1,011
Settlements with clients on export revenues	714	547
Obligations under finance lease agreements	26	148
Cash transactions	12	138
Settlements on operations with securities	–	35
Other	1,918	1,548
Other liabilities	13,611	6,030

21. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2010	2009
Correspondent loro accounts from Russian credit institutions	7,216	6,856
Correspondent loro accounts from other credit institutions	7,142	6,939
Loans and other placements from OECD-based credit institutions	123,114	76,666
Loans and other placements from Russian credit institutions	62,450	42,391
Loans and other placements from other credit institutions	21,987	67,295
Repurchase agreements	13,107	960
Deposits from Russian credit institutions – fiduciaries	11	30
Amounts due to credit institutions	235,027	201,137

At 31 December 2010, loans and other placements from OECD-based credit institutions include loans primarily denominated in RUB, USD, EUR and GBP with interest rates ranging from 6.6% to 7.1% for RUB-denominated loans (31 December 2009 – from 7.1% to 8.5%), from three-months LIBOR plus 0.2% to 7.6% for USD-denominated loans (31 December 2009: from three-months LIBOR plus 0.2% to 7.6%), from six-months EURIBOR plus 0.3% to 6.5% for EUR-denominated loans (31 December 2009: from 0.7% to 5.3%) and from 5.7% to 7.9% for GBP-denominated loans (31 December 2009: from 5.7% to 7.9%).

At 31 December 2010, loans and other placements from Russian credit institutions include loans denominated in RUB, USD and EUR with interest rates ranging from 0.5% to 15% for RUB-denominated loans (31 December 2009 – from 0.5% to 20%), from 0.2% to 7% for USD-denominated loans (31 December 2009: from 0.1% to 8.5%), from 0.6% to 7.5% for EUR-denominated loans (31 December 2009: from 0.1% to 4%). At 31 December 2010 and 2009, this item also includes deposits held as security against letters of credit and minimum balances on correspondent loro accounts.

At 31 December 2010, loans and other placements from non-OECD based credit institutions include loans denominated in USD, EUR, GBP, BYR and UAH with interest rates from one-month LIBOR plus 0.7% to six-months LIBOR plus 3.8% for USD-denominated loans (31 December 2009 – from one-month LIBOR plus 0.7% to one-month LIBOR plus 17%), from 0.6% to 11% for EUR-denominated loans (31 December 2009: from 0.3% to 17%), 0.5% for GBP-denominated loans (31 December 2009: no balances), from 2% to 3% for BYR-denominated loans (31 December 2009: from 2% to 13%), and from 11.2% to 18% for UAH-denominated loans (31 December 2009: 12%). At 31 December 2009, this item also includes RUB-denominated loans with interest rates from 7% to 7.5%. At 31 December 2010, this item also includes minimum balances on correspondent loro accounts from non-OECD-based credit institutions.

(In millions of Russian rubles)

21. Amounts due to credit institutions (continued)

At 31 December 2010, repurchase agreements with credit institutions comprise loans of RUB 13,107 million received from Russian and foreign credit institutions and collateralized by available-for-sale securities with the fair value of RUB 4,522 million (Note 14) and securities acquired under reverse repurchase agreements with the fair value of RUB 10,226 million. At 31 December 2009, repurchase agreements with credit institutions included loans of RUB 960 million received from Russian banks and collateralized by debt securities available for sale with the fair value of RUB 951 million (Note 14) and securities acquired under reverse repurchase agreements with the fair value of RUB 138 million.

22. Amounts due to customers

Amounts due to customers comprise:

	2010	2009
Customer current accounts	127,443	101,384
Term deposits	162,384	92,772
Repurchase agreements	271	8,067
Amounts due to customers	290,098	202,223
Held as security against guarantees	2,118	1,572
Held as security against letters of credit	3,695	846

At 31 December 2010 and 2009, amounts due to the Bank's four largest customers amounted to RUB 83,567 million and RUB 62,070 million, respectively, representing 28.8% and 30.7% of the aggregate amount due to customers.

Amounts due to the ten largest customers include accounts with the customers operating in the following industry sectors:

	2010	2009
Telecommunication	39,408	34,957
Infrastructure development	30,114	17,495
Transportation	16,592	–
Heavy machinery and military related goods	11,786	3,773
Energy	7,254	–
Metallurgy	4,715	7,343
Financial organizations	–	8,067
Trade	–	4,685
Construction	–	2,937
Non-commercial organizations	–	2,716
	109,869	81,973

Included in term deposits are deposits of individuals in the amount of RUB 65,745 million (31 December 2009: RUB 55,632 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)

22. Amounts due to customers (continued)

Amounts due to customers include accounts of the following types of customers:

	2010	2009
State and state controlled companies	112,986	69,486
Private companies	89,696	64,315
Employees and other individuals	82,417	65,738
Companies under foreign state control	4,999	2,684
Amounts due to customers	290,098	202,223

At 31 December 2010, repurchase agreements with customers comprise RUB 271 million received from a foreign company and collateralized by available-for-sale securities with the fair value of RUB 306 million (Note 14). 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 with the fair value of RUB 12,377 million (Note 14).

23. Debt securities issued

Debt securities issued comprise the following:

	2010	2009
Eurobonds	99,546	–
Bonds	71,423	60,425
Promissory notes	15,976	18,429
Certificates of deposit and saving certificates	2	42
Debt securities issued	186,947	78,896
Promissory notes held as security against guarantees	1,856	1,401

At 31 December 2010, the Group's debt securities issued include loan participation notes (Eurobonds) for a total amount of USD 30,000 million placed by Vnesheconombank through a special purpose entity under the program for the issue of loan participation notes (Eurobonds):

- ▶ series 1 in the amount of RUB 50,557 million placed by Vnesheconombank in July 2010 under a fixed interest rate for a total amount of USD 1,600 million for 10 years;
- ▶ series 2 and 3 in the total amount of RUB 48,989 million maturing in 7 and 15 years under fixed interest rates for a total amount of USD 600 million and USD 1,000 million, respectively.

At 31 December 2010 the Group's bonds issued include:

- ▶ non-convertible interest-bearing documentary bearer bonds, series 02, in the amount of RUB 30,460 million placed by Vnesheconombank via private subscription on the Moscow Interbank Currency Exchange in April 2010 for 1 year under a floating interest rate of six-months LIBOR plus 1% for a total amount of USD 1,000 million.
- ▶ non-convertible interest-bearing documentary bearer bonds, series 06 and 08, in the total amount of RUB 24,378 million, placed by Vnesheconombank via private subscription on the Moscow Interbank Currency Exchange in October 2010 for a total amount of RUB 9,550 million and RUB 14,545 million, respectively. The coupon rate for bonds of series 06 is set at 7.9% (maturing in 10 years, a black out period, i.e. a period of time during which bondholders may not claim early redemption from the issuer – 7 years), the coupon rate for bonds of series 08 is set at 6.9% p.a. (maturing in 10 years, black out period – 3 years).

(In millions of Russian rubles)

23. Debt securities issued (continued)

At 31 December 2010 this item also includes convertible bonds issued by subsidiaries:

- ▶ 4,513,000 bonds, series BO-01, in the amount of RUB 4,669 million with par value of RUB 1,000 each, placed in February 2010 for 3 years under a fixed rate for the total amount of RUB 4,513 million. The coupon rate is 9.3%;
- ▶ 4,534,783 bonds, series BO-02, in the amount of RUB 4,691 million with par value of RUB 1,000 each, placed in July 2010 for 3 years under a fixed rate for the total amount of RUB 4,535 million. The coupon rate is 8.1%;
- ▶ 3,400,000 bonds, series BO-03 and BO-05, in the amount of RUB 3,412 million with par value of RUB 1,000 each, placed in December 2010 for 3 years under a fixed rate for the total amount of RUB 3,400 million. The coupon rate is 8.1%;
- ▶ 3,685,000 non-convertible interest-bearing documentary bearer bonds, series 1, in the amount of RUB 3,685 million with par value of RUB 1,000 each, placed by a non-credit subsidiary in July 2010 for 5 years under a fixed rate of 8.5% for the total amount of RUB 3,700 million.

At 31 December 2009, the Group's bonds include bonds with a par value of USD 1,000 each for a total amount of USD 2,000 million which were placed by Vnesheconombank on the Moscow Interbank Currency Exchange in June 2009 for 1 year. The coupon rate is six-month LIBOR plus 1%.

The Group's debt securities issued at 31 December 2010 include interest-bearing promissory notes denominated in RUB, USD and EUR maturing in 2049 (31 December 2009 – maturing before 2049). Interest rates are from 0.1% to 7.8% for RUB-denominated promissory notes (31 December 2009: 9.5%), from 0.2% to 4.9% for USD-denominated promissory notes (31 December 2009: from 0.2% to 7%) and from 2.4% to 4.9% for EUR-denominated promissory notes (31 December 2009: from 1% to 7%).

At 31 December 2010 and 2009, certificates of deposit and saving certificates issued by a subsidiary bank are denominated in BYR, bear interest rates of 1% (31 December 2009: from 12% to 13%) and mature by February 2011 and December 2010, respectively.

24. 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 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 millions of Russian rubles)

24. Equity (continued)

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" in December 2009.

At the end of 2010, in accordance with Resolution of the Russian Government No. 603-r dated 21 April 2010, the Russian Federation contributed 100% of state-owned shares of OJSC Federal Center for Project Finance to the charter capital of Vnesheconombank.

At the Shareholders' Meeting of the Bank's subsidiary OJSC "Belvnesheconombank" held in March 2010, the Bank declared dividends in respect of the reporting year ended 31 December 2009, totaling RUB 95 million on ordinary shares.

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:

	2010	2009
Unrealized gains/(losses) on investment securities available for sale	24,695	107,565
Realized (gains)/losses on investment securities available for sale, reclassified to the statement of income	(35,154)	(42,721)
Impairment loss on investment securities available for sale, reclassified to the statement of income	22,276	13,778
Net gains/(losses) on investment securities available for sale	11,817	78,622

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.

25. 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.

(In millions of Russian rubles)

25. Commitments and contingencies (continued)

Operating environment (continued)

The Russian, Belarusian and Ukrainian economies are vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Russian, Belarusian and Ukrainian governments continued to take measures to support the economy to overcome the consequences of the global financial crisis. Despite certain signs of economic recovery, there continues to be uncertainty regarding future economic growth, access to capital and cost of capital, which could adversely affect the Group's 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 November 2009, based on a suit filed by one of the minority shareholders of PSC Prominvestbank, the Commercial Court of Kiev annulled decisions of the general meetings of shareholders of PSC Prominvestbank, held in September and November 2009. Based on the said decisions, PSC Prominvestbank issued additional shares which resulted in an increase of Vnesheconombank's interest in the Ukrainian bank from 75% plus three shares to 93.8%. The cost of additional shares acquired by Vnesheconombank totaled RUB 14,127 million (equivalent of USD 500 million). In April 2010, based on the decision of the Commercial Court of Kiev, the Securities and Stock Market State Commission of Ukraine (SSMSC) annulled the additional issue of shares by PSC Prominvestbank. At the reporting date, the matter is in the process of correspondence and settlement.

At the moment, the Group's management assumes that there is no need for an allowance in the consolidated financial statements in respect of the above litigation.

In the ordinary course of business, the Group is also subject to other 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 19.

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.

At 31 December 2010, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

(In millions of Russian rubles)

25. Commitments and contingencies (continued)

Commitments and contingencies

At 31 December the Group's commitments and contingencies comprised:

	2010	2009
Credit related commitments		
Undrawn loan commitments	436,271	231,321
Guarantees	156,237	131,577
Letters of credit	49,806	33,285
	642,314	396,183
Operating lease commitments		
Not later than 1 year	1,240	1,314
Later than 1 year but not later than 5 years	1,691	1,906
Later than 5 years	1,013	985
	3,944	4,205
Capital expenditure commitments	10,901	6,951
	657,159	407,339
Less provisions (Note 19)	(152)	(2,440)
Commitments and contingencies (before deducting collateral)	657,007	404,899
Less Group's cash and promissory notes held as security against guarantees and letters of credit	(7,752)	(3,083)
Commitments and contingencies	649,255	401,816

At 31 December 2010, the Group advised export letters of credit for a total amount of RUB 72,416 million (31 December 2009: RUB 75,552 million) and also received reimbursement authorization from the issuing banks totaling RUB 2,956 million (31 December 2009: RUB 6,161 million). The Bank bears no credit risks under export letters of credit and reimbursement authorization.

At 31 December 2010, credit-related commitments also include a USD-denominated guarantee issued in 2010 to a major metallurgical company for a total of RUB 68,573 million valid until January 2014, which accounts for 10% of all credit-related commitments.

At 31 December 2010, credit related commitments include liabilities in favor of one counterparty, a state company, in the amount of RUB 44,846 million, which accounts for 7% (31 December 2009: RUB 47,482 million, 12%) of all credit related commitments.

Insurance

The Group's premises are insured for RUB 12,241 million (31 December 2009: RUB 12,034 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.

26. Net fee and commission income

Net fee and commission income comprise:

	2010	2009
Cash and settlement operations	3,230	3,380
Guarantees and letters of credit	2,033	3,291
Agency fees	557	535
Trust management of pension funds	236	211
Operations with securities	175	154
Other operations	1,284	1,291
Fee and commission income	7,515	8,862
Fee and commission expense	(1,485)	(1,673)
Net fee and commission income	6,030	7,189

(In millions of Russian rubles)

27. 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:

	2010	2009
Gains less losses on sale of investment securities available for sale, previously recognized in other comprehensive income (Note 24)	35,154	42,721
Losses on impairment of investment securities available for sale (Note 24)	(22,276)	(13,778)
Other gains from redemption of investment securities	251	13,997
Total gains less losses from investment securities available for sale	13,129	42,940

28. Other operating expenses

Other operating expenses comprise:

	2010	2009
Impairment charge for property and equipment (Note 17)	91	806
Administration expenses	653	615
Advertising expenses	1,437	579
Audit and consulting	588	403
Legal services	509	396
Deposit insurance	356	297
Amortization of intangibles	348	277
Marketing and research	199	262
Insurance	435	239
Loss on initial recognition of financial assets	—	224
Charity	607	219
Sponsorship	136	125
Penalties incurred	20	26
Contribution to non-state pension fund	4	2
Other	2,450	1,536
Other operating expenses	7,833	6,006

29. Profit from discontinued operations

In April 2010, the Group acquired 100% shares of AMURMETAL HOLDING LIMITED, a company holding shares of the entity, which is the owner of a group of metallurgical enterprises. The group was classified as a disposal group held for sale under provisions of IFRS 5 and included in the 5th operating segment.

In December 2010, the Group entered into an option agreement for the sale of the above interest, which resulted in the loss of control over the group. Loss from discontinued operations related to the disposal group, during the period from the date of acquisition till loss of control amounted to RUB 2,194 million, profit recognized on disposal of the group – RUB 2,366 million.

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.

(In millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

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 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 2010, the risk management coordination within the Group of Vnesheconombank was further developed. A package of measures aimed at harmonizing the 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.

(In millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

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.

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.

Assets and Liabilities Committee

The Assets and Liabilities Committee is the Bank's standing collegial body whose primary objective is to develop conclusions and recommendations for assets and liabilities management, including issues related to managing the Bank's market and structural risks and ensuring that the Bank's operations are break-even.

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.

(In millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

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, 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 gaps 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.

(In millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

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, assessment of the amount of unexpected losses based on the value at risk methodology (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 analyzes 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. The assessment methodology for the credit risk of the Group members is being amended to harmonize approaches to credit risk assessment used within the Group and in order to comply 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 2010	Maximum exposure 2009
Cash and cash equivalents (excluding cash on hand)	9	184,222	157,879
Trading securities	10	26,209	28,621
Amounts due from credit institutions	11	415,641	467,308
Derivative financial assets	12	11,285	2,214
Loans to customers	13	787,926	843,538
Investment securities	14		
- available-for-sale		186,977	172,292
- held-to-maturity		21,536	22,366
Investment securities pledged under repurchase agreements	14	4,684	951
Other assets	20	11,656	6,685
		1,650,136	1,701,854
Financial commitments and contingencies	25	642,162	393,743
Total credit risk exposure		2,292,298	2,095,597

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. Not past due and not impaired assets are subdivided into assets with high, standard and sub-standard grade. Grades are assigned based on the requirements of the national standards for assets quality assessment and international ratings of securities issuers. High grade assets comprise demands to counterparties with good financial position, absence of overdue payments, or secured by the guarantees of the Russian Government, and securities with high international credit ratings. Probability of the breach of contractual terms with regard to such assets can be evaluated as low. Standard grade assets comprise demands to counterparties with average financial position or assets with no overdue payments, which were not included in high grade assets. Probability of the breach of contractual terms with regard to such assets can be evaluated as average. Other financial assets, not past due and not impaired, are assigned a substandard grade. Since not all individually impaired assets are considered past due, not past due individually impaired assets and past due assets are separated. 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 consolidated financial statements.

(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 2010	Total 2010
		Not impaired			Individually impaired 2010		
		High grade 2010	Standard grade 2010	Sub-standard grade 2010			
Amounts due from credit institutions	11						
Back-to-back finance		345,856	1,024	—	—	—	346,880
Subordinated loans		210	—	—	—	—	210
Interbank loans under small and medium-sized business support program		43,306	5,276	1,211	258	—	50,051
Other amounts due from credit institutions		16,939	815	1,116	58	1,291	20,219
		<u>406,311</u>	<u>7,115</u>	<u>2,327</u>	<u>316</u>	<u>1,291</u>	<u>417,360</u>
Loans to customers	13						
Commercial loans		175,636	149,215	53,094	58,666	48,787	485,398
Project finance		2,462	167,283	50,065	140,477	12,260	372,547
Financing of operations with securities		13,808	4,839	215	27	2,029	20,918
Pre-export finance		5,835	4,586	6,175	109	1,890	18,595
Promissory notes		49	11,064	8,416	—	77	19,606
Reverse repurchase agreements		983	2,570	—	16	330	3,899
Back-to-back finance		2,604	—	—	—	—	2,604
Other		3,362	50	2,314	327	2,517	8,570
		<u>204,739</u>	<u>339,607</u>	<u>120,279</u>	<u>199,622</u>	<u>67,890</u>	<u>932,137</u>
Debt investment securities	14						
Available-for-sale (including those pledged under repurchase agreements)		137,413	44,933	9,194	113	8	191,661
Held to maturity		20,058	1,406	72	—	81	21,617
		<u>157,471</u>	<u>46,339</u>	<u>9,266</u>	<u>113</u>	<u>89</u>	<u>213,278</u>
Total		<u>768,521</u>	<u>393,061</u>	<u>131,872</u>	<u>200,051</u>	<u>69,270</u>	<u>1,562,775</u>

(In millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

	Notes	Not past due				Past due 2009	Total 2009
		Not impaired			Individually impaired 2009		
		High grade 2009	Standard grade 2009	Sub-standard grade 2009			
Amounts due from credit institutions	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
		454,480	12,178	142	2,017	24	468,841
Loans to customers	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
		402,068	241,046	72,402	164,385	84,798	964,699
Debt investment securities	14						
Available-for-sale (including those pledged under repurchase agreements)		153,052	20,185	—	—	6	173,243
Held to maturity		21,223	1,143	82	—	195	22,643
		174,275	21,328	82	—	201	195,886
Total		1,030,823	274,552	72,626	166,402	85,023	1,629,426

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 2010	7 to 30 days 2010	More than 30 days 2010	Total 2010
Loans to customers:				
Commercial loans	189	347	3,126	3,662
	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
Total	548	237	14,336	15,121

See Note 13 for more detailed information with respect to the allowance for impairment of loans to customers.

(In millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

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 2010 and 2009, the terms of other financial assets were not renegotiated.

	2010	2009
Loans to customers:		
Project finance	36,002	32,631
Commercial loans	33,563	15,669
Pre-export finance	4,481	2,473
Financing of operations with securities	–	–
Other	–	394
Total	74,047	51,167

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.

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.

(In millions of Russian rubles)

30. Risk management (continued)

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 Group members perform the following actions limiting the liquidity risk:

- ▶ Regularly monitor the bank's liquidity situation, supervise the compliance with the established limits and review them;
- ▶ Maintain a well-balanced maturity and currency structure of assets and liabilities and an optimal liquid asset cushion;
- ▶ Maintain a diversified structure of funding sources and directions of investments by counterparty;
- ▶ Develop plans to raise debt funding;
- ▶ Assess sustained balances on customers' accounts, monitor the level of concentration of balances on customers' accounts in order to prevent an abrupt outflow of funds from customers' accounts;
- ▶ Perform cash flow modeling and supervise liquidity ratios under various scenarios that reflect changes in the macroeconomic and market operating environment;
- ▶ Perform 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 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 millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

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 2010 and 2009, 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 2010	1 to 6 months 2010	6 to 12 months 2010	Over 1 year 2010	No stated maturity 2010	Total 2010
Monetary assets:						
Cash and cash equivalents	186,796	9,876	—	—	—	196,672
Precious metals	92	—	—	—	201	293
Financial assets at fair value through profit or loss	40,283	3,139	186	32,536	—	76,144
Amounts due from credit institutions	9,621	17,079	18,291	370,650	—	415,641
Loans to customers	22,001	88,535	114,832	562,558	—	787,926
Investment securities:						
- available-for-sale	186,977	36,764	—	—	248,014	471,755
- held-to-maturity	132	2,466	1,112	17,826	—	21,536
Investment securities pledged under repurchase agreements	2,606	2,222	—	—	—	4,828
Due from the Russian Government	—	—	—	—	119	119
Investments in associates	—	—	—	—	5,638	5,638
Income tax assets	—	712	—	1,638	—	2,350
Other assets	4,481	1,967	4,631	1,595	136	12,810
	452,989	162,760	139,052	986,803	254,108	1,995,712
Monetary liabilities:						
Amounts due to credit institutions	69,482	21,752	28,855	114,924	14	235,027
Derivative financial liabilities	432	1,171	707	3,106	—	5,416
Due to the Russian Government and the Bank of Russia	17,214	12,433	306,451	478,803	—	814,901
Amounts due to customers	150,889	79,694	37,248	22,267	—	290,098
Debt securities issued	5,355	39,906	8,606	133,080	—	186,947
Income tax liabilities	—	27	—	1,015	—	1,042
Other liabilities	1,754	1,018	242	82	867	3,963
	245,126	156,001	382,109	753,277	881	1,537,394
Net position	207,863	6,759	(243,057)	233,526	253,227	458,318
Accumulated gap	207,863	214,622	(28,435)	205,091	458,318	

(In millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

	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
Monetary assets:						
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
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	1,544	1,001	3,137	554	7,776
	453,981	155,774	308,122	850,138	146,236	1,914,251
Monetary liabilities:						
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
	221,915	194,024	488,757	572,847	1,090	1,478,633
Net position	232,066	(38,250)	(180,635)	277,291	145,146	435,618
Accumulated gap	232,066	193,816	13,181	290,472	435,618	

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.

Alternatively, it should be noted that investments for a total amount of RUB 248,014 million in equity investment securities available-for-sale recognized in "no stated maturity" can guarantee significant volumes of liquidity within a short period of time (up to 1 month) upon sale of these securities on the market or conducting transactions on repurchase agreements.

(In millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

These investments, in particular, can ensure the closing of the liquidity gap of RUB 28,437 million in "6 to 12 months, 2010". It should also be noted that this liquidity gap was formed mainly at the expense of interest-bearing deposits of the Bank of Russia, which include special purpose deposits attracted for the program for financial support to OJSC Sviaz-Bank and CJSC GLOBEXBANK in the amount of RUB 211,144 million (Note 7). The maturity of these deposits (with nominal maturity of 1 year) was extended twice in 2009 and 2010. Taking into consideration this fact and the special purpose-related character of these deposits, the Group expects that it is highly probable that the maturity of these deposits will be also extended in 2011.

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.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 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.

Financial liabilities At 31 December 2010	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	90,584	34,793	121,899	22,993	270,269
Derivative financial instruments settled through delivery of underlying asset					
- Contractual amounts payable	118,735	84,441	18,345	2,541	224,062
- Contractual amounts receivable	(120,105)	(84,105)	(11,175)	(1,867)	(217,252)
Due to the Russian Government and the Bank of Russia	18,418	327,851	226,694	560,553	1,133,516
Amounts due to customers	181,708	91,430	24,623	1,541	299,302
Debt securities issued	8,104	47,588	52,758	169,927	278,377
Other liabilities	3,574	325	85	16	4,000
Total undiscounted financial liabilities	301,018	502,323	433,229	755,704	1,992,274
Financial liabilities At 31 December 2009	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
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
Total undiscounted financial liabilities	273,660	651,885	291,487	633,017	1,850,049

(In millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

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 22.

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
2010	92,633	133,077	385,816	30,788	642,314
2009	64,523	143,127	177,098	11,435	396,183

The Group expects that not all of the contingent liabilities or contractual commitments will be drawn before their expiry.

As at 31 December 2010, credit-related commitments presented in the "less than 3 months" category include liabilities in the amount of RUB 23,434 million (31 December 2009 – RUB 29,066 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 its limits the Group uses the sensitivity analysis, calculation based on VaR methodology 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 unexpected 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.

(In millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

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;
- 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 2010, the Bank adopted the advanced VaR methodology that uses the weighing procedure for statistical data of risk factors depending on their historical distance from the date of calculation. In accordance with this methodology, a recalculation of VaR values was made.

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 millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

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.

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 2010 and 2009, 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.

(In millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

Rate	Increase in basis points 2010	Sensitivity of the statement of income 2010	Sensitivity of equity 2010
3-m Libor USD	0.75%	(949)	–
3-m Libor EUR	0.75%	(30)	–
3-m Mosprime	3.00%	(848)	–
3-m Ukrainian interbank	10.00%	105	–
YTM 5Y German Treasuries	0.60%	59	–
YTM 5Y USTreasuries	1.00%	115	(380)
RGBEY	3.00%	(942)	(4,080)
YTM Ukrainian sovereign bonds	10.00%	–	(707)
Belarusian GKO and GDO rates	10.00%	4,208	(12)
Refinancing rate of CBR	1.00%	623	–
Refinancing rate of NB RB	1.00%	73	–

Rate	Decrease in basis points 2010	Sensitivity of the statement of income 2010	Sensitivity of equity 2010
3-m Libor USD	-0.10%	126	–
3-m Libor EUR	-0.25%	10	–
3-m Mosprime	-1.00%	283	–
3-m Ukrainian interbank	-5.00%	(52)	–
YTM 5Y German Treasuries	-0.60%	(59)	–
YTM 5Y USTreasuries	-1.00%	(115)	380
RGBEY	-1.00%	314	1,360
YTM Ukrainian sovereign bonds	-2.00%	–	141
Belarusian GKO and GDO rates	-3.00%	(1,263)	3
Refinancing rate of CBR	-0.25%	(156)	–
Refinancing rate of NB RB	-1.00%	(73)	–

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
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 USTreasuries	1.20%	922	(67)
RGBEY	5.00%	(1,631)	(2,051)
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
3-m Libor USD	-0.25%	93	—
3-m Libor EUR	-0.25%	44	(1)
3-m Mosprime	-3.00%	226	—
3-m Ukrainian interbank	-5.00%	9	—
3-m Libor JPY	-0.25%	(2)	—
3-m Libor CHF	-0.25%	3	—
YTM 5Y German Treasuries	-0.60%	(133)	—
YTM 5Y US Treasuries	-1.20%	(922)	67
RGBEY	-5.00%	1,631	2,051
YTM Ukrainian sovereign bonds	-5.00%	—	168
Refinancing rate of CBR	-1.00%	(210)	—
Refinancing rate of NB RB	-1.00%	(21)	—

Below are VaR measures for the bond portfolio of the Bank at 31 December 2010 and 2009:

	2010	2009
VaR	4,644	7,945

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 2010 and 2009, which include items of the statement of financial position and currency positions in derivative financial instruments by currencies against the Russian Ruble (open positions).

	2010	2009
UAH	22,579	22,186
BYR	7,373	7,702
USD	5,221	(924)
EUR	2,175	3,231
HKD	202	—
Other currencies	32	31
GBP	(55)	(212)
CHF	(2,048)	(326)
JPY	(3,747)	(776)

(In millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

Below is the Bank's VaR measure for open currency positions at 31 December 2010 and 2009:

	2010	2009
VaR	1,447	1,313

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.

The Bank's VaR measure for open currency positions at 31 December 2010, except for investments in subsidiaries, was RUB 107 million. 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 2010 and 2009. 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 % 2010	Effect on profit before tax, 2010	Change in currency rate in % 2009	Effect on profit before tax, 2009
UAH	24.95%	1,947	24.46%	884
	-24.95%	(1,947)	-24.46%	(884)
USD	10.83%	(753)	9.61%	(493)
	-10.83%	753	-9.61%	493
BYR	14.41%	284	12.89%	(52)
	-14.41%	(284)	-12.89%	52
EUR	9.74%	(128)	9.12%	(2)
	-9.74%	128	-9.12%	2
GBP	12.15%	(1)	18.44%	4
	-12.15%	1	-18.44%	(4)
CAD	12.41%	1	11.87%	1
	-12.41%	(1)	-11.87%	(1)
AUD	16.63%	1	15.93%	1
	-16.63%	(1)	-15.93%	(1)
JPY	17.23%	—	14.96%	24
	-17.23%	—	-14.96%	(24)
SEK	14.81%	—	12.62%	1
	-14.81%	—	-12.62%	(1)
CHF	12.52%	—	13.77%	1
	-12.52%	—	-13.77%	(1)

(In millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

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.

Below are VaR measures for the equity portfolio of the Bank at 31 December 2010 and 2009:

	2010	2009
VaR	31,627	27,671

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, 2010	Change in equity price, 2010	Effect on profit before tax, 2010	Change in equity price, 2010	Effect on equity, 2010
MICEX	47%	49%	223	49%	2,743
	-47%	-49%	(223)	-49%	(2,743)
Ukrainian Stock	45%			44%	11
Exchange index	-45%	—	—	-44%	(11)

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)

(In millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

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.

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.

(In millions of Russian rubles)

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 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	37,277	–	–	37,277
Derivative financial instruments	–	10,566	719	11,285
Financial assets designated as at fair value through profit or loss	24,824	–	2,758	27,582
Investment securities available-for-sale (including those pledged under repurchase agreements)	452,984	22,479	1,120	476,583
	515,085	33,045	4,597	552,727
Financial liabilities				
Derivative financial instruments	–	5,416	–	5,416
	–	5,416	–	5,416
At 31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets				
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
	374,466	20,679	2,429	397,574
Financial liabilities				
Derivative financial instruments	2	2,597	–	2,599
	2	2,597	–	2,599

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.

(In millions of Russian rubles)

31. Fair value of financial instruments (continued)

Derivatives (continued)

Derivative products valued using a valuation technique with significant non-market observable inputs are primarily long-term option contracts. Such derivative products are valued using models, which imply the exercise of options in the shortest possible period of time.

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:

	At 1 January 2010	Gains/(losses) recorded in profit or loss	Gains/(losses) recorded in other comprehensive income	Purchases	At 31 December 2010
Financial assets					
Derivative financial instruments	276	443	–	–	719
Financial assets designated as at fair value through profit or loss	1,747	(316)	–	1,327	2,758
Investment securities available for sale	406	(305)	897	122	1,120
Total Level 3	2,429	(178)	897	1,449	4,597

	At 1 January 2009	Gains/(losses) recorded in profit or loss	Gains/(losses) recorded in other comprehensive income	Purchases	At 31 December 2009
Financial assets					
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
Total Level 3	1,063	114	(266)	1,518	2,429

Gains or losses on Level 3 financial instruments included in profit or loss for the reporting period, were RUB 178 million of unrealized gains (in 2009 – gains of RUB 114 million).

(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:

	Transfers from Level 2 to Level 1, 2010	
Financial assets		
Investment securities available for sale		20
	Transfers from Level 1 to Level 2,	
	2010	2009
Financial assets		
Investment securities available for sale	41	5,667

In 2010, the above financial assets were transferred from Level 2 to Level 1 as they became actively traded during the reporting year. There were no transfers from Level 2 to Level 1 in 2009.

In 2010 and 2009, 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.

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:

	At 31 December 2010	
	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets		
Derivative financial instruments	719	7
Financial assets designated as at fair value through profit or loss	2,757	(7)
Investment securities available for sale	1,120	(34)
	At 31 December 2009	
	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets		
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 millions of Russian rubles)

31. Fair value of financial instruments (continued)

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions (continued)

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows:

- ▶ In 2010 and 2009, for the shares of one of the issuers, 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.
- ▶ In 2010, for the shares of another issuer, the Group adjusted the price/gross income multiple ratio by 0.4%.

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.

	Carrying value 2010	Fair value 2010	Unrecognized gain/(loss) 2010	Carrying value 2009	Fair value 2009	Unrecognized gain/(loss) 2009
Financial assets						
Cash and cash equivalents	196,672	196,672	–	168,916	168,916	–
Amounts due from credit institutions	415,641	415,705	64	467,308	467,312	4
Loans to customers	787,926	789,467	1,541	843,538	839,394	(4,144)
Investment securities held to maturity	21,536	21,243	(293)	22,366	22,382	16
Financial liabilities						
Amounts due to credit institutions	235,027	235,051	(24)	201,137	205,538	(4,401)
Due to the Russian Government and the Bank of Russia	814,901	814,901	–	987,563	987,563	–
Amounts due to customers	290,098	291,408	(1,310)	202,223	202,262	(39)
Debt securities issued	186,947	187,524	(577)	78,896	79,452	(568)
Total unrecognized change in unrealized fair value			(599)			(9,132)

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 and assets without a specific maturity.

Fixed and floating rate financial instruments

For quoted debt instruments fair values are calculated based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(In millions of Russian rubles)

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. Transactions with the state include transactions concluded between the Group and state regulatory and governmental bodies of the Russian Federation (federal, regional and local level), the Bank of Russia, Pension Fund of the Russian Federation, state non-budgetary funds.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2010			
	State	State controlled entities	Associates	Key management personnel
Cash and cash equivalents	19,322	28,363	–	–
Precious metals	–	201	–	–
Financial assets at fair value through profit or loss	13,495	47,034	–	–
Amounts due from credit institutions at 1 January	409	340,991	971	–
Amounts placed during the year	1,384	19,261	–	–
Amounts repaid during the year	(197)	(19,383)	(971)	–
Other changes	–	(25,239)	–	–
Amounts due from credit institutions at 31 December	1,596	315,630	–	–
Less allowance for impairment	–	(24)	–	–
Amounts due from credit institutions at 31 December, net	1,596	315,606	–	–
Interest income on amounts due from credit institutions and cash equivalents	57	27,943	–	–
Investment securities available for sale	4,258	332,077	–	–
Investment securities pledged under repurchase agreements	2,277	749	–	–
Investment securities held to maturity	1,389	4,854	–	–
Interest income on trading securities	1,172	483	–	–
Interest income on investment securities	358	12,987	–	–
Loans to customers at 1 January	6,562	214,072	125,932	22
Loans granted during the year	12,902	189,792	20,642	7
Loans acquired	–	442	0	0
Loans repaid during the year	(12,224)	(257,678)	(2,041)	(8)
Write-offs	–	–	(0)	–
Other changes	(164)	1,892	2,502	(4)
Loans to customers at 31 December	7,076	148,520	147,035	17
Less allowance for impairment	(102)	(7,591)	(40,216)	(0)
Loans to customers at 31 December, net	6,974	140,929	106,819	17
Interest income on loans to customers	781	15,397	7,403	(0)
Charge of allowance for impairment for loans to customers	(21)	(1,075)	(6,265)	(0)
Due from the Russian Government	119	–	–	–
Receivable from the Russian Government under London Club Arrangement	1,123	–	–	–
Other assets	376	5,871	61	–

(In millions of Russian rubles)

32. Related party transactions (continued)

	2010			
	State	State controlled entities	Associates	Key management personnel
Correspondent Loro accounts	–	6,718	–	–
Loans and deposits received from credit institutions at 1 January	–	33,270	1,071	–
Loans and deposits received during the year	–	1,361,073	–	–
Loans and deposits repaid during the year	–	(1,349,804)	(1,069)	–
Other changes	–	(2,831)	(2)	–
Loans and deposits received from credit institutions at 31 December	–	41,708	–	–
Interest expense on amounts due to credit institutions and the Bank of Russia	(19,306)	(717)	–	–
Derivative financial liabilities	–	2,090	–	–
Due to the Russian Government and the Bank of Russia	814,901	–	–	–
Current customer accounts	327	57,778	296	49
Customer deposits at 1 January	53	8,230	4,052	647
Deposits received during the year	3,668	82,084	13,148	885
Proceeds related to changes in the Group	–	–	–	–
Deposits repaid during the year	(128)	(38,878)	(15,817)	(615)
Other changes	2	(479)	6	4
Customer deposits at 31 December	3,595	50,957	1,389	921
Interest expense on amounts due to customers and the Russian Government	(34,770)	(3,517)	(115)	(81)
Debt securities issued at 1 January	21,126	11,034	–	–
Debt securities issued during the year	–	25,342	–	–
Debt securities repaid during the year	(21,749)	(10,206)	–	–
Other changes	623	1,021	–	–
Debt securities issued at 31 December	–	27,191	–	–
Interest expense on debt securities issued	(202)	(577)	–	–
Other liabilities	740	517	–	36
Guarantees issued and undrawn loan commitments	3,644	240,007	991	8
Fee and commission income, net	749	1,605	47	–
Dividends	–	1,390	–	–
Other operating income	7	111	0	0
Other operating expenses	(172)	(292)	(152)	0

(In millions of Russian rubles)

32. Related party transactions (continued)

	2009			
	State	State controlled entities	Associates	Key management personnel
Cash and cash equivalents	20,912	25,095	1,416	–
Precious metals	–	166	–	–
Financial assets at fair value through profit or loss	16,704	20,083	–	–
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)	–
Amounts due from credit institutions at 31 December, net	409	340,986	969	–
Interest income on amounts due from credit institutions and cash equivalents	759	25,761	548	–
Investment securities available for sale	5,699	245,736	–	–
Investment securities held to maturity	122	3,401	–	–
Interest income on trading securities	1,290	415	–	–
Interest income on investment securities	173	8,812	7	–
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)
Loans to customers at 31 December, net	6,211	201,239	87,758	22
Interest income on loans to customers	527	17,985	6,108	2
Charge of allowance for impairment for loans to customers	(318)	(10,859)	(35,481)	(0)
Due from the Russian Government	207	–	–	–
Receivable from the Russian Government under London Club Arrangement	1,115	–	–	–
Other assets	484	569	31	–

(In millions of Russian rubles)

32. Related party transactions (continued)

	2009			
	State	State controlled entities	Associates	Key management personnel
Correspondent Loro accounts	–	7,890	11	–
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	–
Loans and deposits received from credit institutions at 31 December	–	33,270	1,071	–
Interest expense on amounts due to credit institutions and the Bank of Russia	(29,118)	(1,403)	(85)	–
Derivative financial liabilities	–	25	–	–
Due to the Russian Government and the Bank of Russia	987,563	–	–	–
Current customer accounts	324	60,832	1,134	33
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
Customer deposits at 31 December	53	8,230	4,052	647
Interest expense on amounts due to customers and the Russian Government	(31,894)	(3,450)	(284)	(40)
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)	–	–
Debt securities issued at 31 December	21,126	11,034	–	–
Interest expense on debt securities issued	(29)	(566)	–	–
Other liabilities	45	1,062	–	8
Guarantees issued and undrawn loan commitments	1,635	149,061	25,139	10
Fee and commission income, net	743	1,680	2	–
Dividends	–	793	–	–
Other operating income	28	37	1	0
Other operating expenses	(108)	(304)	(180)	0

Compensation to key management personnel comprises the following:

	2010	2009
Salaries and other short-term benefits	946	558
Social security costs	47	50
Total key management compensation	993	608

In addition, until the date determined by the Russian Government, the Bank is servicing the foreign debt in an agency capacity (Note 8).

(In millions of Russian rubles)

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 2010 and 2009, the Bank complied with capital adequacy ratio requirements.

At 31 December, the Bank's capital adequacy ratio calculated in accordance with the above methods was as follows:

	2010	2009
Main capital	455,653	424,614
Additional capital	62,184	64,616
Less: deductions from capital	(154,247)	(157,344)
Total capital	363,590	331,886
Risk-weighted assets	1,805,426	1,738,509
Capital adequacy ratio	20.1%	19.1%

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. Subsequent events

In January-February 2011, PSC Prominvestbank placed its Series A bonds on two Ukrainian stock exchanges as part of the registered Series A-C issue totaling UAH 1.5 billion (RUB 5,216 billion at the date of placement). Series B and C bonds were placed from February to the beginning of April 2011. Series A and C bonds mature in three years and have an annual repurchase offer. Series B bonds mature in two years.

In February 2011, the Bank placed 5-year Eurobonds for the total amount of CHF 500 million (RUB 15,824 million at the date of placement).

On 18 February 2011, in addition to 16.32% shares of OJSC NATIONAL TRADE BANK (OJSC NTB) recognized in the investment securities available for sale, CJSC GLOBEXBANK acquired 34,940,000 ordinary registered non-documentary shares to the amount of RUB 3,145 million and 960,000 privileged registered non-documentary shares of OJSC NTB to the amount of RUB 12 million (83.68% interest in total). As a result of acquisition, in February 2011, the interest of CJSC "GLOBEXBANK" in OJSC NTB amounted to 100%. The Group is evaluating the impact of this transaction on the consolidated financial statements.

In February 2011, CJSC GLOBEXBANK purchased 1,751,471 treasury exchange-traded bonds totaling RUB 1,751 million (100%) by public irrevocable offer.

(In millions of Russian rubles)

34 Subsequent events (continued)

In February 2011, the Supreme Administrative Court of Ukraine started a cassation procedure based on the claim of the Securities and Stock Market State Commission to the ruling of the Administrative Court of Appeal of Kiev dated 1 February 2011 related to the claim of Prominvestbank against the Securities and Stock Market State Commission to declare invalid and reverse the decision on cancelling the additional issue of shares placed in 2009.

In March 2011, the Bank acquired 2,000,000 ordinary registered additionally issued shares of OJSC "VEB-Leasing" to the amount of RUB 5,000 million. As a result of this purchase, the Group's interest in its subsidiary OJSC "VEB-Leasing" amounted to 98.63%. As of the reporting date, the placement of the additional issue of shares of OJSC "VEB-Leasing" was not completed.

In March 2011, the Bank placed Series 9 bonds in the amount of RUB 15,000 million on the Moscow Interbank Currency Exchange. The bonds mature in 10 years and are subject to 5-year offer.

In March 2011, the report on issue of shares of the North Caucasus Development Corporation was officially registered. The founder of the Corporation was Vnesheconombank. The Bank contributed RUB 500 million to the charter capital of the subsidiary (100% shares). Among the principal activities of the incorporated subsidiary are supporting investment projects implemented in the North Caucasus and advising regional authorities.

In April 2011, the Bank additionally contributed RUB 300 million in the charter capital of its subsidiary LLC VEB Capital.

In April 2011, the Bank redeemed non-convertible interest-bearing documentary bearer bonds, Series 02, in the amount of USD 1,000 million (RUB 27,896 million at the date of redemption) in accordance with the terms of issue.

In April 2011, the Bank entered into an agreement with a number of major foreign credit institutions for the arrangement of a syndicated loan facility in the amount of USD 2,450 million (RUB 67,900 million at the date of signing the agreement). The loan facility bears a variable interest rate and matures in 3 years.

In April 2011, the issue of Series 3, 4 and 5 bonds of OJSC "VEB-Leasing" totaling RUB 15,000 million was registered. The bonds mature in 10 years. All the bonds may be redeemed in full:

- Series 3 – in 3 years after the date of placement;
- Series 4 and 5 – in 5 years after the date of placement.

**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>	2009	2008
Assets			
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
Total assets		1,939,214	1,644,741
Liabilities			
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
Total liabilities		1,483,978	1,429,445
Equity	25		
Charter capital		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
Equity		453,002	213,725
Minority interest		2,234	1,571
Total equity		455,236	215,296
Total equity and liabilities		1,939,214	1,644,741

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
Interest income			
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
		136,688	41,730
Trading securities		2,106	1,678
		138,794	43,408
Interest expenses			
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)
		(86,858)	(21,058)
Net interest income		51,936	22,350
Provision for impairment of interest-earning assets	11, 13	(114,837)	(8,601)
Net interest income after provision for impairment of interest-earning assets		(62,901)	13,749
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
Non-interest income / (expenses)		125,466	(40,087)
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)
Non-interest expenses		(23,833)	(53,984)
Income /(loss) before income tax		38,732	(80,322)
Income tax expense	19	(417)	(947)
Net income / (loss) for the year		38,315	(81,269)
Attributable to:			
- Equity holder of the parent		41,443	(81,777)
- Minority interest		(3,128)	508
		38,315	(81,269)

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)*

	Notes	2009	2008
Net income / (loss) for the year		38,315	(81,269)
Other comprehensive income			
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
Currency translation differences		(464)	765
Other comprehensive income / (expense) for the year, net of tax		78,115	(776)
Total comprehensive income / (expense) for the year		116,430	(82,045)
Attributable to:			
- Equity holder of the parent		119,755	(82,604)
- Minority interest		(3,325)	559
		116,430	(82,045)

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			
31 December 2007	186,390	38,616	(3,100)	144	222,050	657	222,707
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)
31 December 2008	261,489	(43,981)	(4,639)	856	213,725	1,571	215,296
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
31 December 2009	382,489	(3,809)	73,940	382	453,002	2,234	455,236

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
Cash flows from operating activities			
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)
Cash flows from operating activities before changes in operating assets and liabilities		51,114	19,037
<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
Net cash from/ (used in) operating activities		(148,377)	50,384

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)

	Notes	2009	2008
Cash flows from investing activities			
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
Net cash from /(used in) investing activities		(135,584)	(417,692)
Cash flows from financing activities			
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)
Net cash from /(used in) financing activities		171,204	491,334
Cash and cash equivalents reclassified to assets held for sale	14	—	12
Net increase / (decrease) in cash and cash equivalents		(112,757)	124,038
Cash and cash equivalents, beginning		281,673	157,635
Cash and cash equivalents, ending	9	168,916	281,673
Supplemental information:			
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.

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.

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.

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.

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.

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.

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.

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)
Before adjustments and reclassifications	497,583	30,957	263,548	9,346
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
International Financial Reporting Standards	455,236	38,315	215,296	(81,269)

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)

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.

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.

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.

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.

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.

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.

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:

	<i><u>Years</u></i>
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.

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.

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.

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.

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.

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.

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:

	Fair value recognized on acquisition 2009	Carrying value 2009
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
	103,583	103,487
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
	87,943	87,919
Net assets	15,640	15,568
Less : minority interests	(3,910)	
Net assets acquired	11,730	
Less: excess of net assets over the cost of acquisition	(4,826)	
Cost of acquisition	6,904	
Cash outflow on acquisition of the subsidiary:		
Net cash acquired with the subsidiary		6,442
Less: cash consideration transferred in 2009		(1,998)
Net cash inflow		4,444

From the date of acquisition of Prominvestbank, the Group's profit has been reduced by RUB 12,250 million.

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
	55,208	54,665
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
	35,998	35,889
Net assets	19,210	18,776
Less : minority interests	(204)	
Net assets acquired	19,006	
Less: excess of net assets over the cost of acquisition	(19,006)	
Cost of acquisition	0	
Cash outflow on acquisition of the subsidiary:		
Net cash acquired with the subsidiary		31,635
Less: cash paid on acquisition		(0)
Net cash inflow		31,635

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.

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
Income								
External clients								
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
Total external income	189,996	26,653	18,710	3,781	2,961	242,101	–	242,101
Intersegment income								
Interest income	4,579	24	–	–	–	4,603	(4,603)	–
Other intersegment income less expenses	491	44	–	11	–	546	(546)	–
Total intersegment income	5,070	68	–	11	–	5,149	(5,149)	–
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
Total income	195,066	26,721	18,710	3,792	2,961	247,250	18,683	265,933
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)
Total external expense	(97,653)	(95,258)	(29,479)	(2,964)	(1,847)	(227,201)	–	(227,201)
Intersegment expenses								
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	–
Total intersegment expenses	(1,060)	(2,321)	(2,073)	(100)	(480)	(6,034)	6,034	–
Total expenses	(98,713)	(97,579)	(31,552)	(3,064)	(2,327)	(233,235)	6,034	(227,201)
Segment results	96,353	(70,858)	(12,842)	728	634	14,015	24,717	38,732
Income tax expense/ (benefit)	(145)	(192)	346	(267)	(159)	(417)	–	(417)
Profit for the year	96,208	(71,050)	(12,496)	461	475	13,598	24,717	38,315
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
Other segment information								
Capital expenditure	1,064	430	504	360	17	2,375	–	2,375
Investments in associates	5,436	–	–	26	–	5,462	–	5,462

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
Income								
External clients								
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
Total external income	1,972	(2,063)	—	2,479	1,606	3,994	—	3,994
Intersegment income								
Interest income	2,350	—	—	—	—	2,350	(2,350)	—
Other intersegment income less expenses	10	—	—	—	—	10	(10)	—
Total intersegment income	2,360	—	—	—	—	2,360	(2,360)	—
Total income	4,332	(2,063)	—	2,479	1,606	6,354	(2,360)	3,994
Expenses								
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)
Total external expense	(35,988)	(3,437)	—	(2,122)	(928)	(42,475)	—	(42,475)
Intersegment expenses								
Interest expenses	—	2,305	—	79	40	2,424	(2,424)	—
Other intersegment expenses	124	—	—	4	6	134	(134)	—
Total intersegment expenses	124	2,305	—	83	46	2,558	(2,558)	—
Impairment of goodwill	—	—	—	—	—	—	(41,841)	(41,841)
Total expenses	(35,864)	(1,132)	—	(2,039)	(882)	(39,917)	(44,399)	(84,316)
Segment results	(31,532)	(3,195)	—	440	724	(33,563)	(46,759)	(80,322)
Income tax expense/ (benefit)	(690)	4	—	(121)	(140)	(947)	—	(947)
Profit for the year	(32,222)	(3,191)	—	319	584	(34,510)	(46,759)	(81,269)
Other segment information								
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
Other segment information								
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.

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:

	2009	2008
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
Due to the Russian Government, its institutions and the Bank of Russia	987,563	913,889

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.

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.

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:

	2009	2008
IAN	1,012	983
PRIN	16	16
Interest accrued on the PRINs and IANs, including overdue and default interest	87	84
Due to the London Club	1,115	1,083

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.

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:

	2009	2008
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
Cash and cash equivalents	168,916	281,673

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:

	2009	2008
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	1,747	1,063
Financial assets at fair value through profit or loss	51,507	55,533

10. Financial assets at fair value through profit or loss (continued)

Trading securities owned by the Group comprise:

	2009	2008
Debt securities:		
Russian corporate bonds and bonds of regional and municipal authorities	11,228	1,453
Federal Loan Bonds (OFZ)	640	783
	11,868	2,236
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
	28,481	24,159
Promissory notes	140	–
	28,621	24,159
Equity securities:		
Russian corporate shares	15,638	17,478
American and Global Depositary Receipts	2,044	911
Shares of Russian credit institutions	1,243	5,508
	47,546	48,056
Trading securities		

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

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:

	Held-for-trading financial assets were reclassified to	
	Available-for-sale financial assets	Held-to-maturity financial assets
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.

11. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2009	2008
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
	468,841	311,643
Less allowance for impairment	(1,533)	(133)
Amounts due from credit institutions	467,308	311,510

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%).

11. Amounts due from credit institutions (continued)

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	2009	2008
1 January	133	128
Charge	1,400	16
Write-offs	–	(11)
31 December	1,533	133

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.

	2009			2008		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
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
Securities forward contracts						
Russian Eurobonds	865	1	0	6,173	–	187
Units	684	276	–	–	–	–
Shares	–	–	–	39	95	–
Interest rate swaps						
Foreign contracts	23,494	479	1,436	16,661	2	1,753
Domestic contracts	1,800	102	71	–	–	–
Cross-currency interest rate swap	739	–	180	739	–	382
Total derivative assets/ liabilities		2,214	2,599		2,970	13,451

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.

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:

	2009	2008
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
Gross loans to customers	964,699	737,486
Less allowance for impairment	(121,161)	(11,846)
Loans to customers	843,538	725,640

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:

	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
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)
31 December 2009	62,054	54,347	1,847	669	183	501	1,560	121,161
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
	62,054	54,347	1,847	669	183	501	1,560	121,161
Individually impaired loans before impairment allowance	145,257	80,809	3,135	1,150	48	976	2,687	234,062

At 31 December 2009, no allowance was made for back-to-back finance.

13. Loans to customers (continued)

	Project finance 2008	Commercial loans 2008	Pre-export finance 2008	Promissory notes 2008	Other 2008	Total 2008
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)
31 December 2008	7,705	3,397	620	118	6	11,846
Individual impairment	3,861	2,420	66	40	—	6,387
Collective impairment	3,844	977	554	78	6	5,459
	7,705	3,397	620	118	6	11,846
Individually impaired loans before impairment allowance	8,606	6,978	1,465	40	—	17,089

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:

	2009	2008
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
	964,699	737,486

Loans are made principally in the following industry sectors:

	2009	%	2008	%
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
	964,699	100	737,486	100

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)
Net investment in finance leases	2,850	8,001	2,223	13,074

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)
Net investment in finance leases	1,499	4,219	1,670	7,388

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:

	2009	2008
Debt securities		
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
	172,292	75,504
Equity securities		
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
	160,561	153,105
Less: Allowance for impairment (Note 20)	(114)	(2)
	160,447	153,103
Securities pledged under repurchase agreements		
Russian corporate bonds and bonds of regional and municipal authorities	951	–
Shares of foreign companies	12,377	–
	13,328	–
Available-for-sale securities	346,067	228,607

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:

	2009	2008
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
	22,643	11,847
Less: Allowance for impairment (Note 20)	(277)	(95)
Held-to-maturity securities	22,366	11,752

Nominal interest rates and maturities of these debt securities are as follows:

	2009		2008	
	%	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

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 "CentrEnergostroyMontazh"	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 "CentrEnergostroyMontazh"	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:

	2009	2008
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)	–
	5,500	5,747
Less: Allowance for impairment (Note 20)	(38)	(39)
Investments in associates, end of the period	5,462	5,708

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:

Aggregated assets and liabilities of associates	2009	2008
Assets	178,529	146,699
Liabilities	161,886	129,170
Net assets	16,643	17,529
Aggregated revenue and loss of associates	2009	2008
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
Cost							
31 December 2008	4,869	1,670	1,447	560	327	2,658	11,531
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)	–
31 December 2009	16,236	1,898	2,439	682	499	3,938	25,692
Accumulated depreciation and impairment							
31 December 2008	1,747	558	875	302	23	–	3,505
Depreciation charge	367	272	539	165	78	–	1,421
Disposals	(14)	(99)	(81)	(116)	(134)	–	(444)
Impairment	690	–	–	–	114	2	806
31 December 2009	2,790	731	1,333	351	81	2	5,288
Net book value:							
31 December 2008	3,122	1,112	572	258	304	2,658	8,026
31 December 2009	13,446	1,167	1,106	331	418	3,936	20,404

18. Property and equipment (continued)

	Land and buildings	Furniture and office supplies	Computers and office equipment	Motor vehicles	Leasehold improvements	Assets under construction and warehoused property and equipment	Total
Cost							
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	215	731	334	161	324	164	1,929
Disposals	(4)	(65)	(79)	(172)	(9)	–	(329)
31 December 2008	4,869	1,670	1,447	560	327	2,658	11,531
Accumulated depreciation and impairment							
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)
31 December 2008	1,747	558	875	302	23	–	3,505
Net book value:							
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 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:

	2009	2008
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
Income tax expense	417	947

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:

	2009	2008
Current income tax assets	776	1,494
Deferred income tax assets	80	79
Income tax assets	856	1,573
Current income tax liabilities	13	22
Deferred income tax liabilities	1,935	260
Income tax liabilities	1,948	282

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:

	2009	2008
Income/(loss) before tax	38,732	(80,322)
Statutory tax rate	20%	24%
Theoretical income tax expense/(benefit) at the statutory rate	7,746	(19,277)
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
Income tax expense	417	947

(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	Origination and reversal of temporary differences		Effect of business combination	2008	Origination and reversal of temporary differences		Effect of business combination (Note 5)	Currency translation effect	2009
		In the statement of income	In other comprehensive income			In the statement of income	In other comprehensive income			
Tax effect of deductible temporary differences:										
Allowance for loan impairment	71	442	—	(271)	242	180	—	81	(17)	486
Change in fair value of securities	15	1,126	62	296	1,499	(1,437)	(18)	54	—	98
Tax losses carried forward	5	520	—	851	1,376	3,472	—	—	—	4,848
Accrued income and expense	6	9	—	—	15	(3)	—	—	—	12
Derivative financial instruments	52	(48)	—	—	4	8	—	—	(1)	11
Property and equipment	6	63	—	—	69	29	—	10	(16)	92
Other	50	7	—	11	68	(1,037)	19	2,574	39	1,663
	205	2,119	62	887	3,273	1,212	1	2,719	5	7,210
Unrecognized deferred tax assets	(70)	(1,668)	(16)	(793)	(2,547)	(3,043)	16	—	11	(5,563)
	135	451	46	94	726	(1,831)	17	2,719	16	1,647
Tax effects of taxable temporary differences:										
Securities	(8)	—	—	—	(8)	(294)	(60)	213	7	(142)
Loans to customers	—	(416)	—	(12)	(428)	(78)	—	—	—	(506)
Allowances for losses	(2)	(4)	—	—	(6)	(110)	—	(261)	11	(366)
Customers' accounts	—	(47)	—	(23)	(70)	70	—	—	—	—
Accrued income and expense	(47)	(13)	—	—	(60)	(33)	—	—	14	(79)
Derivative financial instruments	—	—	—	—	—	(110)	—	(60)	—	(170)
Property and equipment	(37)	(81)	—	(93)	(211)	375	—	(2,175)	32	(1,979)
Other	—	(50)	—	(74)	(124)	2,288	—	(2,360)	(64)	(260)
	(94)	(611)	—	(202)	(907)	2,108	(60)	(4,643)	—	(3,502)
Gross deferred tax asset	43	(10)	46	—	79	42	(37)	—	(4)	80
Deferred tax liability	(2)	(150)	—	(108)	(260)	235	(6)	(1,924)	20	(1,935)

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					
31 December 2007	8	–	42	8	18	13	89
Charge (reversal)	(4)	95		586	–	1,318	1,995
Amounts arising on business combination	–	–	–	–	–	31	31
Write-off	(2)	–	(3)	(2)	(18)	–	(25)
31 December 2008	2	95	39	592	–	1,362	2,090
Charge	112	182	–	335	184	514	1,327
Amounts arising on business combination (Note 5)	–	–	–	–	–	564	564
Write-off	–	–	(1)	–	(157)	–	(158)
31 December 2009	114	277	38	927	27	2,440	3,823

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
	12,146	12,529
Less allowance for impairment of other assets (Note 20)	(927)	(592)
Other assets	11,219	11,937

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.

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:

	2009	2008
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
Other liabilities	6,030	6,352

22. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2009	2008
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
Amounts due to credit institutions	201,137	373,460

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.

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:

	2009	2008
Customer current accounts	101,384	76,929
Term deposits	92,772	34,158
Repurchase agreements	8,067	254
Amounts due to customers	202,223	111,341
Held as security against guarantees	1,682	556
Held as security against letters of credit	778	1,678

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:

	2009	2008
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
	81,973	74,855

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.

23. Amounts due to customers (continued)

Amounts due to customers include accounts of the following types of customers:

	2009	2008
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
Amounts due to customers	202,223	111,341

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:

	2009	2008
Bonds	60,425	2,023
Promissory notes	18,429	6,185
Certificates of deposit and saving certificates	42	17
Debt securities issued	78,896	8,225
Promissory notes held as security against guarantees	1,401	1,042

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.

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:

	2009	2008
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
Net gains / (losses) on investment securities available for sale	78,622	(1,587)

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.

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.

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:

	2009	2008
Credit related commitments		
Undrawn loan commitments	231,321	156,733
Guarantees	131,577	61,741
Letters of credit	33,285	2,266
	396,183	220,740
Operating lease commitments		
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
	4,205	1,989
Capital expenditure commitments	6,951	289
	407,339	223,018
Less provisions	(2,440)	(1,362)
Commitments and contingencies (before deducting collateral)	404,899	221,656
Less Group's cash and promissory notes held as security against guarantees	(3,083)	(1,598)
Commitments and contingencies	401,816	220,058

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:

	2009	2008
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
Fee and commission income	8,862	2,298
Fee and commission expense	(1,673)	(673)
Net fee and commission income	7,189	1,625

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:

	2009	2008
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)
Total gains less losses from investment securities available for sale	42,940	(21,194)

29. Other operating expenses

Other operating expenses comprise:

	2009	2008
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
Other operating expenses	6,006	3,806

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.

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.

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.

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.

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.

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.

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
		1,701,854	1,430,967
Financial commitments and contingencies	26	393,743	219,378
Total credit risk exposure		2,095,597	1,650,345

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.

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.

		Not past due					
		Not impaired					
	Notes	High grade 2009	Standard grade 2009	Sub-standard grade 2009	Individually impaired 2009	Past due 2009	Total 2009
Amounts due from credit institutions							
	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
		454,480	12,178	142	2,017	24	468,841
Loans to customers							
	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
		402,068	241,046	72,402	164,385	84,798	964,699
Debt investment securities							
	15						
Available-for-sale		153,052	20,185	—	—	6	173,243
Held-to-maturity		21,223	1,143	82	—	195	22,643
		174,275	21,328	82	—	201	195,886
Total		1,030,823	274,552	72,626	166,402	85,023	1,629,426

30. Risk management (continued)

Credit risk (continued)

	Notes	Not past due					Total 2008
		Not impaired			Individually impaired 2008	Past due 2008	
		High grade 2008	Standard grade 2008	Sub-standard grade 2008			
Amounts due from credit institutions	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
		309,273	2,222	100	—	48	311,643
Loans to customers	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
		373,923	319,981	26,478	13,425	3,679	737,486
Debt investment securities	15						
Available-for-sale		58,322	17,182	—	—	—	75,504
Held-to-maturity		10,171	1,486	190	—	—	11,847
		68,493	18,668	190	—	—	87,351
Total		751,689	340,871	26,768	13,425	3,727	1,136,480

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
Total	548	237	14,336	15,121

(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
Total	–	8	8	16

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	–
Total	51,167	67,561

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.

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.

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
Monetary assets:						
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
	453,981	155,774	308,122	850,138	146,236	1,914,251
Monetary liabilities:						
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
	221,915	194,024	488,757	572,847	1,090	1,478,633
Net position	232,066	(38,250)	(180,635)	277,291	145,146	435,618
Accumulated gap	232,066	193,816	13,181	290,472	435,618	

(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
Monetary assets:						
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
	447,544	132,115	329,948	563,879	160,443	1,633,929
Monetary liabilities:						
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
	325,946	58,230	480,231	560,469	2,124	1,427,000
Net position	121,598	73,885	(150,283)	3,410	158,319	206,929
Accumulated gap	121,598	195,483	45,200	48,610	206,929	

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.

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.

Financial liabilities At 31 December 2009	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
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
Total undiscounted financial liabilities	273,660	651,885	291,487	633,017	1,850,049

Financial liabilities At 31 December 2008	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
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
Total undiscounted financial liabilities	347,630	600,970	400,843	327,706	1,677,149

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.

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	393,743
2008	52,528	87,306	68,587	10,957	219,378

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;

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.

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
3-m Libor USD	-0.25%	93	—
3-m Libor EUR	-0.25%	44	(1)
RGBEY	-5.00%	1,631	2,051
3-m Mosprime	-3.00%	226	—
3-m Ukrainian interbank	-5.00%	9	—
3-m Libor JPY	-0.25%	(2)	—
3-m Libor CHF	-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
3-m Libor USD	0.29%	(14)	—
3-m Libor EUR	0.20%	(19)	—
RGBEY	4.42%	(415)	(92)
3-m Mosprime	9.55%	(1,622)	—
3-m Libor GBP	0.35%	(0)	—
3-m Libor JPY	0.28%	1	—
3-m Libor CHF	0.16%	0	—
3-m Libor AUD	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
3-m Libor USD	-0.29%	14	—
3-m Libor EUR	-0.20%	19	—
RGBEY	-4.42%	415	92
3-m Mosprime	-9.55%	1,622	—
3-m Libor GBP	-0.35%	0	—
3-m Libor JPY	-0.28%	(1)	—
3-m Libor CHF	-0.16%	(0)	—
3-m Libor AUD	-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)	—

30. Risk management (continued)

Market risk (continued)

Below are VaR measures for the bond portfolio of the Bank at 31 December 2009 and 2008:

	2009	2008
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).

	2009	2008
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:

	2009	2008
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.

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% -24.46%	884 (884)	—	—
USD	9.61% -9.61%	(493) 493	5.35% - 5.35%	(137) 137
EUR	9.12% -9.12%	(2) 2	6.27% - 6.27%	(2) 2
JPY	14.96% -14.96%	24 (24)	11.43% - 11.43%	(11) 11
BYR	12.89% -12.89%	(52) 52	5.61% - 5.61%	(8) 8
SEK	12.62% -12.62%	1 (1)	9.25% -9.25%	3 (3)
GBP	18.44% -18.44%	4 (4)	—	—
CHF	13.77% -13.77%	1 (1)	—	—
CAD	11.87% -11.87%	1 (1)	—	—
AUD	15.93% -15.93%	1 (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.

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.

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
Financial assets				
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
	374,466	20,679	2,429	397,574
Financial liabilities				
Derivative financial instruments	2	2,597	–	2,599
	2	2,597	–	2,599

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:

	At 1 January 2009	Gains/ (losses) recorded in profit or loss	Gains/ (losses) recorded in other comprehensive income	Purchases	At 31 December 2009
Financial assets					
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
Total Level 3	1,063	114	(266)	1,518	2,429

Gains or losses on Level 3 financial instruments included in profit or loss for the reporting period, were RUB 114 million of unrealized gains.

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:

	Transfers from Level 1 to Level 2 2009
Financial assets	
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:

	At 31 December 2009	
	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets		
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.

	Carrying value 2009	Fair value 2009	Unrecognized gain/ (loss) 2009	Carrying value 2008	Fair value 2008	Unrecognized gain/ (loss) 2008
Financial assets						
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)
Financial liabilities						
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	–
Total unrecognized change in unrealized fair value			(9,132)			(6,855)

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
Cash and cash equivalents	20,912	25,095	1,416	–
Precious metals	–	166	–	–
Financial assets at fair value through profit or loss	16,704	20,083	–	–
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)	–
Amounts due from credit institutions at 31 December, net	409	340,986	969	–
Interest income on amounts due from credit institutions and cash equivalents	759	25,761	548	–
Investment securities available for sale	5,699	245,736	–	–
Investment securities held to maturity	122	3,401	–	–
Interest income on trading securities	1,290	415	–	–
Interest income on investment securities	173	8,812	7	–

(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)
Loans to customers at 31 December, net	6,211	201,239	87,758	22
Interest income on loans to customers	527	17,985	6,108	2
Charge of allowance for impairment of loans to customers	(318)	(10,859)	(35,481)	(0)
Due from the Russian Government	207	—	—	—
Receivable from the Russian Government under London Club Arrangement	1,115	—	—	—
Other assets	484	569	31	—
Correspondent Loro accounts	—	7,890	11	—
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	—
Loans and deposits received from credit institutions at 31 December	—	33,270	1,071	—
Interest expense on amounts due to credit institutions and the Bank of Russia	(24,386)	(1,403)	(85)	—
Derivative financial liabilities	—	25	—	—
Due to the Russian Government and the Bank of Russia	987,563	—	—	—
Due to London Club creditors	1,115	—	—	—
Current customer accounts	324	60,832	1,134	33
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
Customer deposits at 31 December	53	8,230	4,052	647
Interest expense on amounts due to customers and the Russian Government	(31,894)	(3,450)	(284)	(40)
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)	—	—
Debt securities issued at 31 December	21,126	11,034	—	—
Interest expense on debt securities issued	(29)	(566)	—	—
Other liabilities	45	1,062	—	8
Guarantees issued and undrawn loan commitments	1,635	149,061	25,139	10
Fee and commission income, net	743	1,680	2	—
Dividends	—	793	—	—
Other operating income	28	37	1	0
Other operating expenses	(108)	(304)	(180)	0

32. Related party transactions (continued)

	2008			
	State	State controlled entities	Associates	Key management personnel
Cash and cash equivalents	57,396	7,626	3,067	–
Precious metals	1,140	–	–	–
Financial assets at fair value through profit or loss	19,936	24,055	–	–
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)	–
Amounts due from credit institutions at 31 December, net	13	269,312	2,579	–
Interest income on amounts due from credit institutions and cash equivalents	130	7,006	357	–
Investment securities available for sale	2,307	136,531	2,250	–
Interest income on trading securities	1,089	153	–	–
Interest income on investment securities	208	2,115	–	–
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
Loans to customers at 31 December, net	–	219,347	87,206	22
Interest income on loans	1	9,435	205	2
Charge (reversal) of allowance for impairment of loans to customers	9	(902)	(1,879)	0
Due from the Russian Government	194	–	–	–
Receivable from the Russian Government under London Club Arrangement	1,083	–	–	–
Other assets	69	310	2	–
Correspondent Loro accounts	0	74,313	249	–
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	–
Loans and deposits received from credit institutions at 31 December	–	9,452	1	–

32. Related party transactions (continued)

	2008			
	State	State controlled entities	Associates	Key management personnel
Interest expense on amounts due to credit institutions and the Bank of Russia	(3,164)	(594)	(0)	–
Derivative financial liabilities	–	1,258	–	–
Due to the Russian Government and the Bank of Russia	913,889	–	–	–
Due to London Club creditors	1,083	–	–	–
Current customer accounts	43	55,147	53	14
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
Customer deposits at 31 December	119	5,654	700	49
Interest expense on amounts due to customers	(6)	(1,603)	(38)	(14)
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	–	–
Debt securities issued at 31 December	–	3,187	–	–
Interest expense on debt securities issued	–	(78)	–	–
Other liabilities	–	724	–	–
Guarantees issued and undrawn loan commitments	19	95,405	3,977	3
Fee and commission income / (expense), net	11	1,217	(3)	–
Dividends	–	102	36	–
Other operating income	14	44	1	–
Other operating expenses	(1)	(9)	(6)	–

Compensation to key management personnel comprises the following:

	2009	2008
Salaries and other short-term benefits	579	318
Social security costs	27	20
Total key management compensation	606	338

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.

33. Capital adequacy (continued)

At 31 December, the Bank's capital adequacy ratio calculated in accordance with the above methods was as follows:

	2009	2008
Main capital	424,614	294,265
Additional capital	64,616	22
Less: deductions from capital	(157,344)	(49,936)
Total capital	331,886	244,351
Risk-weighted assets	1,738,509	1,666,992
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 365th day after the first day of placement. The total of 1,000,000 bonds were placed.

ISSUER
VEB Finance plc
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

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

Crédit Agricole Corporate and Investment Bank
Broadwalk House
5 Appold Street
London EC2A 2DA
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ
United Kingdom

Morgan Stanley & Co. International plc
20 Bank Street
Canary Wharf
London E14 4AD
United Kingdom

Société Générale
29 Boulevard Haussmann
75009 Paris
France

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR
United Kingdom

LEGAL ADVISERS TO VEB

As to U.S. and English law

Dewey & LeBoeuf LLP
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**
One 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 Mellon 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 Eugène Ruppert
L-2453 Luxembourg

LISTING AGENT

**Arthur Cox Listing Services
Limited**
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

AUDITORS TO VEB

Ernst & Young LLC
Sadovnicheskaya Nab. 77, bld. 1
Moscow 115035
Russian Federation