



VNESHECONOMBANK

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

ANNUAL REPORT

2010

Bank for  
Development



VNESHECONOMBANK

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

2010

Annual Report 2010



## Dialogues on Development

### ON THE REPORT

There's a great deal of talk about economy. It is easy to talk of it from a future-focused perspective: long-term prospects, potential and new opportunities. We are inclined to view development from a present-day perspective and see what has actually been done and still needs to be done now to take our economy forward. That's why dialogues on development presented in the Bank's Annual Report 2010 are summarizing projects actually delivered and featuring people acting here and now.

# CONTENTS

|  |    |   |     |
|--|----|---|-----|
| Chairman's Statement .....   | 6  | Ensuring repayment of debt owed to the Russian Federation by legal entities,<br>constituent entities of the Russian Federation and municipalities ..... | 67  |
| Vnesheconombank's Supervisory Board .....  | 10 | Extension and execution of state guarantees of the Russian Federation .....   | 68  |
| Vnesheconombank's Board .....  | 11 | <b>5 State Trust Management Company</b> .....   | 72  |
| <b>Vnesheconombank's Overview</b> .....  | 12 | <b>6 Corporate Governance</b> .....   | 75  |
| <b>1 Bank for Development as an Active Participant in the Process<br/>of the Russian Economy Modernization and Development</b> ..... | 22 | Governing bodies .....  | 75  |
| 1.1 Investment Projects Delivered with Participation of Vnesheconombank<br>as Bank for Development .....                             | 25 | Risk management system .....  | 76  |
| 1.2 Support for Investments .....  | 35 | Internal control system .....   | 79  |
| 1.3 Support for Russian Exports .....  | 45 | The Bank's organizational structure and HR .....  | 80  |
| 1.4 Financial Rehabilitation of Institutions Strategically Important<br>for the Russian Economy .....                                | 48 | Information policy .....  | 81  |
| 1.5 Support for Small- and Medium-sized Enterprises .....  | 48 | Information technology activities .....   | 82  |
| 1.6 Borrowing in Capital Markets .....   | 53 | <b>7 Participation in the Activities of Non-Commercial Organizations</b> .....  | 84  |
| <b>2 FX and Interbank Money Market Operations, Managing<br/>the Bank's Securities Portfolio</b> .....                                | 59 | <b>8 Participation in External Collegiate Bodies</b> .....  | 87  |
| 2.1 FX and Interbank Money Market .....  | 59 | <b>9 Charitable Activities and Sponsorship</b> .....  | 92  |
| 2.2 Managing Securities Portfolio .....  | 60 | <b>10 Accounting and Reporting</b> .....  | 97  |
| <b>3 Depository Activities</b> .....   | 63 | Independent Auditor's Report .....  | 98  |
| <b>4 Agent for the Government of the Russian Federation</b> .....  | 65 | Consolidated Statement of Financial Position .....  | 100 |
| Servicing the sovereign foreign debt of the Russian Federation .....   | 66 | Consolidated Statement of Income .....  | 102 |
| Managing state external financial assets of the Russian Federation .....   | 67 | Consolidated Statement of Comprehensive Income .....  | 104 |
|  |    | Consolidated Statement of Changes in Equity .....   | 105 |
|  |    | Consolidated Statement of Cash Flows .....  | 106 |
|  |    | Notes to 2010 Consolidated Financial Statements .....   | 108 |
|  |    | Representative offices .....  | 237 |

## Chairman's Statement



*Honorable colleagues and partners!*

For Vnesheconombank, an aspiration to excel in performing its priority function of a national development institution was a distinctive feature of 2010. We have mainly completed to implement the Russian Government crisis management program. The major challenge was successfully met and we managed to prevent the destruction of the system-forming elements of the industry and the banking sector, secure the stability and sustainability of the Russian economy. The banks that we were seeking to rehabilitate started to generate profit and showed increased capitalization. Currently, the Bank is focused on addressing the core challenges of Russia's comprehensive socio-economic development.

In 2010, in pursuit of the goals, the Bank raised in the capital markets RUB 189.1 billion worth of funds that is a 2.4-time rise on 2009. To illustrate, we were the first Russian financial institution to place USD 1 billion of 15-year Eurobonds in the Western markets. The successful Eurobond placement once again demonstrated foreign investors' trust in Russia's long-term eco-

conomic potential, with the borrowings primarily used to remove infrastructure constraints in the economy, ensure its diversification and modernization.

Special energies are devoted to accomplishing the task. To be more specific, in 2010, Vnesheconombank commenced financing 27 new major investment projects. These are mainly projects of substantial social importance, which target to secure complex development of Russia's territory and eventually aim to enhance the quality of life for the Russian citizens. I would like to emphasize that Vnesheconombank has been working in key business lines investing in projects in transport, public utilities, and energy infrastructure, innovation and in developing regions that are strategically important for the country, namely, the North Caucasian and Far Eastern federal districts. Vnesheconombank is funding the construction of terminals in Ust-Luga and Vanino, public utilities systems in Rostov-on-Don and the Krasnodar territory. The Bank also actively engages in modernizing Koltsovo airport. After the pharmaceutical industry was added to the list of the country's priority sectors in 2009, Vnesheconombank in 2010 started financing the project for construction of a plant for the production of antibiotics and anti-cancer medications in Terbuny SEZ, the Lipetsk region. Financing a large-scale construction of the Boguchansk hydroelectric power plant on Angara is under way. In 2010, the loan portfolio of the Bank for Development witnessed a 24% increase, while the average GDP growth in Russia just exceeded 4%. Equally important is that the share of "investment" projects in the portfolio demonstrated a 33% rise. I believe we can actually be proud that we, as a development institution, were moving at

a swift pace, steering the Russian economy towards more active growth.

Realizing the responsibility towards the state and society for sustainability and the quality of economic growth, Vnesheconombank in 2010 was committed to fostering innovation mechanisms. Support for fresh ideas that can deliver economy innovation, give it a new source of growth alternative to commodity-led growth was an overriding priority. In 2010, Vnesheconombank initiated the signing of a multilateral agreement between state corporations and companies that champion and pioneer innovation. This agreement, unique in ideology and exceptional in delivery mechanisms, will secure support and financing for innovation-oriented industries at all the stages of the lifecycle — ranging from production of industrial samples, i.e. material realization of know-how, to Russian industrial exports to foreign markets.

Immense experience and expertise potential enable the Bank to identify effective solutions for complex tasks. In 2010, Vnesheconombank, acting on the instruction of the Government, was actively working in the North Caucasian Federal District (NCFD); the Bank opened its representative office there; the North Caucasus Development Corporation was established. Vnesheconombank became a co-founder of the "North Caucasus Resorts" company. Such an all-encompassing approach, multi-channel investment in the challenging region have already started to bear fruit. Now the construction of roads, plants, agricultural complexes and health resorts in Kabardino-Balkaria, Karachaevo-Cherkesia, Chechnya, Dagestan and other Russian Federation constituent entities is in progress. Obviously, Vnesheconom-

bank's impeccable reputation helped get things moving in the right direction and attract foreign investment to the North Caucasus. By way of example, Caisse des Depots, a French bank, expressed its readiness to come and start operating in the North Caucasus.

It is common knowledge that the current state of SMEs is an indicator of economic development. Recognizing that Vnesheconombank places increased emphasis on SME support. The main results of the SME support program implemented through Vnesheconombank's subsidiary "Russian Bank for SME Support" (the "Russian Development Bank" known as "RDB" till mid 2011) are impressive. The total amount of contractual commitments under the loan agreements concluded reached RUB 95.3 billion. Apart from this, the partners of RDB undertook commitments to extend to SMEs an additional amount of funds totalling RUB 25.5 billion. Modernizing SME productive capacities, stimulating their innovative activities through reduced interest rates was of special importance.

To deliver modernization and increased efficiency goals, which was the key slogan of 2010, Vnesheconombank started with its further evolution. To be more particular, we embarked on implementing 2 critically important internal corporate projects. First, key performance indicators (KPIs) enabling us to more fairly assess employee performance, as well as see to what extent the Bank's current activities correspond with the strategic goals set by the state, were developed and are being put in place. Second, over 2010, new corporate social responsibility (CSR) standards were introduced. For us, CSR does not only mean raising environmental consciousness, pri-

ority for ecology-friendly projects, support for culture and sports, but it primarily implies the need to foster public-private partnership (PPP) principles in Russia and encourage investment in socially responsible projects and development of "green" technologies. Integrating CSR principles in its activities, Vnesheconombank as a bank for development is seeking to achieve efficiency gains to accomplish the strategic tasks and facilitate Russia's rapid socio-economic development in compliance with the best global standards of business conduct.

I am happy to note that the efforts to improve our business practices were appropriately recognized. It only makes me proud to say, summarizing the outcomes of 2010, that the Bank won a number of major international sectoral awards. Vnesheconombank won the Best Deal 2010 Award. The award was conferred by the British magazine "Global Trade Review" in recognition of the Bank's effort to arrange financing for the "Tobolsk Polymer" project for construction in Tobolsk of a major in the Russian Federation advanced complex for polypropylene production.

Still another 6 prizes in various nominations were awarded to Vnesheconombank by well-reputed British magazines, namely: "Project Finance" and "Trade Finance" (Euromoney group) and the "EMEA Finance" (Exporta group) that are authoritative voices specializing in finance publications. These awards were conferred on the Bank in recognition of high professionalism of the respective project participants and are viewed by the business community as a "quality brand" assigned to the project. In this respect, our acknowledgements go to the members of staff. We realize that, but for their expertise and

managerial skills, our success would be unattainable.

Summing up the results of the year, we are primarily contemplating new ways to build up our expertise in the future. Having asserted its status, though informally, of a driver of the country's sustainable development, Vnesheconombank views 3 goals as strategically important in the near-term. First, we are planning to considerably increase the scale and scope of our investment in projects targeting to facilitate Russia's social and economic development. Second, in the forthcoming years, development and introduction of innovation will come top of the Bank's policy agenda. We are expecting a substantial increase in the share of innovation projects in our loan portfolio. Third, Vnesheconombank will be aiming to further enhance performance efficiency. In this context, we are intending to complete the establishment of the Group of Vnesheconombank through creat-

ing within its structures and instruments allowing for a complex approach to ensuring the country's economic growth. To illustrate, these will include the Agency for Insurance of Export Credits and Investment, various direct investment funds and, first and foremost, the Russian Direct Investment Fund (RDIF) and the Fund of Direct Investment in the Far East and Baikal region, as well as other mechanisms. Overall, Vnesheconombank is identified as a socially responsible, public and open institution, participating in shaping up an investment-friendly image of Russia, a company that successfully resolves the tasks of accelerated economic growth and possesses a huge expertise potential. To conclude, I would record my thanks to Vnesheconombank's partners for a most professional approach to joint project implementation. I would also express gratitude to Vnesheconombank's staff, whose professional expertise and knowledge contributed to delivering tangible value in 2010.

V.A. Dmitriev



Chairman of Vnesheconombank



## Vnesheconombank's Supervisory Board

### CHAIRMAN OF THE SUPERVISORY BOARD:

**V.V. Putin** Chairman of the Government of the Russian Federation

### MEMBERS OF THE SUPERVISORY BOARD:

**V.A. Zubkov** First Deputy Chairman of the Russian Federation Government

**S.B. Ivanov** Deputy Chairman of the Russian Federation Government

**D.N. Kozak** Deputy Chairman of the Russian Federation Government

**A.L. Kudrin** Deputy Chairman of the Russian Federation Government, Minister of Finance

**I.E. Levitin** Minister of Transport

**E.S. Nabiullina** Minister of Economic Development

**V.B. Khristenko** Minister of Industry and Trade

**V.A. Dmitriev** Chairman of Vnesheconombank

## Vnesheconombank's Board

V.A. Dmitriev      Chairman of Vnesheconombank

N.N. Kosov      First Deputy Chairman

A.V. Tikhonov      First Deputy Chairman

A.B. Ballo      Deputy Chairman

S.A. Vasilyev      Deputy Chairman

M.Yu. Kopeikin      Deputy Chairman

S.P. Lykov      Deputy Chairman

P.M. Fradkov      Deputy Chairman

V.D. Shaprinskiy      Chief Accountant

## Vnesheconombank's Overview

Vnesheconombank is a state corporation established by the Russian Federation through reorganization, by way of transforming, of Vnesheconombank of the USSR – one of the oldest financial institutions of the country.

The Bank's legal status, aims and goals of its activities, its functions and powers are set forth by Federal Law No.82-FZ "On Bank for Development" dated 17 May 2007, other federal laws and the related regulatory acts of the Russian Federation.

Vnesheconombank is a national development bank that has been operating in this capacity since 08 June 2007 (the date of Vnesheconombank's state registration as a state corporation). The Bank effects banking operations specified in Federal Law "On Bank for Development" in the absence of a license from the Central Bank of the Russian Federation (CBR). Vnesheconombank is a professional participant in the securities market.

Vnesheconombank's mission is to assist the state in meeting the current challenges of Russia's social and economic development and strengthening its positions in the global community.

The Bank's core business areas and priorities as a bank for development, which secures implementation of the Government economic policies, are defined by the Memorandum on Vnesheconombank's Financial Policies (subject to approval by the Russian Federation Government).

The key aspect of the Bank's activities as a bank for development is engagement in accomplishing the following tasks:

- removing infrastructure constraints to economic growth;
- constructing high-tech enterprises in manufacturing and agro-industrial sector;
- support for exports of high-tech industrial production;
- unleashing innovative and productive potential of SMEs.

Other aspects of Vnesheconombank's activities provided for by Federal Law "On Bank for Development":

- acting as an agent for the Government of the Russian Federation;
- acting as a State Trust Management Company for trust management of the pension savings.

Major elements of Vnesheconombank's external corporate structure (VEB Group) are subsidiaries, including:

- 6 subsidiary banks: OJSC "Russian Development Bank", CJSC "ROSEXIMBANK", OJSC "Belvnesheconombank" (Belarus), PSC "Prominvestbank" (Ukraine), OJSC "Svyaz-Bank", CJSC "GLOBEXBANK";
- 9 subsidiary non-banking institutions, including OJSC "VEB-Leasing", LLC "VEB Capital" and LLC "VEB Engineering".

Vnesheconombank's representative offices network: 4 representative offices in Russia, 9 representative offices abroad (as at year-end 2010).

Major partners – foreign development institutions: IBRD, EBRD, CDB, KfW IPEX-BANK GmbH (Germany), JSC "Development Bank of Kazakhstan".

## Major Events 2010

Debut issuance of 10-year Eurobonds.

Overall, the year 2010 witnessed issuance and successful placement of three series of USD-denominated Eurobonds totalling USD

3.2 billion and maturing in 7, 10 and 15 years respectively.

*Vnesheconombank is the first Russian financial institution to raise funds in the Eurobonds market for a 15-year term.*

Two series of 10-year RUB-denominated bonds with the total par value of RUB 25 billion were issued and placed in the domestic market.

A syndicated loan worth USD 700 million and EUR 100 million was raised from 13 major foreign creditor banks.

New emphasis in sectoral policy:

- commencing to provide credit for investment projects in such important segments of the Russian economy as shipbuilding, sea shipments and pharmaceuticals;
- approval by Vnesheconombank's Supervisory Board of a Program of investment in the construction of affordable housing and mortgage lending.

Overall, in 2010, Vnesheconombank started financing 27 new investment projects.

New emphasis in regional policy:

- Broadening the Bank's presence in the North-Caucasian Federal District. Establishing OJSC "The North Caucasus Development Corporation", a subsidiary of Vnesheconombank. Participating in the foundation of OJSC "Resorts of the North Caucasus". Opening the Bank's representative office in Pyatigorsk;
- Establishing the Bank's representative office in Ekaterinburg.



## Records and Standards

Reconstruction and modernization of the Khabarovsk Oil Refinery\*

\* EUROMONEY AWARD  
PROJECT FINANCE AWARD  
THE EUROPEAN REFINING  
DEAL OF THE YEAR AWARD

### EVGENIY ZABOLOTNIY

Chief engineer,  
OJSC Khabarovsk Oil Refinery

"As a result of reconstruction, we will become one of the best technologically equipped oil refineries in Russia, with the oil conversion ratio increasing from 63% to 93%, light oil output growing by 25%".

### STANISLAV GERASIMCHUK

Head of Division  
Department for Industry, Vnesheconombank

"Notably, the reconstruction of the Khabarovsk oil refinery will not only enable us to expand the refining capacity and increase production of high value-added petrochemical products, but it will also make a substantial contribution to the development of the territory and the entire Far East".

More extensive foreign network: a representative office set up in Paris, France.

Promotion of public-private partnership and engineering services market:

- Vnesheconombank was designated as a sole provider of investment consulting services to address the state needs of the Russian constituent entities in procurement of PPP-based investment projects;

- Establishment of Vnesheconombank's specialised subsidiary – LLC "VEB Engineering" (with foreign participation).

The Program for refinancing corporate debts to foreign financial institutions (as part of the anti-crisis measures in compliance with Article 1 of Federal Law No. 173-FZ dated 13 October 2008 "On Additional Measures for Supporting the Financial System of the Russian Federation") is completed, with debts under the loans extended by the Bank in 2008-2009 to companies fully repaid or with the respective claims assigned. The loans were financed using the Bank of Russia's resources (Article 2 of the abovementioned Law) placed on term deposit accounts with Vnesheconombank. The funds (plus the interest accrued) were repaid to the CBR in full.

Participation in bail-out packages to rehabilitate OJSC "Amurmetal" and the "Traktornye Zavody" concern, companies of significant economic value for the Russian Federation.

Support for exports:

- Vnesheconombank's Supervisory Board adopted a decision on expediency of establishing the Agency for Insurance of Export Credits

and Investment. The Agency is designed as an export support institution based on insurance mechanisms;

- Proposals to introduce amendments to the current Russian legislation in connection with the Agency establishment were prepared and submitted for consideration by the respective federal executive bodies.

Support for innovation and high technology:

- Vnesheconombank became one of the founders of a non-profit organization "Foundation for Development of the Center for Research and Commercialization of New Technologies", a managing company for the project on creation of the Skolkovo Innovation Center;

- a multilateral agreement was signed to facilitate interaction between development institutions and stakeholders to ensure continuous financing for SME innovation projects at every stage of the innovation cycle;

- a program was launched to support SMEs that develop and introduce innovations and/or carry out projects aimed at production facilities modernization based on leading-edge technologies.

Vnesheconombank was the first state corporation to release Sustainability Report.

## Awards 2010

Vnesheconombank won *the Best Deal 2010 Award*. The award was conferred by the "Global Trade Review" British magazine (Exporta group) in recognition of the Bank's effort to [arrange financing for the "Tobolsk Polymer"](#)

project for construction in Tobolsk of an advanced complex for polypropylene production, the largest one in the Russian Federation. Vnesheconombank, as a participant in the "Tobolsk Polymer" project, ranked 1<sup>st</sup> in two nominations: "Borrower" and "Borrower-Creditor" (Infrastructure and Public Utilities category).

■ 3 projects delivered with Vnesheconombank's participation won *the Best Deal of the Year Award* (overall, 6 prizes in various nominations), the prizes being offered by the British publishing houses.

These are authoritative voices that specialize in publications highlighting achievements in finance, namely: "Project Finance" and "Trade Finance" (Euromoney group) and the "EMEA Finance" (Exporta group).

These awards were conferred on Vnesheconombank in recognition of high professionalism of the respective project participants and are viewed by the business community as a "quality brand" assigned to the project.

Overall in 2010, in the "Project Finance", "Trade Finance" and "EMEA Finance" nominations, 350, 250 and 150 applications respectively were subject to consideration by jurors of the contests arranged by the esteemed magazines.

On the results of the contests, the following Russian projects delivered with Vnesheconombank's participation received awards:

■ **Project for reconstruction and modernization of the Khabarovsk Oil Refinery** —

*the European Refining Deal of the Year Award* ("Project Finance"), *the Best Deal 2010 Award* ("Trade Finance").

■ **Construction of a polypropylene plant with the productive capacity of 500 thousand tons per annum in Tobolsk, ("Tobolsk Polymer" project)** — *the European Petrochemicals Deal of the Year Award* ("Project Finance") and *the Best Chemicals Deal 2010 in CEE Award* ("EMEA Finance"), *the Best Deal 2010 Award* ("Trade Finance").

■ **Project for reconstruction and operation of the "Pulkovo" international airport** — *the European Airport Deal of the Year Award* ("Project Finance").

■ Vnesheconombank was given *the CIS Business Leader Award* for contribution to ensuring economic integration of the CIS countries. The award was established by the Business Centre for CIS Economic Development in February 2010. The prize is to be awarded to organizations representing the CIS countries for substantial contribution to integration processes within the CIS. The award ceremony was arranged within the framework of the International Economic Forum of the CIS Countries "20 Years Together: Cooperation Experience and Prospects".

■ Vnesheconombank won *the Annual EUR STP Excellence Award* offered by Deutsche Bank AG, Frankfurt-am-Main, a leading German financial institution, for quality payment instructions administration in 2009. That evidences Vnesheconombank's achievements in performing settlement/payment operations making the use of advanced IT.

Generally, major European banks give such awards to correspondent banks, if the bulk of payments is effected in an automatic regime, while securing quality administration of payment instructions. In 2009, the share of payments processed by Vnesheconombank in an automatic regime made 99.8%.

■ The Bank's Annual Report 2009 won *the Best Level of Information Disclosure in an Annual Report of a State Corporation* nomination at the 13<sup>th</sup> Annual federal contest of annual reports and corporate Internet sites arranged by the "Securities Market" magazine and the MICEX Stock Exchange. Among the jurors of the contest, apart from the event co-organizers, were representatives of the Russian Federal Service for Securities Markets (FSSM), various rating agencies, self-regulating organizations and design bureaus.

■ Vnesheconombank's Sustainability Report 2009 won *the Best Debut of 2010 in the Non-Financial Reporting and Sustainability Reporting* nomination within the framework of the All-Russia contest "Best Russian Enterprises: Dynamics, Efficiency, Responsibility – 2010" arranged by the Russian Union of Industrialists and Entrepreneurs.

■ Vnesheconombank's Press Office was recognized by the International Association of Business Communicators as *the "Most Innovative Press Office of the Year"* for efficient and exceptional work to promote the theme of domestic economy development.

■ Vladimir Dmitriev, Chairman of Vnesheconombank:

■ won *the Banker of the Year* major annual banking nomination. The award was established in 2004 by the "Itogi" magazine. The winners are identified in the course of polling held among the representatives of the banking community;

■ was awarded *the Order of Merit towards the Italian Republic* (Grand Officer Grade) for a personal contribution to strengthening Italian-Russian cooperation in the economic and financial areas and for a dedicated effort to promote the Russian-Italian Forum-Dialogue (civil society format), which he co-chairs.

The Order of Merit towards the Italian Republic is a senior state Italian award. The President of the Italian Republic is Head of the Order Council.

■ was awarded the Golden Bridge – Ponte d'Ore prize for his contribution to promotion and strengthening of the Russian-Italian cooperation.

The prize was established by the Italian Embassy and the "ITA Casa Editrice" publishing house under the auspices of the President of the Italian Republic to be given for exceptional merits in strengthening bilateral cooperation in politics, economy and culture.

■ Vnesheconombank's employees in acknowledgement of their committed service were distinguished by the Directives of the Russian President with:

■ *Order for Merit and Loyalty to the Country* (4<sup>th</sup> grade), given to 1 employee for substantial contribution to the banking system development and long-standing job dedication;

■ *Order of Honor* (2 employees), *Order of Friendship* (2 employees), *Medal of Order for Merit and Loyalty to the Country* (1st grade), given to 1 employee for substantial contribution



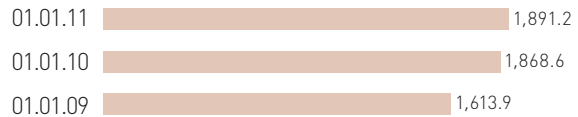
to the banking system development and long-standing job dedication.

## Development dynamics: major financial highlights<sup>1</sup>

■ Among 10 top (in terms of total assets) Russian banks as at 01 January 2011, Vnesheconombank ranked:

- 3<sup>rd</sup> in terms of capital;
- 3<sup>rd</sup> in terms of income before income tax;
- 3<sup>rd</sup> in terms of deposits and other funds raised from non-credit organizations;
- 4<sup>th</sup> in terms of total assets;
- 6<sup>th</sup> in terms of the amount of funds extended to non-financial organizations;
- 6<sup>th</sup> in terms of the amount of loans, deposits and other funds raised from credit organizations.

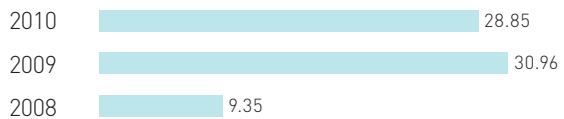
### Total Assets, RUB billion



### Capital, RUB billion

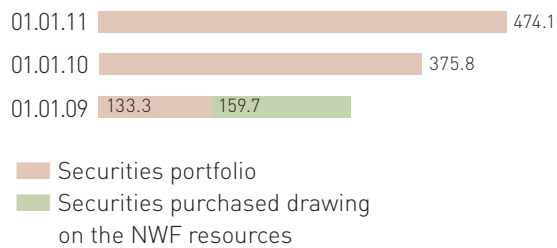


### Income, RUB billion

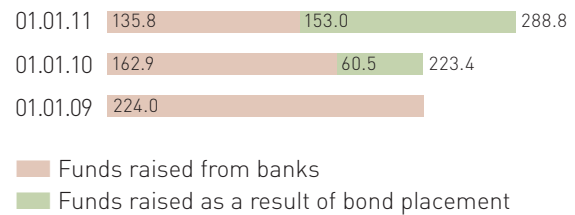


1. In the given report, all the values of the financial indicators are calculated based on the accounting data (formats 0409101 and 0409102).

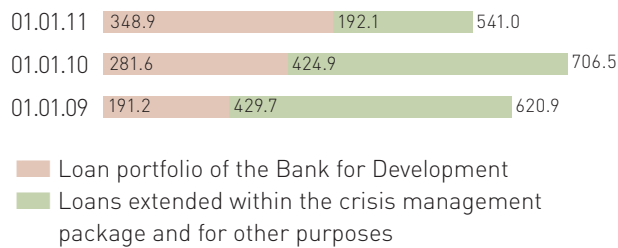
### Securities Portfolio<sup>2</sup>, RUB billion



### Term Resources Raised from Banks<sup>3</sup> as a Result of Bond Placement, RUB billion



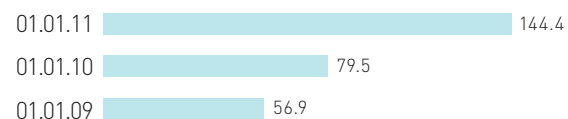
### Loan Portfolio, RUB billion



### Equity Investment (stakes in charter capital) in Investment-related Companies, RUB billion



### Portfolio of Guarantees, RUB billion



2. Debt securities (including notes) and equity securities (excluding equity investments).

3. Less the CBR funds placed on term deposits with Vnesheconombank to support the Russian financial system and less the foreign currency-denominated part of funds generated as a result of the "deposit swap" operations performed before the period under review with a view to raising ruble-denominated resources from a foreign bank.

## Vnesheconombank's Ratings (as at the end of 2010)

|                              |  |                |
|------------------------------|--|----------------|
| <b>Moody's</b>               | Long-term foreign currency issuer credit rating              | Baa 1          |
|                              | Short-term foreign currency issuer credit rating             | P-2            |
|                              | Long-term local currency issuer credit rating                | Baa 1          |
|                              | Short-term local currency issuer credit rating               | P-2            |
|                              | The long-term ratings  | stable outlook |
| <b>Standard &amp; Poor's</b> | Credit rating for long-term obligations in foreign currency  | BBB            |
|                              | Credit rating for short-term obligations in foreign currency | A-3            |
|                              | Credit rating for long-term obligations in local currency    | BBB+           |
|                              | Credit rating for short-term obligations in local currency   | A-2            |
|                              | The long-term ratings  | stable outlook |
|                              | The rating of three series of Vnesheconombank's Eurobonds    | BBB            |
| <b>Fitch Ratings</b>         | Long-term foreign currency issuer default rating             | BBB            |
|                              | Long-term local currency issuer default rating               | BBB            |
|                              | The long-term ratings  | stable outlook |
|                              | The short-term foreign currency issuer default rating        | F3             |
|                              | Support rating   | 2              |
|                              | The rating of three series of Vnesheconombank's Eurobonds    | BBB            |

# 1 Bank for Development as an Active Participant in the Process of the Russian Economy Modernization and Development

Admittedly, relative stabilization witnessed in the global economy by the start of 2010, when the worst phase of the global economic crisis was over, an improved market environment, as well as positive aftereffects of the Russian Government financial stimulus program and an actual completion by this time of the lending program stipulated in Articles 1, 6 and 6.1 of Federal Law No. 173-FZ<sup>4</sup>, let Vnesheconombank focus on the core activity of participating in the country's modernization effort and creating potential for its further development.

In this context, enhanced volumes and extended maturities of the resources raised in the capital markets became a priority for the Bank.

In the reporting period, the Bank's selected strategic areas of support for lending-investment and guarantee activities included:

■ investment projects designed to remove infrastructure constraints to social and economic growth (hereinafter — "infrastructure projects"). These projects concern the construction of new and/or reconstruction and modernization of the existing facilities of the economic and social infrastructure, public utilities infrastructure;

■ investment projects for the construction/modernisation of productive facilities unrelated to economic and social infrastructure;

■ foreign economic contracts of the Russian corporates engaged in manufacturing high-

4. Here and henceforth, Federal Law No. 173-FZ dated 13 October 2008 "On Additional Measures for Supporting the Financial System of the Russian Federation"

tech goods and/or their promotion to foreign markets;

■ SME development programs, the financing of which remained the Bank's primary task.

The provisions of Vnesheconombank's Memorandum on Financial Policies (hereinafter – Memorandum) served as a basis for identifying its strategic priorities by sectors/branches of economy. At the end of 2009, with a view to aligning the list of Vnesheconombank's priorities with the tasks of the Russian economy modernization, as formulated by the Commission under the President of the Russian Federation on modernization and technological development of the Russian economy, the Memorandum was amended accordingly. That stipulated new focal points in the Bank's business lines.

In compliance with the Russian Government Directive No. 1783-p dated 26 November 2009, the Memorandum now specifies new selected segments/sectors of economy, which are a priority for Vnesheconombank's lending-investment and guarantee activities. To date, included in the list of the Bank's sectoral investment priorities are strategic IT technologies and software, information and communications systems, medical equipment and pharmaceuticals. Projects intended to ensure increased energy efficiency are also materially significant for the Bank for Development.

In 2010, a new focus in the Bank's lending-investment activities was placed on providing support for rehabilitation of companies that are important for the Russian economy, as well as on Vnesheconombank's participation in the

Russian Government program to modernize single-industry towns.

*Activities in support of economy modernization – major financial results:*

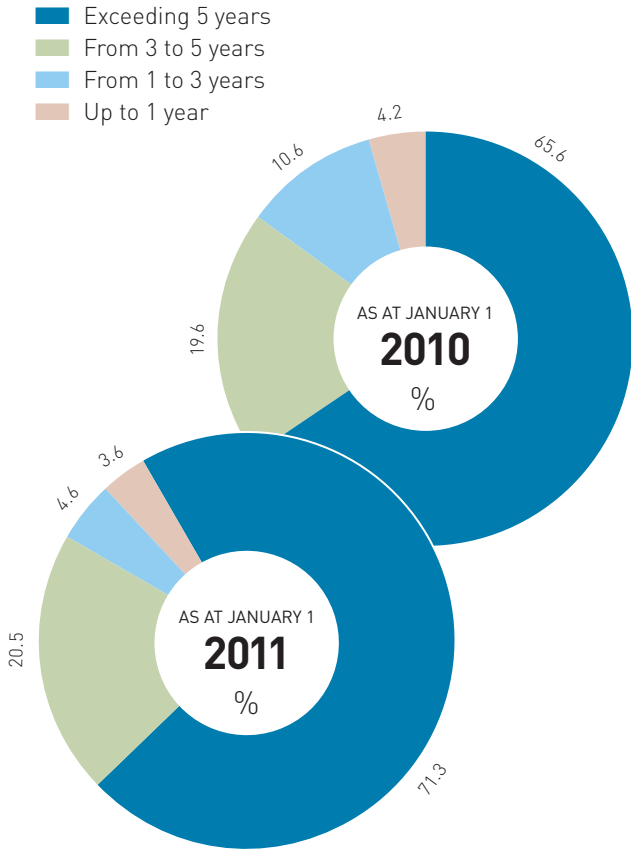
■ RUB 348.9 billion – the total volume of the Bank's loan portfolio<sup>5</sup> as at 01.01.2011 (almost a 24% rise on the respective portfolio volume of RUB 281.6 billion as at the start of 2010), with an increased share of loans with maturities exceeding 3 years (rising from 85% to 92%) in the structure of the total volume of the loan portfolio. "Investment" loans extended to deliver investment projects accounted for the bulk of the given portfolio (88%) by the end of the reporting period;

■ RUB 145.6 billion – the overall volume of loans extended to customers in 2010 (RUB 122.8 billion – in 2009), inclusive of RUB 125.5 billion or 86% – to finance investment projects, the rest of the loans having been extended mainly for financing the activities of Russian exporters and for financial rehabilitation of companies that are important for the Russian economy.

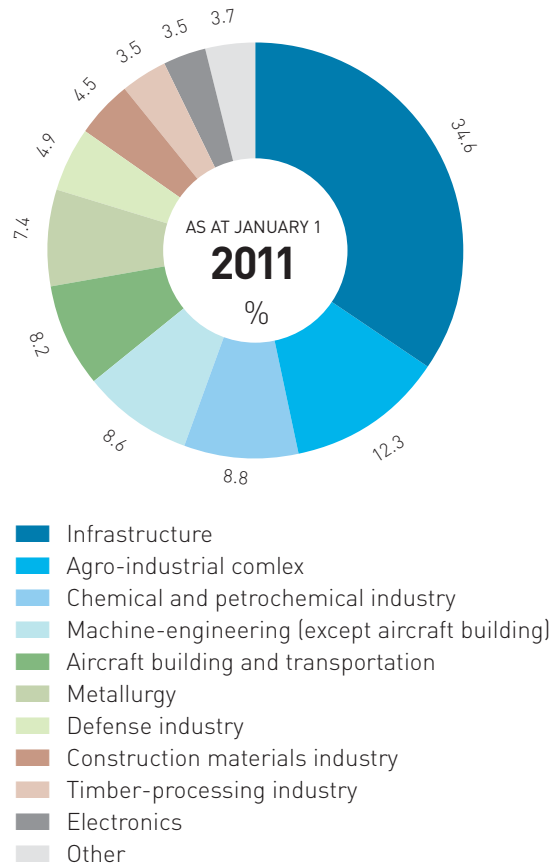
■ RUB 336.8 billion – the overall volume of undrawn loans under credit lines opened by the Bank for borrowers from the non-financial sector as at 01.01.2011 (as compared to RUB 166.1 billion as at 01.01.2010);

5. Here and henceforth: the portfolio of loans extended by Vnesheconombank as a bank for development to customers (excluding credits to banks), without taking into account loans extended out of the NWF's and the CBR's funds, as well as a loan extended to a Russian company drawing on the resources of CDB (these credits extended as "tied" ones were repaid in January 2011)

Loans to Customers  
(by maturity)



Loans to Customers  
(by industry/sector of economy)  
as at 01.01.2011



■ RUB 144,4 billion – the volume of the portfolio of guarantees as at 01.01.2011. (a 1.8-time rise as compared to RUB 79.5 billion posted at 01.01.2010).

■ RUB 89,2 billion – the overall volume of guarantees extended by the Bank in 2010 (RUB 34.1 billion in 2009);

■ RUB 188,9 billion – the volume of the portfolio of equity investment in the charter capitals of legal entities (stakes in the charter capitals) as at 01.01.2011 (versus RUB 149.7 billion as at the beginning of 2010);

■ RUB 189,1 billion – the overall amount of mid- and long-term resources raised in 2010 as credits with maturities exceeding 1 year and as a result of issuance of bonds with 1-year or exceeding 1-year maturities (RUB 80.4 billion in 2009).

## 1.1. Investment Projects Delivered with Participation of Vnesheconombank as Bank for Development

As at 01 January 2011, Vnesheconombank:

■ participated in financing of 97 investment projects (01 January 2010 – 79 projects<sup>6</sup>);

■ provided guarantee support for 2 investment projects.

6. In 2010, the Bank found it expedient to divide one of the projects, within its lifecycle, into two separate projects. Data on the number of projects as at 01.01.2010 were amended respectively.

Among the Bank's priorities are megaprojects significant for developing both various sectors of the economy and Russian regions, and Russia's economy as a whole. These include construction of international air terminal complexes; seaports and seaport terminals; high capacity hydroelectric power plants and thermal power stations; regional water supply and sanitation systems; sports, tourism and recreation infrastructure complexes; large-scale high-tech enterprises in the manufacturing sector. The Bank also engages in major agro-industrial projects to enhance the national food safety. These projects provide for construction of modern complexes securing ecologically clean cattle and poultry production, storage and processing.

Apart from it, the Bank is committed to financing numerous smaller local-scale projects, such as construction of thermal power stations and other public utility facilities and modern construction materials production. These projects aim to enhance the living standards for the Russian citizens and/or are focused on import substitution.

However, irrespective of the scale, industry and regional classification of investment projects delivered with Vnesheconombank's participation at the end of 2010, the following common attributes of projects are essential for Vnesheconombank as a development institution:

■ Delivery of projects could be viewed as a further step in removing infrastructure constraints to economic growth and in constructing new and/or reconstructing (modernising technically and/or upgrading technologically) the existing facilities, in identifying new sources of growth to enhance social and economic development of the regions (a number of projects are delivered in

SEZ and/or within programs on establishment of industrial clusters, techno- and industrial parks). The projects should also aim to expand the range and quality of services.

The projects are focused on the use of innovative and/or high-tech materials, equipment and technologies (ensuring, among other things, cost-effective use of resources, energy efficiency, improved environmental situation), adoption of innovative approaches to production control. That, in its turn, suggests new trends in labour management practices, more stringent requirements for the staff skills and expertise and, consequently, investment in human capital, i.e. HR-related innovations.

Ultimately, successful delivery of each project is regarded as a major contribution to meeting the current challenges of modernising the economy, enhancing the living standards and improving the quality of life for individuals, unleashing the potential for further social and economic development of Russia.

Among all the investment projects delivered with the Bank's participation at the end of 2010 are 23 projects fall within the priority areas of Russia's economy modernisation as defined at the state level. The total value of these projects amounts to RUB 317 billion, Vnesheconombank's projected commitment – RUB 213 billion. Primarily, these are the projects aimed at enhancing energy efficiency and energy saving. They also include one pharmaceutical project.

The major form of the Bank's financial support for investment projects is debt financing. Mainly, the Bank extends loans within the frame-

work of credit facilities opened by the Bank to deliver the respective project. Apart from it, the Bank provides financial support in the form of equity financing.

As at year-end 2010:

the Bank's portfolio of "investment" loans reached RUB 306.1 billion (+33% on RUB 230.1 billion as at 01.01.2010);

as at year-end 2010, the book value of the portfolio of shares (equity investment in companies that were delivering projects together with Vnesheconombank as at 01.01.2011) increased to RUB 27.3 billion (RUB 1.9 billion at year-start)<sup>7</sup>.

Guarantee support was provided for 2 investment projects:

construction of a tanker terminal complex (oil products loading terminal) with the productive capacity of above 20 million tons of oil products per annum at the Ust-Luga commercial seaport (the port is expected to become one of the largest in Europe). Its location is of strategic importance for Russia: the Ust-Luga seaport is one of the few Russian ports in the Baltic Sea ensuring deep water access for large vessels used to export Russian oil products;

development of a meat-processing complex in the Kaliningrad region.

7. Primarily, the increase in the portfolio volume in 2010 is attributable to purchasing by the Bank (during the IPO) of shares in the INTER RAO UES for the total amount of RUB 21.3 billion. Funds obtained by INTER RAO UES from Vnesheconombank's purchase of an additional share issue were used to finance the construction of the Urengoi hydroelectric power plant.



## List of investment projects, the funding of which commenced in 2010

| Period      | Major Goals of Project Delivery  | Project Description   |
|-------------|--|---|
| I QUARTER   | Developing infrastructure  | Construction of a new passenger terminal at the International Airport in Vladivostok  |
|             |  | Modernisation of electricity supply networks in the Republic of Armenia   |
|             |  | Construction of the main Olympic Village and a complex of buildings and facilities for accommodation of IOC and IPC members (Sochi)   |
|             | Creating production facilities   | Construction of a plant for the production of antibiotics and cancer medications in the territory of the "Terbuny" SEZ, the Lipetsk region  |
| II QUARTER  | Developing infrastructure  | Construction of a network of enterprises to produce ready-to-cook and ready-to-eat meals in the Leningrad and Moscow regions and in Sochi, extendable across the Russian Federation |
|             |  | Construction of the "Golden Ring Resort" complex in the Yaroslavl region  |
|             | Developing production facilities   | Construction and organization of production of a new YaMZ-530 engine family with the power range of 100-315 hp  |
|             |  | Reconstruction of a plant in the Republic of Mordovia to produce steel casting for railway wagons   |
|             |  | Technical reequipment of lime-sand brick and gypsum articles plant in Tyrnyauz, the Republic of Kabardino-Balkaria  |
| III QUARTER | Creating production facilities   | Construction of a cement plant in the Penza region  |
|             |  | Construction of a full-cycle timber-processing complex in Krasnoyarsk   |
|             |  | Construction of a timber-processing complex to produce chipboard and sawn timber in the Vanino region, the Khabarovsk territory   |
|             | Construction of a plant to produce blocks and slabs out of autoclaved aerocrete in the Stavropol territory |   |
|             | Developing production facilities   | Reconstruction and modernization of OJSC "Khabarovsk Oil Refinery"  |

| Period      | Major Goals of Project Delivery  | Project Description  |
|-------------|--|--|
| III QUARTER | Corporate financing  | Organizing production of components for wind power plants using the facilities of OJSC "Bummash" in cooperation with Pilsen Steel (Czech Republic)<br><br>Financing acquisition of industrial assets   |
|             | Other purposes   | Financing acquisition and subsequent operation of Arctic shuttle tankers built by OJSC "Admiralteiskie Verfi" (St. Petersburg) for the "Sovkomflot" Group of Companies<br><br>Financing the purchase by OJSC "IFC" of 6 An-148 aircraft with a subsequent leasing to FGUP GTK "Russia" aviation company" |
| IV QUARTER  | Developing infrastructure  | Construction of the Adler thermal power station  |
|             |  | Construction of the 1 <sup>st</sup> block of CCGT- HPP in the Kolpinsky district of St. Petersburg   |
|             |  | Construction of CCGT-HPP unit in Znamensk, the Astrakhan region  |
|             |  | Construction of the Boguchansk Hydroelectric Power Plant   |
|             | Creating production facilities   | Construction of 2 dairy food complexes and a milk processing plant in the Yaroslavl region   |
|             |  | Construction of a pig breeding farm in the Altai territory   |
|             |  | Construction of a complex to raise highly productive beef cattle breeds and effect slaughtering operations in the Bryansk region   |
|             | Construction of the Boguchansk aluminum plant  |  |
|             | Construction of a plant to produce building blocks and elements out of autoclaved aerocrete for low-height housing construction in Iskitim, the Novosibirsk region |  |

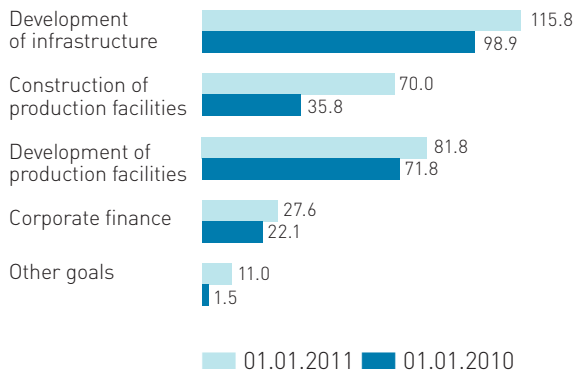
As at year-end 2010, the volume of the portfolio of guarantees issued by the Bank for the above projects made RUB 10.6 billion.

A significant number of investment projects delivered with the Bank's participation apply project finance principles and mechanisms.

These are primarily projects of federal and interregional significance relating to construction of new facilities in transport, energy and social infrastructure. They include projects within a program delivered in the run up to the Olympics-2014, as well as major projects for construction of the Boguchansk hydroelectric power plant and a new terminal at the Vladivostok international airport. Also included are projects for constructing new production facilities in various branches of the manufacturing sector, including those for establishment of car production facilities in the Primorski territory and a biotechnological cluster in the Omsk region (the cluster will comprise technologically interrelated pig breeding and animal feed complexes).

Financing such investment projects motivates special energies devoted by the Management and the staff to upgrading the procedures of investment project expertise (at the stage of scrutinizing project proposals) and to effective control over project implementation. In this context, special attention is paid to development of the risk management system relating to project risk analysis and to mechanisms mitigating the impacts of these risks on the Bank's activities.

### Portfolio of "Investment" Loans (by projects categorized by delivery goals), RUB billion



In 2010, Vnesheconombank commenced financing 27 new investment projects<sup>8</sup>. During 2010, the Bank extended RUB 61.3 billion worth of loans that accounts for almost half (about 49%) of the total amount of "investment" loans extended in the reporting period (RUB 125.5 billion).

### Key investment projects 2010

Acquisition by the "Sovkomflot" Group of 2 Arctic shuttle tankers built by OJSC "Admiralteiskie Verfi" (St. Petersburg) in accordance with the Rules of Dual Registry issued by the Russian Maritime Register of Shipping and Lloyd's Register. The "Kirill Lavrov" and "Mikhail Ulianov" tankers (deadweight carrying capac-

8. As at year-end 2010, loan indebtedness under 10 investment projects delivered with the Bank's participation was fully repaid (with an early debt redemption under 9 projects). In respect of one of the projects (construction of the Urengoi hydroelectric power plant), the Bank changed the form of its participation from debt to equity financing: the loan was repaid and the Bank made an equity investment in INTER RAO UES (the implementing company).

ity — 70 thousand tons each) have been commissioned to transport crude oil and gas condensate from the “Prirazlomnoe” oil field (the Barents Sea). Total project value — USD 247.0 million, Vnesheconombank’s commitment — USD 230.0 million.

This is the first investment project in the shipbuilding and freight shipping sector financed by Vnesheconombank as a bank for development.

When structuring the project, the Bank used *the lease-financing scheme* to include the entities comprising Vnesheconombank’s Group (the project stipulates acquisition by these entities of tankers with a subsequent leasing of the vessels to the “Sovkomflot” Group of Companies on a long-term basis (7 years) with a subsequent transfer of title upon fulfillment of the lease obligations).

A large-scale project that relates to construction of this category vessels: *the “Kirill Lavrov” and “Mikhail Ulianov” tankers are the biggest vessels of higher ice class among those constructed not only domestically, but also abroad.*

High innovation component project: *the shipbuilders applied unique structural schemes enabling safe operation of the tankers in adverse climatic conditions of the Arctic seas.* In particular, the vessels are equipped with a unique thermal insulation and heating system applied for all hull systems.

The Russian Maritime Register of Shipping assigned to the tankers the ice “Arc6” class enabling independent navigation in ice up to 1.3 metres thick conditions.

Sergei Frank, Director General of Sovkomflot, noted that prior to financing the project by Vnesheconombank “loans extended by foreign banks served as the main source of funding for Sovkomflot. The transaction concluded not only promotes further development of domestic shipbuilding, but also enables Sovkomflot to expand the range of services provided to Russian cargo owners — the leading oil and gas companies”.

**Reconstruction and modernization of OJSC “Khabarovsk Oil Refinery”** (a subsidiary of “Alliance”). Project value — USD 1.3 billion, the Bank’s commitment — USD 479.0 million and Euro 218.0 million. It is a major project in the petrochemical industry providing for reconstruction of the existing facilities at the Khabarovsk Oil Refinery and for construction of new processing units to increase the refining output up to 4.5 million tons per annum (the current volume of 3.2 — 3.3 million tons). A key distinguishing feature of the project is ensuring continuous refinery operations during the plant reconstruction. The project is included into the Strategy of Social and Economic Development of the Khabarovsk Territory up to 2025. It is of great significance for the development of the Far East: the produce of the Khabarovsk Oil Refinery accounts for about 38% of the wholesale and 50% of the retail petroleum market in the Khabarovsk territory, the Amur region, the Jewish Autonomous Region and in Primorye (according to the estimates offered by “Alliance”). Part of the produce is presently exported and expanded deliveries to the markets of China, South Korea and other countries in the Asia Pacific Region are planned. However, the main purpose of the plant reconstruction is supplying high qual-

ity fuel to Russian consumers. After the project completion, the refinery will produce up to 1.8 million tons of high quality diesel fuel, aviation kerosene and motor petrol per annum. Notably, the total volume of the produced engine fuel will conform to Euro-4 standard (with a subsequent upgrade to Euro-5).

The oil conversion ratio will increase from 63% to 92%, light oil output – from 56% to 72%. Thus, the project is in line with one of the key priorities of Vnesheconombank's lending and investment activities – enhanced efficiency of natural resource utilisation.

It is expected that the Nelson complexity index will make 9.9. The level of complexity to be reached will ensure economic efficiency of the refinery process at the maximum design capacity. The refinery applies advanced technologies under the licenses of such leading companies as Shell, Foster Wheeler, Technip KTI.

As a result of project delivery, we expect a considerable positive environmental impact, which corresponds with the Bank's priorities in investment financing.

Upon completion of the reconstruction, air pollutant emissions will be reduced by approximately 46%; the volume of water extracted by the Khabarovsk refinery from the Amur river and the volume of cleansed effluent disposed for treatment at the Khabarovsk municipal wastewater treatment plants will decrease considerably.

In 2010, the project won *the European Refining Deal Award* from "Project Finance" and *the Best Deal 2010 Award* from "Trade Finance".

#### Construction of the Urengoy state district power plant with the 450 MWt electric capacity.

A large-scale energy infrastructure project, with Vnesheconombank acting as an investor. The project is included into the Master Plan for Location of Energy Facilities up to the Year 2020 approved by the Russian Federation Government Resolution. Investment amount – RUB 24.5 billion, Vnesheconombank's commitment – RUB 21.3 billion. The project is intended for creation of a reliable energy system in the Tyumen region, ensuring a steady energy supply for the oil and gas companies operating in the region, enhancing the hydrocarbon production, promoting the efficiency of natural gas utilization through application of the state-of-the-art technologies for a combined-cycle power generation, as well as minimizing negative environmental impacts.

#### Construction of the Boguchansk hydroelectric power plant.

Total project value – RUB 72.5 billion, Vnesheconombank's commitment – RUB 28.1 billion. The plant commissioning will help reduce energy deficit in the Siberian Integrated Energy System. That, in its turn, will promote the construction of new industrial facilities. Advanced technologies used in project delivery will help minimize its negative environmental impact. The project is being implemented within the framework of the Master Plan for Location of Energy Facilities up to the Year 2020 approved by the Russian Federation Government Resolution and within the framework of the federal programme "Integrated Development of Nizhnee Priangarie".

#### Construction of a new passenger terminal at the Vladivostok international airport.

Total project value – USD 190.7 million, the Bank's

commitment – RUB 2.3 billion. Construction of a new terminal with a passenger traffic flow of 3.5 million passengers per annum is strategically important for hosting the APEC summit 2012.

#### ■ Olympic infrastructure projects:

- construction of the main Olympic village in the Adler district of Sochi and a complex of buildings and facilities for accommodation of IOC and IPC members. Total project value – above RUB 23.2 billion, the Bank's commitment – above RUB 2.2 billion at the design stage;

- construction of the Adler thermal power station (total project value – RUB 28 billion, the Bank's commitment – RUB 19.5 billion).

Vnesheconombank is one of the key creditors of projects included in the Programme of Constructing the Olympic Facilities and Developing Sochi as a Mountain Climate Resort approved by Resolution of the Russian Federation Government No. 991 dated 29 December 2007. The Bank has been actively engaged in projects delivery since the beginning of 2009.

The Olympic projects are of great social significance. Construction of the Olympic facilities and development of Sochi as a mountain climate resort will facilitate the development of Olympic sports, boost tourism, help advertize a healthy lifestyle and enhance Sochi's economic potential. New jobs in the services sector will be created.

Vnesheconombank participates in 7 projects on constructing the Olympic facilities (total project value – RUB 137.4 billion, the Bank's commitment – RUB 67.9 billion). As at year-end 2010, within the framework of the projects, the

Bank extended loans totalling RUB 25.2 billion, including those extended during 2010 for the amount of RUB 11.9 billion.

Two Olympic facilities, the financing of which started in 2009, have already been commissioned: Stage II of the Sochi Heat and Power Station and a new air terminal complex of the Sochi international airport.

Within the framework of constructing and operating the Alpine skiing resort "Roza Khutor", the following facilities have been commissioned:

- ski pistes (Stage I), among them the Olympic pistes (including the system of artificial snow-making), which were awarded the FIS Homologation Certificate;
- ropeways (terminals A, B, C, D);
- Alpine Mountain Centre.

Several ski pistes (Stage I) were opened in 2010. In February 2011, within the framework of Qualification Games in the run up to the Olympics-2014, Roza Khutor welcomed the Alpine Ski European and Russian Cup events.

Besides, in 2010, the Bank started financing the following major investment projects in infrastructure and industrial sectors:

#### Tourism infrastructure

- Construction of the "Golden Ring Resort" infrastructure complex. Total project value – RUB 3.6 billion, Vnesheconombank's commitment – RUB 2.5 billion. The project envisages an integrated territorial development in the Pereslavl district of the Yaroslavl region (close

to the “Plescheevo Lake” national park) with a view to constructing a new large recreation and tourism complex.

### Metallurgy

■ **Construction of the Boguchansk aluminum plant.** The project is included in the federal program “Integrated Development of Nizhnee Priangarie”. The value of constructing the first start-up complex makes RUB 33 billion, Vnesheconombank’s commitment – USD 699 million. The project provides for equipping the plant with the RA-300 reduction cells developed by RUSAL’s engineering and technical centre. That could ensure good technical-economic and environmental indicators. The technology of the reduction cells production appears on the list of top 3 of the world best technologies.

### Construction materials industry

■ **Construction of a timber-processing complex to produce chipboard and sawn timber in the Vanino region of the Khabarovsk territory.** Total project value – Euro 414.7 million, Vnesheconombank’s commitment – Euro 276.5 million. The project is intended for construction of a modern full cycle timber-processing complex with the capacity of 1 100 thousand m<sup>3</sup> of processed round timber per annum. The complex will offer a wide assortment of produce.

### Agro-industrial complex

■ **Construction of a complex for breeding highly productive meat cattle stock and a slaughtering and primary meat-processing complex in the Bryansk region.** Total project value – USD

788.9 million, Vnesheconombank’s commitment – USD 571.1 million and Euro 66.0 million. Construction of a unique beef cattle breeding complex in the Russian Federation with the capacity of up to 48 thousand tons of beef meat on the live weight basis (a 100 thousand-head herd) will help increase the national production of high quality beef by 30 thousand tons per annum and reduce its imports. Also, the project delivery will ensure supplying the Russian beef cattle breeding industry with high quality genetic material (up to 30 thousand heads per annum).

Apart from that, **the Bank continued financing investment projects launched before 2010,** such as:

■ **Construction of a polypropylene plant with the productive capacity of 500 thousand tons per annum in Tobolsk** – the largest one in the Russian Federation. Total project value – above USD 2 billion, the Bank’s commitment – USD 1.4 billion (long-term loan agreements for a specified financing amount have been concluded).

Vnesheconombank, acting as a financing arranger for the “Tobolsk-Polymer” project, won *the Best Deal 2010 Award* from “Global Trade Review”, as a participant in the project – *the Borrower Award* and *the Borrower and Creditor Award* (Infrastructure and Public Utilities Category).

The project is put on the priority projects list of the Russian Federation Ministry of Industry and Trade and included in the Development Strategy for the Russian Federation Chemical and Petrochemical Industry up to 2015.

The project delivery will give a fresh impetus to a number of industries (primarily those that are engaged in producing materials for the construction industry, the public roads and housing construction and the public utility sector) and minimize the negative environmental impacts due to application of advanced and ecologically safe technologies for petroleum gas deep processing that have no analogues in Russia.

In 2010, the project won the European Petrochemicals Deal of the Year Award ("Project Finance"), the Best Chemicals Deal 2010 in CEE Award ("EMEA Finance") and the Best Deal 2010 Award ("Trade Finance").

■ **Construction of a cement plant in Slantsy, the Leningrad region.** Total project value – Euro 442.2 million, Vnesheconombank's commitment – Euro 250.0 million. The project is designed to eliminate the deficit of high quality cement in the North-Western Federal District in the absence of industrial facilities in the region. A leading-edge dry mix technology of cement production allows for considerable resource economy and energy efficiency. The project delivery will help improve the environmental situation due to utilization of accumulated schist wastes as a raw material for cement production. For 2011, commissioning the first start-up complex and completing the construction of all the facilities is planned.

■ **Construction of a plant to produce blocks and slabs out of autoclaved aerocrete in the Saratov region.** Total project value – RUB 2.1 billion, Vnesheconombank's commitment – RUB 1.35 billion. Projected productive capacity – 450 thousand m<sup>3</sup> of manufactured products per annum. Equipment and technolo-

gies – HESS AAC Systems B.V. (Netherlands) and Maschinenbau SCHOLZ GMBH&CO (Germany). In November 2010, the plant was commissioned and will reach the projected capacity in 2011.

## Potentially worthwhile projects 2011

By year-end 2010, Vnesheconombank's governing bodies approved the Bank's participation in 31 investment projects, the financing of which as at 01 January 2011, was not yet commenced. Total projects value makes RUB 597.3 billion, Vnesheconombank's projected commitment – RUB 351.4 billion. These projects include:

■ **Reconstruction of the "Pulkovo" international airport (St. Petersburg).** The project is delivered on the PPP basis within the framework of the 30-year Concession Agreement between the Government of St. Petersburg, OJSC "Airport Pulkovo" and LLC "Northern Capital Gateway" (project operator). In 2010, Vnesheconombank's governing bodies approved the Bank's participation in Stage I of the project: construction of a new passenger terminal, reconstruction and development of Terminal 1 infrastructure at the Pulkovo airport. Project value of Stage I – Euro 1.2 billion, Vnesheconombank's commitment – RUB 10 billion. The co-participants in Stage 1 include: EBRD, IFC, EDB, NIB and BSTDB. The project won *the European Airport Deal of the Year Award* ("Project Finance");

■ **Construction of an agro-industrial complex in the Chechen republic.** The project is intended for constructing a modern diversified



agro-industrial complex and organizing full-cycle agricultural production (ranging from forage cultivation and conservation to animal and crop production processing). Total project value – RUB 2.49 billion, the Bank's commitment – RUB 2.25 billion.

**Construction of a float glass plant with the capacity of 600 tons per day in the Republic of Dagestan.** The plant will offer an innovative product line with unique energy-saving characteristics due to the selective light transmission, catchlight elimination and colour adjustment option. Total project value – RUB 10.5 billion, Vnesheconombank's commitment – RUB 7.2 billion.

Besides, the Bank scrutinized 5 investment projects on construction of the Olympic facilities with a total project value of about RUB 52.8 billion, Vnesheconombank's projected commitment – RUB 27 billion.

To help reform the economic structure of single-industry towns, the Bank will engage in 3 investment projects (the Bank's commitment – RUB 9.3 billion). Sectorally, the projects are aimed at creating new businesses in single-industry towns (aircraft engineering, car making production (engine-building) and an agro-industrial complex).

## 1.2. Support for Investments

### Promoting innovations<sup>9</sup>

In May 2010, Vnesheconombank became one of the founders of a non-profit organization "Foundation for Development of the Center for Research and Commercialization of New Technologies", a managing company for the project on creation of the Skolkovo Innovation Center.

The Foundation was established with a view to giving a fresh impetus to innovative activities in the Russian Federation. The activities aim to encourage innovations in scientific research and technology, as well as to commercialize the outcomes (marketing of innovations and their introduction in various industries in the context of investment projects). In its turn, the development of innovations is called to stimulate sustainable economic growth on a principally new, independent of the commodity market environment, basis and raise the quality of life for the Russian citizens. It will facilitate Russia's switchover to an innovative and socially oriented path of development, thereby enabling it to become one of the most developed, business- and people-friendly states.

Given a significant social effect to be achieved through intensified innovative activities and seeking to fulfill its role of a national development bank and an intermediary between the state and business, Vnesheconombank has

9. Specific issues related to promotion of intensified innovative activities (in line with the programs for supporting SMEs) are detailed in Clause 1.5 of the report. The related information is also to be found below in paragraph "Fostering of Partnership Relations".



**ANDREY SAPELIN**

Department for Industry,  
Vnesheconombank

"In the past few years, this was the first example of huge private investment in the oil and gas sector. The construction of facilities to process associated petroleum gas is to become one of the major projects implemented in Russia both in terms of industrial capacities, innovative technologies and ecology-friendly effects".

**DMITRIY FOMIN**

Construction Director,  
OJSC "Tobolsk Polymer"

"This is the most advanced and large-scale complex in Russia for production of polypropylene with the productive capacity of 500 thousand tons per annum. The technological solutions applied in the process of construction and polypropylene production secure the best safety standards to date".

## Technology and Ecology

Construction of a polypropylene plant with the productive capacity of 500 thousand tons per annum in Tobolsk\*

\* EUROMONEY AWARD  
PROJECT FINANCE AWARD  
THE EUROPEAN PETROCHEMICALS  
DEAL OF THE YEAR AWRD

been actively supporting the Foundation from the day of its creation.

On a continued basis, the Bank provides the Foundation's management with advisory services relating to feasibility and mechanisms of financing, as well as delivery of innovative projects. A number of working group meetings were held with representatives of the Foundation, the related ministries and executive bodies in order to identify potential mechanisms for interaction.

The major areas of interaction between Vnesheconombank and the Foundation are as follows:

- 1) Vnesheconombank's participation in the program of financial assistance for innovative projects to be implemented by the Skolkovo Foundation (financing of R&D, preparation of design and budget estimate documentation);
- 2) financing the Foundation's innovative projects at the stage of technology commercializing (after the R&D stage is completed);
- 3) financing the creation of the Foundation's infrastructure;
- 4) other forms of support for the Foundation including advisory services.

#### **Program for Vnesheconombank's investments in projects on construction of affordable housing and home mortgages in 2010–2012 (hereinafter — the Program)**

In Q1 2010, the Bank basically finalized the RUB 250 billion Program and identified approaches to its implementation.

In February 2010, the Bank's Supervisory Board approved a mechanism to finance mortgage loans by investing the accumulated component of pension savings and Vnesheconombank's own resources in mortgage-backed bonds to stimulate mortgage lending and increase its affordability for the public.

Overall, it was decided to invest RUB 250 billion worth of funds in the context of the Program, in particular:

■ Vnesheconombank's own resources in the maximum amount of RUB 50 billion — in mortgage-backed bonds;

■ pension savings managed by Vnesheconombank as a State Trust Management Company (STMC) in the maximum amount of RUB 100 billion — in mortgage-backed bonds;

■ pension savings managed by Vnesheconombank as a STMC in the maximum amount of RUB 60 billion — in state-guaranteed bonds of OJSC "Agency for Housing Mortgage Lending" ("AHML");

■ resources of the NWF in the maximum amount of up to RUB 40 billion to be allocated to Vnesheconombank in compliance with Law No.173-FZ for further crediting of OJSC "AHML".

The requirements to mortgage-backed bonds to be acquired under the Program were approved. The Procedure for Cooperation between State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)", OJSC "AHML", LLC "Investment Company of Vnesheconombank "VEB Capital", credit institu-

tions and mortgage agencies in the Program Implementation was established. A progress report format in respect of home and mortgage lending was prepared.

The Program laid down major terms and conditions for Vnesheconombank's issuing guarantees (sureties) in the total maximum amount of RUB 150 billion valid for up to 3 years in favour of the mortgaged-backed bonds issuers to secure the obligations of LLC "VEB Capital" under the service agreements to be concluded for placing bond loans in accordance with the Program.

The Program provides for Vnesheconombank's acquisition, using pension savings, of up to 70% of the state-guaranteed bonds issued by OJSC "AHML". As at 01 January 2011, OJSC "AHML" registered 5 state-guaranteed bond issues totalling RUB 36 billion. It placed 2 issues for an overall amount of RUB 15 billion and Vnesheconombank purchased RUB 10.5 billion worth of the bonds, i.e. 70% of the bond issues.

In compliance with the amendments introduced to Law No. 173-FZ in pursuance of Federal Law No. 101-FZ dated 22 May 2010, the interest rate on loans extended by Vnesheconombank to OJSC "AHML" was reduced from 9.5% to 6.5% per annum. Concurrently, the interest rate on deposits placed by the NWF with Vnesheconombank for the total maximum amount of RUB 40 billion to fund loans to OJSC "AHML" was reduced from 8.5% to 6.25% per annum. In December 2010, Vnesheconombank extended to OJSC "AHML" a RUB 40 billion loan facility. As at 01 January 2011, the borrower drew down RUB 3 billion of the facility.

To foster construction of affordable housing, Vnesheconombank's Supervisory Board approved in December 2010 a Concept for Stimulating Affordable Housing Construction. The Concept provides for Vnesheconombank's refinancing, using its own funds, the loans extended by credit institutions (Program participants) to economy-class housing developers at the interest rate that does not exceed 10% per annum. It was decided that Vnesheconombank would grant loans at the interest rate of 3% per annum with maturity of up to 31 December 2013 and in the amount that does not exceed  $\frac{1}{3}$  of the funds extended to the credit institution under the Program.

According to the Concept, the loans eligible for refinancing by Vnesheconombank should comply with the following requirements:

- the loans were extended to construct economy-class residential property (as defined by the Russian Ministry of Regional Development in its methodology);

- the lending rate for developers should not exceed 10% per annum with no additional fees or commissions payable to a lender;

- the loans were extended for projects entered by the Russian Ministry of Regional Development into various programs of Russia's constituent entities for economy-class housing construction with guaranteed construction completion dates and allowing for securitization of the respective mortgage loans within the framework of the Program.

To further develop the Concept, a Procedure for refinancing credit institutions that extended

loans to economy-class residential property developers was elaborated. The Procedure was prepared by Vnesheconombank together with the Russian Ministry for Regional Development, OJSC "AHML" and some other Program participants.

To secure due accomplishment of the objectives, the Bank's Supervisory Board made a decision on a 1-year prolongation of the Program till year-end 2013.

### Fostering PPPs and engineering services market

The Bank continued to perform the functions of a financial consultant to the Russian Federation Government with regard to investment projects eligible for budgetary appropriations from the Russian Federation Investment Fund (in line with the Russian Federation Government Resolution No. 134 dated 01 March 2008 "On Adopting the Procedures for Formation and Allocation of Budgetary Appropriations from the Russian Federation Investment Fund").

The Bank examined 6 applications of project initiators for budgetary appropriations from the Investment Fund and forwarded the respective reviews to the Russian Federation Ministry for Regional Development.

During 2010, Vnesheconombank monitored on a quarterly basis the fulfillment of obligations under the investment agreements relating to projects delivered drawing on the Russian Federation Investment Fund's resources.

In line with the Russian Federation Government Resolution No. 1372-r dated 17 Au-

gust 2010, Vnesheconombank was designated as a sole investment consultant to address the state needs of the Russian Federation constituent entities in procurement of PPP-based projects.

At the end of 2010, the Bank received 26 applications from the Russian Federation constituent entities and municipalities (with the support of the Russian Federation constituent entities) in respect of 54 projects.

Vnesheconombank concluded the 1st Government contract with the Government of the Khanty-Mansiisk autonomous district – Yugra for rendering consultative services under the PPP project on construction of schools and pre-school institutions in the municipal entities of the district.

In December 2010, the Bank's Supervisory Board adopted a decision on implementing in 2011-2015 a RUB 10 billion program of financial support for regional and urban development projects.

Within the framework of the program, the Bank will make an equity investment in the charter capital of project companies to be established by administrations of the territorial entities to procure PPP projects (including preparation of legal documentation, feasibility study, design specification and budget estimates).

The Bank's PPP projects are focused on:

- ecological safety (wastewater treatment plants and waste management infrastructure);

- enhanced energy efficiency of the heating and lighting municipal infrastructure and of the municipal real estate;

- developing an appropriate infrastructure of sites intended for affordable housing development and technoparks construction;

- development of transport infrastructure, social infrastructure (education, healthcare, sports and culture), public and municipal administration infrastructure (multifunctional centres, e-Government, the infrastructure of a broad band access to Internet).

Vnesheconombank prepared standard documentation for PPP projects procurement in the area of energy efficiency, ecology, affordable housing development and technoparks construction.

Also, the Bank engaged in building up a regional legislative, educational and infrastructure platform enabling to drive a quality PPP projects market forward. As at year-end 2010, with Vnesheconombank's assistance, local PPP centres were established in 18 Russian Federation constituent entities. Within the period under review, 23 constituent entities of the Russian Federation adopted PPP-related laws drafted with the Bank's participation.

The Bank assisted public and municipal authorities in PPP staff training. In 2010, 21 regional events were held in the form of conferences and/or seminars aimed at, among other things, training of government and municipal officials on PPP issues. In October 2010, to create a platform for continuous training of PPP mar-

ket participants, Vnesheconombank and the Financial University under the Russian Federation Government established and later inaugurated a special PPP Chair. Starting from September 2011, the Chair will arrange complex PPP training (Bachelor and Master programs, skills upgrading and staff training programs, including the "Master of Public Administration"<sup>10</sup> program with an MPA diploma, a scientific and methodology laboratory, etc.). The University plans to organize a postgraduate training course. Vnesheconombank's PPP Centre prepared guidance materials for PPP-related academic courses and for training of public authorities.

Alongside that, the Bank rendered financial support for regional and municipal administrations in respect of PPP projects procurement. Notably, elaborating the procedure of interaction between Vnesheconombank and UNDP<sup>11</sup> within the framework of a Joint Project was completed. Taking the PPP project market in Russia forward is viewed as the Project major goal. Raising donor funds to help regional and municipal authorities in procurement of PPP projects is another aim.

10. The PPP program of public staff training based on internationally accepted approaches.

11. UNDP is a leading UN organisation engaged in providing international technical assistance to developing nations and countries with transition economies. In conformity with the previously made agreements, PPP development is a priority for cooperation between the UNDP and Vnesheconombank. In particular, in December 2009, Vnesheconombank and UNDP signed a document "Development of Public-Private Partnership in Russia" intended for delivery of pilot projects in the Russian regions and CIS countries. The document envisages disseminating the experience gained, assisting the development of local PPP centres in the Russian Federation regions, adopting modern managerial approaches and applying financial instruments for PPPs.

To foster development of the engineering services market (it primarily concerns projects delivered on the principles of project finance), and to stimulate PPP project activities in the Russian regions, **LLC “VEB Engineering”, a specialised subsidiary of Vnesheconombank (a company with foreign participation), was established.**

### Comprehensive regional development

Apart from measures aiming to promote investment activity in the Russian regions adopting a PPP approach and to ensure comprehensive development of the territories, the Bank devoted considerable energies to other business lines.

Strengthening the Bank's presence in the North-Caucasian Federal District.

In November 2010, the Bank established a subsidiary – OJSC “The North Caucasus Development Corporation” – for administration of investment projects implemented in the District (starting from a concept to actual delivery). The subsidiary with the authorized capital of RUB 500 million is 100%-owned by Vnesheconombank. The Corporation's objectives include selection of projects in industries most instrumental for the region's development, project structuring, arranging the respective financing and rendering advisory services to regional authorities. The year 2010 witnessed formulation of the Corporation's Development Strategy up to 2016 and generation of the investment project portfolio. In 2011, the Corporation intends to launch 6 investment projects in the region.

In pursuit of the Russian Government's Directive, Vnesheconombank became one of the

founders of OJSC “The North Caucasus Resorts” registered in December 2010. The company's activities are aimed at delivering infrastructure projects for construction of a tourist cluster in tourist and recreational SEZ of the North Caucasian Federal District, the Krasnodar Territory and the Republic of Adygea.

New projects, the financing of which was started by the Bank in 2010, included 2 projects for construction/modernization of enterprises to produce construction materials in the Kabardino-Balkar Republic and the Stavropol Territory. Total value of the projects – RUB 9.3 billion. Vnesheconombank's commitment – RUB 6.8 billion.

Developing new mechanisms to promote investment activities in remote eastern territories of the country.

In December 2010, the Bank's Supervisory Board approved Vnesheconombank's participation in establishing a development institution in the Far Eastern Federal District and the Baikal region, including a direct investment fund and a managing company for the fund (100%-owned by Vnesheconombank).

In April 2011, Khabarovsk hosted a regional practical conference “Vnesheconombank: the Far East Development Projects”. Establishment of a development institution was the main topic of the conference.

Financial support for economic transformation of single-industry territorial entities.

In 2010, the Bank continued to credit investment projects implemented in single-industry

towns. To illustrate, the following projects are worth mentioning: launching the production of Ka-226T helicopter (Kumertau, the Republic of Bashkortostan) and car making components (Elabuga, the Republic of Tatarstan), construction of a cement plant (Slantsy, the Leningrad region). Moreover, the Bank provided support for the current activities of major enterprises operating in such single-industry settlements as Severodvinsk (the Arkhangelsk region), Kanash (the Chuvash Republic), Nizhniy Tagil (the Sverdlovsk region), Arseniev (the Primorski territory). Vnesheconombank's total commitment amounted to RUB 44.4 billion.

### Stimulating the activities of Vnesheconombank's representative offices

In 2010, Vnesheconombank had 4 representative offices operating in the Russian Federation: St.Petersburg (the North-Western Federal District), Khabarovsk (the Far Eastern Federal District), Ekaterinburg (the Ural Federal District) and Pyatigorsk (the North Caucasian Federal District). In February 2011, the Bank opened its representative office in Krasnoyarsk (the Siberian Federal District).

The areas of activities of Vnesheconombank's representative offices in the Russian Federation encompass:

- identifying and ensuring preliminary selection of investment projects in the respective office's region/area of responsibility;

- advising customers on preparation of documents required by the Bank for project expert evaluation;

- fostering the existing and establishing new business relations with regional authorities and business communities;

- providing information and analytical support for the Bank's activities in the respective regions, participation in conferences, forums, seminars relating to Vnesheconombank's remit and interests.

### Fostering partnership relations

The Bank continued to promote investment cooperation with the local authorities of the Russian constituent entities, foreign companies, international and foreign financial institutions.

During 2010, Vnesheconombank signed 6 framework cooperation agreements on strategic partnership (in particular, on PPP procurement) with the authorized bodies of the Republic of Dagestan, the Republic of Karelia, the Krasnoyarsk Territory, the Irkutsk and Orel regions and the Yamalo-Nenets Autonomous District.

Moreover, in 2010 Vnesheconombank signed a number of multilateral agreements (memorandums on interaction, cooperation agreements). These are aiming to assist the delivery of 3 investment projects in Russia and have among its signatories a public authority representing the respective Russian constituent entity: the Karachay-Cherkess Republic, the Republic of Buryatia and St.Petersburg.

In the reporting period, several protocols of intent on public-private partnership, in particular, with the authorities of the Chechen Republic and the Volgograd Region were signed.



To further develop the agreements, the Bank made a decision to participate in financing of investment projects that include:

- construction of a plant in Tiube (the Republic of Dagestan) to produce high-quality glass for the construction industry in the North Caucasian, Southern, Privolzhskiy and Central Federal Districts of the Russian Federation (within the framework of the Cooperation Agreement between the Government of the Dagestan Republic and Vnesheconombank);

- construction of a timber-sawing and timber-processing complex in Ust-Kut (the Irkutsk Region) and of a logging plant based on advanced technologies to provide the complex with the raw materials (under the Cooperation Agreement between the Government of the Irkutsk Region and Vnesheconombank).

Apart from this, the reporting year saw the signing of more than 20 framework agreements with Russian, international and foreign institutions on cooperation in investment promotion, as well as on implementation of projects and programs in strategic industries:

- priority lines of economy modernization and innovation:

- Memorandum on cooperation and interaction in implementation of projects aimed at increased energy efficiency and resource saving with CJSC “The Agency for Energy Efficiency and Resource Saving”;

- Protocol of Intent signed with state corporation “The Russian Technologies” with a view to establishing strategic partnership and developing long-term, efficient and mutually

beneficial cooperation between the parties in implementation of investment projects and programs in biotechnologies, in medical industry and pharmaceuticals;

- Cooperation Agreement with OJSC “OAK” and “Antonov” state enterprise (Ukraine) on implementation of investment projects for development and manufacturing of advanced machine-engineering products based on innovative technologies, development and arrangement of serial production of civil, transport and military-transport aircraft;

- Memorandum of Understanding with the Export-Import Bank of the United States to promote cooperation in financing of projects that aim to modernize the Russian economy, foster innovations and increase energy efficiency;

- Support for SMEs:

- Memorandum on Cooperation under EMPRETEK Program aimed at developing entrepreneurship in the Russian Federation signed with the United Nations Conference on Trade and Development (UNCTAD). The Memorandum provides for cooperation in implementation in Russia of EMPRETEK methodology designed to support SMEs with a view to promoting business activity at the national and international level;

- Cooperation Agreement with CJSC “The Russian Agency for SME Support” in order to help increase the competitiveness of Russian SMEs and promote efficient delivery of innovative and export-oriented SME projects;

- Cooperation Agreement with an All-Russian non-governmental organization “OPORA ROSSII” on the parties’ interaction in establishment of cooperation between SMEs and foreign SME infrastructure supporting institutions.

### Creating a pool of HR talent to promote investment activities

To upgrade professional skills of its partners/potential partners<sup>12</sup>, the Bank continued the project launched in 2009 “Training of Specialists Involved in Delivery of Investment Projects Supported by Development Institutions”. In 2010, about 350 persons representing the Russian executive bodies, companies and the expert community underwent the respective training. Listed below are the events held:

■ on the basis of the State University – Higher School of Economics, the Bank organized professional development courses “Delivery of Investment Projects for Increased Energy Efficiency, Energy Saving and Energy Infrastructure Development”. The training drew the representatives from enterprises and regional authorities of the Arkhangelsk, Kursk, Moscow, Nizhniy Novgorod, Tomsk, Samara and Sakhalin regions, the Republics of Tyva and Tatarstan, the Sakha (Yakutia) Republic and the Chechen Republic (26 participants);

■ under the auspices of the Innovation Session of the All-Russian Youth Forum “Seliger-2010” (the Tver region), the Bank organized Vnesheconombank’s Information Day, where its employees delivered a series of training lectures for the Forum participants (200 participants);

■ at the Russian Academy of State Service under the President of the Russian Federation, the Bank organized professional develop-

ment courses “Investments in Development Projects”. The training drew representatives from enterprises engaged in logging and timber-processing, household chemicals production, construction, public utilities, specialists from regional development institutions and investment departments of credit institutions across Russia, as well as representatives from the Russian Ministry of Regional Development, relevant ministries and agencies of the Amur, Belgorod, Novosibirsk regions, the Republics of Mordovia and Karelia (26 participants);

■ Kislovodsk hosted Vnesheconombank’s 1<sup>st</sup> regional practical conference “Vnesheconombank: Development Bank’s Priority Areas of Activities”. The conference brought together the heads and representatives of local government of the North-Caucasian Federal District, who are in charge of the investment activities, as well as top management of commercial organizations and representatives from the regional expert community (73 participants).

## 1.3. Support for Russian Exports

In delivering the exports support agenda, Vnesheconombank makes the best use of a wide range of support forms and instruments, including extension of pre-export financing (credits to Russian borrowers) and export credits<sup>13</sup>, issuance and confirmation of L/Cs, extension of various guarantees.

13. Credits extended to foreign legal entities (banks and non-credit institutions), authorized bodies representing foreign states with a view to financing purchases of the Russian production (goods and services) under foreign trade contracts.

12. Detailed data relating to creating a HR talent pool are also discussed in section “Fostering PPPs in Russia”

Apart from that, to assist foreign economic activities of the Russian companies, the Bank makes equity investments in the charter capitals of foreign banks in countries that are Russia's strategic partners in foreign economic operations.

Over the period under review, RUB 3.9 billion was extended for export support.

The funds were mainly extended within pre-export financing of Russian enterprises engaged in high-tech production.

Alongside that, export credits for promoting high-tech production to foreign markets were extended. In 2010, the following issues relating to extension of export credits were carefully scrutinized<sup>14</sup>:

Vnesheconombank's participation as a co-arranger in a syndicated loan facility opened to the Ministry of Finance of the Republic of Angola to finance the country's purchases of the Russian industrial production under a foreign trade contract (between FSUE "Rosoboronexport" and the Ministry of Telecommunications and Information Technologies of the Republic of Angola) for the construction in Angola of the national space broadcasting and communications system ("Angosat" project). The producer of the system is OJSC "S.P. Korolev Rocket and Space Corporation "Energia"; the project value exceeds USD 300 million. Syndicated loan arranger: CJSC "ROSEXIMBANK"<sup>15</sup> (100%-owned

14. Vnesheconombank opened credit facilities for the respective sums in March-April 2011.

15. In 2010, this subsidiary of Vnesheconombank (just as in the past few years) acted as the Russian Federation Government agent in delivering support for industrial exports.

by Vnesheconombank). Other syndication participants include: VTB Bank (Austria) AG and OJSC "Gazprombank". It was planned under the syndicated credit facility to extend funds for the total amount of up to USD 278.46 million for a 13-year term with Vnesheconombank's commitment of up to USD 79.2 million.

Vnesheconombank's participation as Original Lender in a syndicated loan facility opened to HIDROTOAPI E.P. (the Republic of Ecuador) with a view to financing the purchases by Ecuador of the Russian energy equipment under a foreign trade contract (between the above company and OJSC "INTER RAO UES"). The contract for the delivery of the Russian production is related to the "Toachi-Pilaton" project in Ecuador (the project value – USD 145 million). CJSC "ROSEXIMBANK" acted as the syndicated loan Lead Arranger. Other syndication participants included: OJSC "Gazprombank", Gazprombank (Switzerland) Ltd. and Russian Commercial Bank (Cyprus) Ltd. It was envisaged under the syndicated credit facility to extend funds for the total amount of up to USD 123.3 million for an 11-year term with Vnesheconombank's commitment of up to USD 20.0 million.

Opening of a credit facility to the Ministry of Finance of the Republic of Indonesia in the amount of up to USD 5.95 million to finance deliveries of Russian high-tech goods.

Within the period under review, Vnesheconombank's Supervisory Board approved the decision to arrange debt financing of foreign economic operations under contracts, in which the Russian-Italian company "Superjet

International S.p.A.” acts as a seller. To reduce potential risks for Vnesheconombank, negotiations with COFACE (France) and SACE (Italy) on the possibility of the Bank’s co-participation in these transactions were held.

To expand Russian exports to the markets of Belarus and Ukraine and secure the operations of Russian businesses technologically linked with the enterprises of these countries, as well as to strengthen integration ties within the CIS, Vnesheconombank benefits from the status of a shareholder in 2 foreign banks. Vnesheconombank owns controlling stakes in OJSC “Belvnesheconombank” (the Republic of Belarus) and PSC “Prominvestbank” (Ukraine).

In 2010, Vnesheconombank opened a credit facility to OJSC “Belvnesheconombank” in the amount of up to USD 16.5 million. The facility is extended to the bank for export credits to finance purchases of the Russian energy equipment by the Republican unitary enterprise “Brestenergo” (the Republic of Belarus) under a foreign trade contract between this enterprise and OJSC “Teploenergoservis” (the Russian Federation). The loans extended within the credit facility will mature in 2014.

As at 01 January 2011, the volume of the portfolio of guarantees extended by Vnesheconombank to support exports totalled RUB 59.7 billion. The geographic reach of the guarantee operations to promote exports remains extensive, including guarantees extended to beneficiaries – residents of 18 foreign states.

In 2010, Vnesheconombank extended 67 guarantees amounting to RUB 9.8 billion for

these particular purposes. Guarantees were extended in support of exports of high-tech industrial production, primarily to entities operating in the following sectors/branches of economy: aircraft building and rocket and space complex, electronics, nuclear industry, transport, special-purpose and energy machine-engineering.

### Creation of the Russian agency for insurance of export credits and investment

To execute the Russian Government action plan for implementing in 2009-2012 of Major Guidelines of the Russian Federation Foreign Economic Policy up to 2020 and the plan for implementing major anti-crisis measures, as well as the Russian Federation Government modernisation agenda for 2010, efforts were continued to develop the financial infrastructure of export support.

In July 2010, Vnesheconombank’s Supervisory Board approved (in principal) the Concept for creation and functioning of the Agency for Insurance of Export Credits and Investment. A principal decision on establishing the Agency as an open joint stock company (OJSC) was adopted. The projected charter capital of the Agency amounts to RUB 30 billion, Vnesheconombank’s commitment totals 100%.

The Agency is called to become a key institution in the national system of export support.

In the reporting period, Vnesheconombank actively participated in preparation and submission for consideration by public authorities

of draft projects to introduce amendments to the legislative framework. These documents are designed to improve mechanisms of insuring export credits and investment against commercial and political risks. Statutory and other documents in respect of the establishment and appropriate functioning of the Agency were drafted.

#### 1.4. Financial Rehabilitation of Institutions Strategically Important for the Russian Economy

The task of managing strategic real economy enterprises, which were critically destabilized by the global financial and economic crisis, was a new focus of Vnesheconombank's activities. In conformity with the state level decisions, the Bank actively participated in financial rehabilitation of 2 enterprises, namely, OJSC "Amurmetal", which is on the list of system-forming enterprises approved by the Government commission on improving the Russian economy sustainability, and the "Traktornyye Zavody" machine-engineering concern that includes 80 enterprises operating in 10 of the Russian Federation constituent entities and abroad.

In order to restore the financial stability of OJSC "Amurmetal" and to complete the implementation of the company investment program, as well as to implement the program of financial rehabilitation and innovation of the "Traktornyye Zavody" concern, Vnesheconombank, in 2010, purchased 100% blocks of these enterprises' shares. Also, Vnesheconombank extended RUB

14.5 billion worth of credits (RUB 2.2 billion and RUB 12.3 billion to OJSC "Amurmetal" and the "Traktornyye Zavody" concern respectively). Guarantee support in the amount of RUB 10.2 billion was provided.

In Q1 2010, Vnesheconombank started implementing the stimulus program for OJSC "Amurmetal". Concrete steps to enhance control over its activities were taken. These were as follows: Vnesheconombank's representatives took seats on the Board and a tender committee to execute control over the purchases of raw materials and the sale of finished goods was established.

Financing provided for OJSC "Amurmetal" secured positive dynamics in goods production, as well as enabled the enterprise to repay arrears owed to the staff, budget and suppliers.

Since Vnesheconombank's participation in a bail-out program for the "Traktornyye Zavody" concern just started in Q4 2010 (actually, the credit was extended by the Bank in late December), concrete outcomes could obviously be expected in mid 2011. But it was due to Vnesheconombank's guarantee support that the concern managed to raise a loan enabling it to ensure continuous operation of its enterprises.

#### 1.5. Support for Small- and Medium-sized Enterprises

Vnesheconombank is one of the key financial institutions designed to assist the state in delivering the SME support agenda.

Financial support for SMEs is rendered in the framework of Vnesheconombank's program (hereinafter – the Program). The Program is being implemented through OJSC RDB<sup>16</sup>, Vnesheconombank's 100% owned subsidiary. The Program envisages lending to SMEs through the use of the RDB's network of partners that include partner-banks and organizations that form the SME support infrastructure (leasing, factoring and microfinance companies).

As at 01.01.2011, the amount of funds provided by Vnesheconombank for the Program implementation reached RUB 49 billion. The amount includes two components:

■ RUB 39 billion – the amount of the portfolio of long-term credits extended to the RDB. It includes RUB 30 billion – 8-year term credits, the sources of funding for these credits – the NWF's resources (the credits were extended in 2009 with a zero margin for Vnesheconombank: the interest rate at which the credits were extended to the RDB equals that of the NWF's deposits). In 2010, the lending rate on these credits decreased from 8% per annum (as set at the date of the credit extension)<sup>17</sup> to 6.25%. The portfolio also includes a subordi-

nated loan amounting to RUB 9 billion extended during the reporting period for a term of 10 years at the rate of 2/3 of the CBR's official re-financing rate (as set at the date of the credit extension). Simultaneously, the RDB repaid the credit earlier obtained from Vnesheconombank in the similar amount, but at a higher interest rate. Vnesheconombank, by means of decreasing interest rates on its resources, is seeking to ensure lower borrowing costs under credits to be subsequently extended by the RDB to partners within the framework of the Program (for financing by partner-banks and infrastructure organisations of the end-borrowers – SMEs). At the same time, a subordinated credit obtained by the RDB (Vnesheconombank's subsidiary) increased the bank's own funds (equity);

■ RUB 10 billion – Vnesheconombank's equity investment in the RDB's charter capital (in 2009, Vnesheconombank purchased an equivalent amount worth of shares additionally issued by the RDB).

Concrete approaches to the Program implementation, with due regard for specific tasks of SME development, are reflected in the range of credit products offered by the RDB to Program partners.

In 2010, enhancing the scale and scope of support for SME projects intended for creation/introduction of innovations and technical/technological modernization of productive facilities was viewed as the key strategic task for ensuring sustainable economic growth on an innovative basis.

16. In compliance with the Procedure to apply to delivering financial support for SMEs by State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" approved by the decision of Vnesheconombank's Supervisory Board and in compliance with OJSC RDB's internal regulatory documents (approved by RDB's governing bodies) that further develop the Procedure.

17. The rates were decreased in conformity with the Russian Federation Government Directive No. 649 dated 24 August 2010 "On Making Amendments to paragraph 12 of Eligibility Criteria to Financial Assets in which the NWF Resources Could be Invested".

As a rule, such projects are capital-intensive and have long payback periods. These factors, as well as the social importance of the projects for economic development required specific approaches to financial support for SMEs operating in innovation/modernization areas. These approaches underlie the Program called "Financing for Innovations and Modernization" (part of the entire Program). The RDB started its delivery in March 2010.

The target companies under the Program "Financing for Innovations and Modernization" include SMEs engaged in projects that will contribute to Russia's economy modernisation in priority areas (as designated at the state level) or will benefit scientific and technical progress and technological development along other lines.

At the end of the reporting period, the key parameters of the credit products offered to partners and developed to implement the Program "Financing for Innovations and Modernisation" were as follows:

■ loans to be offered to the RDB's partners for a 7-year term (the longest term in the RDB's line of credit products);

■ interest rates on loans extended to partners range from  $\frac{1}{2}$  to  $\frac{3}{4}$  of the CBR's refinancing rate (the lowest level of rates on RDB's line of credit products offered to partners).

Apart from this, a tight focus was placed on provision by RDB partners of increased volumes of SME support drawing on their own or borrowed funds (other than the RDB's resources).

This is the target of the RDB's new credit products developed in 2010 within the framework of the Program. The interest rates on the RDB's credit products to be extended to partners will be set depending on the proportion of the additional amount of funds (in percentage to the sum of the RDB's credit) that the borrower-partner is prepared to provide to SMEs drawing on funding sources other than the RDB ones. Extension of credit products by the RDB within the Program "Financing for Innovations and Modernisation" requires mandatory co-financing<sup>18</sup> by the borrower-partner of the targeted SME projects for which the credit was provided.

The following data clearly demonstrate the main outcomes of the Program implementation delivered by the end of the period under review<sup>19</sup>.

As at 01 January 2011, 216 partners representing banks and infrastructure companies that have loan agreements with the RDB, effective as at the given date, participated in the Program. As compared to the year start 2010, the number of partners increased more than 3-fold.

The RDB's commitments towards its partners under the concluded loan agreements (effective as at 01.01.2011) total RUB 95.3 billion. Apart from that, in conformity with the terms of the contracts, RDB's partners under-

18. "Additional financing" means financing arranged by the RDB's partners drawing on funding sources other than the RDB's resources.

19. The results are given based on the RDB's data regarding all the components of the Program.

took commitments to extend to SMEs an additional amount of money totalling RUB 25.5 billion.

Obviously, the measures undertaken by Vnesheconombank helped significantly decrease the costs of funds for the end-borrowers – SMEs.

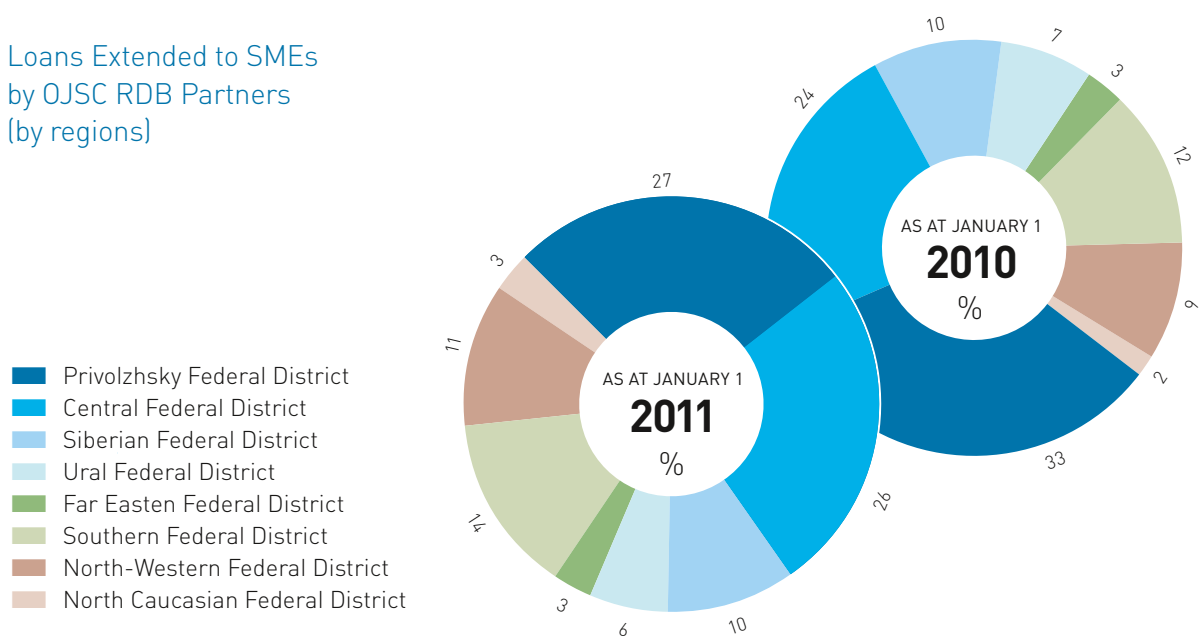
Over 2010, the weighted average interest rate on the portfolio of loans, extended by partner-banks to SMEs decreased from 16% to 13.55% per annum (as at 01.01.2010 and as at 01.01.2011 accordingly). The similar figure for loans provided within the framework of the Program “Financing for Innovations and Modernisation” slightly exceeded 10% per annum (as at the end of the reporting period).

The geographic reach of the Program embraces all the federal districts and almost all the constituent entities of the Russian Federation (as at year-end 2010 – 82 entities).

In a number of regions, SME demand for credit resources is relatively low. In 2010, with a view to enhancing SME support, special terms of financing were offered in such regions (much softer than those offered in regions with strong demand). That, by the end of the reporting period, allowed for increasing the volume and share of credits extended to SMEs in the North-Western, North-Caucasian and Southern Federal Districts.

In April 2010, Vnesheconombank, in order to secure support for SMEs operating in areas of generation, commercialisation and introduction

Loans Extended to SMEs  
by OJSC RDB Partners  
(by regions)





of innovations, signed a multilateral Agreement on cooperation between development institutions and stakeholders.

The subject matter of the Agreement is to ensure financial support for SME innovation projects at all phases of the innovation cycle.

Apart from Vnesheconombank, the participants in the Agreement are: OJSC "RBD", GK "Rosnanotech", OJSC "Russian Venture Company", "Fund for assistance to SME development in scientific and technical sphere", the Russian Association of Venture Investment, CJSC "Moscow Interbank Currency Exchange", the all-Russia public organization of small and medium entrepreneurship "OPORA Rossii" and the Federal Agency for Youth Affairs.

The Agreement lays groundwork for the organizational mechanism enabling the participants to exchange information on the ongoing projects and to identify for every project a support instrument appropriate for the respective phase of the innovation company development. The key functions of the participants in the Agreement include:

- working out uniform approaches to selecting, providing expert evaluation, structuring and implementing SME projects; identifying projects that have a high potential;

- rendering financial support for SME innovation projects at various phases of project delivery;

- attracting for projects, which are supported by the agreement participants, of funding from other sources.

Interaction of the parties to the Agreement is carried out under the auspices of the Coordination Council that consists of heads of the organisations – participants in the Agreement. V. Dmitriev, Chairman of Vnesheconombank, chairs the Coordination Council.

In encouraging enhanced scale and scope of SME support and securing SME access to long-term resources, most instrumental was Vnesheconombank's cooperation with international and foreign financial institutions, including the European Bank for Reconstruction and Development (EBRD), Kreditanstalt fur Wiederaufbau (KfW) (Germany), Intesa Sanpaolo Spa and UBI Banka (Italy), Zurcher Kantonalbank (Switzerland), and Export-Import Bank of India.

To implement the provisions of the cooperation agreements, a wide range of instruments of financial and guarantee support could be used.

As a follow up to the agreement signed between Vnesheconombank and KfW<sup>20</sup>, the Bank extended guarantees to secure commitments of 3 Russian banks (they have affiliates in 52 regions of the Russian Federation) under these banks' loans raised from KfW for SME financing (as at 01.01.2011, the amount of guarantee portfolio was running at USD 53.7 million).

20. The Agreement was signed by Vnesheconombank and KfW in 2009. The Agreement provides for extension by the German development institution of targeted loans (5-year tenor, the total amount up to EURO 200 million) to Russian commercial banks for financing SMEs. Among the financing priorities are SME projects for developing and introducing energy saving technologies. The Agreement was signed to further develop the agreement on German-Russian Initiative on financing SMEs previously signed by the parties.

In April 2010, Vnesheconombank and KfW signed a Memorandum of Understanding on German-Russian Program of Innovation and Modernisation. To further develop the Memorandum and implement the Program, the German bank extended to OJSC "RDB" a loan amounting to EURO 100 million.

## 1.6. Borrowing in Capital Markets

The task to intensify borrowing in capital markets was one of the key priorities of 2010. Accomplishing it required a substantial increase in volumes and maturities of the Bank's resource base. That was primarily driven by the need to satisfy demand for funding investment projects financed by Vnesheconombank.

Setting this particular task was motivated by objective reasons since at the beginning of 2010 credits extended for a term exceeding 3 years accounted for about 85% of the Bank's loan portfolio. As a rule, interest rates on the Bank for Development credits were lower than those offered by commercial banks. The Bank was also expected to provide ever-increasing amounts of long-term financial support for the country's economy.

Hence, the effort was made to enhance the resource base, primarily to satisfy long-term funding needs, while seeking to borrow at competitive loan rates.

Given the federal budget constraints, resulting from concentration of public funds in the post-crisis period on support for the real econo-

my, funds available in the capital markets<sup>21</sup> were viewed by the Bank as major external sources for replenishing the resource base. The goal could be mainly achieved through applying market instruments, with the focus on minimizing the costs of borrowing (and with due regard for the current and forecast market environment).

The challenge was successfully met through issuance and placement of bonds in the foreign and domestic capital markets (for the total amounts of USD 3.2 billion and RUB 25 billion respectively), as well as through obtaining long-term credits from foreign banks (for the total sum equivalent to RUB 36.3 billion).

As at 01.01.2011, the amount of mid- and long-term loans (with maturities of 1 year and exceeding 1 year) reached RUB 257.4 billion (+42% on the same indicator as at the start of the reporting period). Actually, at the end of 2010, funds raised through the use of securities market instruments made the bulk of these resources, with the respective share of funds growing up to 60% (versus 33% as at the beginning of 2010).

Alongside that, borrowing by Vnesheconombank in 2010 of funds with maturities exceeding 5 years for the total sum equivalent to RUB 135 billion motivated other changes in the structure of funds raised in the capital markets. The volume and share of such long-term resources witnessed a substantial rise. To illustrate, if at the beginning of the reporting period the volume of the relative funds reached RUB 86.5 billion (or

21. With maturities of the borrowed funds — 1 year and over 1 year

Equivalent to RUB, billion

| Indicators  | 01.01.2010 | 01.01.2011 |
|---|------------|------------|
| Funds raised from bond placements, total  | 60.5       | 153.0      |
| Including:  |            |            |
| Amount of US dollar-denominated Eurobonds issued (maturity – 7, 10 and 15 years)                            | –          | 97.5       |
| Amount of domestic US dollar-denominated bonds issued (maturity –1 year)                                    | 60.5       | 30.5       |
| Amount of domestic ruble-denominated bonds issued (maturity – 10 years, with 3-year and 7-year put options) | –          | 25.0       |
| Amount of credits obtained from banks (maturity – exceeding 1 year)   | 121.3      | 104.4      |
| Amount of resources raised in capital markets, total  | 181.8      | 257.4      |

48% of the overall volume of borrowings in the capital markets), then by the end of 2010 they totalled RUB 171.7 billion (67% accordingly).

### Raising resources with the use of securities market instruments

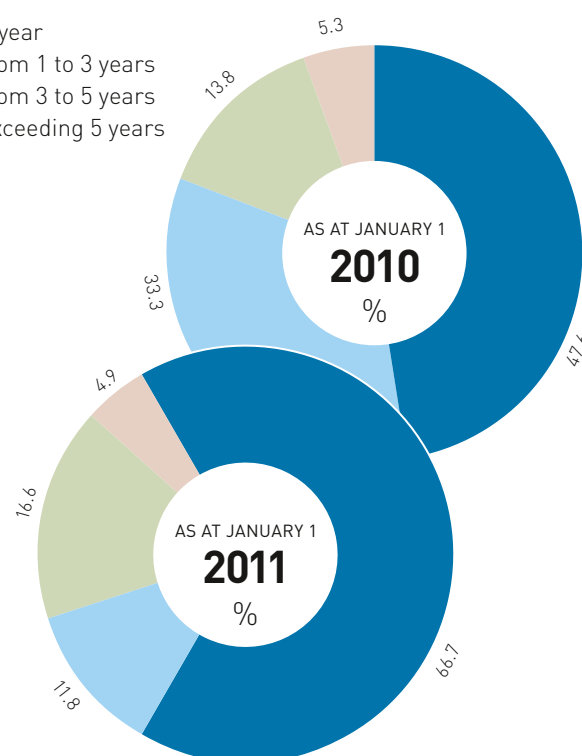
In 2010, Vnesheconombank made debut placements of long-term Eurobond issues in the international capital markets and ruble-denominated bonds in the domestic market of debt securities.

*In June 2010, a Program of Vnesheconombank's loan participation notes (hereinafter – Eurobonds) or Euro Medium Term Notes (EMTN) for the total amount of USD 30 billion was registered. In 2010 the Bank's bonds issued included:*

In July, a debut issue of 10-year Eurobonds in the amount of USD 1.6 billion (maturing in 2020), the coupon rate set at 6.902 % per annum;

### Structure of Funds Borrowed in Capital Markets by Maturity

- 1 year
- from 1 to 3 years
- from 3 to 5 years
- exceeding 5 years



In November, the issuance of 7-year Eurobonds and 15-year Eurobonds in the total amounts of USD 0.6 billion and USD 1.0 billion respectively was performed. The coupon rate for bonds of Series 2 (maturing in 2017) was set at 5.45% per annum, for bonds of Series 3 (maturing in 2025) – at 6.8% per annum.

*The outcomes of the above placements demonstrate strong foreign investor demand for Vnesheconombank's Eurobonds issued within the EMTN Program.*

*October 2010 saw the registration of 12 issues (Series 06-17) of 10-year domestic ruble-denominated bonds (non-convertible interest-bearing documentary bearer bonds, subject to mandatory centralized custody) for the total nominal value of RUB 190 billion.*

In the period under review, the Bank made placement of Series 6 and Series 08 of these bonds in the total amounts of RUB 10 billion and RUB 15 billion respectively.

*Ruble-denominated funds with a 10-year maturity were raised at record low for the Russian market rates (in the circumstances of the existing market environment):*

RUB 15 billion at the rate of 6.9% per annum (with a 3-year put option<sup>22</sup>),

RUB 10 billion at the rate of 7.9% per annum (with a 7-year put option).

22. A period of time during which bondholders may not claim early redemption from the issuer.

Apart from it, in April 2010 Vnesheconombank placed for 1 year (via private subscription) on the Moscow Interbank Currency Exchange USD 1.0 billion worth of non-convertible interest-bearing documentary bearer bonds in the number of 1 million, with a par value of USD 1,000 each, subject to mandatory centralized custody (Series 02 within the framework of the issue registered before the reporting period). The coupon rate was standing at Libor (6m)+ 1.0 %.

We believe that Vnesheconombank's successful bond placements not only evidenced interest in the above instruments shown by the capital market participants, but also demonstrated its positive assessment as a national development institution committed to resolving issues that are key for the state and recognition of the Bank as a credible borrower noted for an acceptable level of creditworthiness and overall financial sustainability.

### Raising resources in the form of loans

*As at 01.01.2011, the amount of funds borrowed in the form of loans with maturities exceeding 1 year that were attracted from foreign banks in accordance with the agreements (including those concluded before 01.01.2010, but effective in the period under review) reached RUB 104.4 billion.*

*The year 2010 witnessed the signing of loan agreements that stipulated raising by Vnesheconombank from foreign banks of mid- and long-term resources in the amount equivalent to USD 3.8 billion.*



**JEAN-MARC FARINI**  
General Manger,  
"Roza Khutor" Alpine resort

"Most exclusive and exceptional conditions for creation of the Alpine skiing resort. The Aibga mountain ridge is noted for a unique natural landscape that facilitates the construction of ski pistes of various complexities and arrangement of competitions in 15 Olympic events in full compliance with the stringent rules of the International Ski Federation".

**MIKHAIL POLUBOYARINOV**  
Director for Infrastructure Department,  
Vnesheconombank

"For the Bank, "Roza Khutor" resort is an exceptional project. On the one hand, it is one of the major sports facilities of the Olympics 2014. On the other hand, it is a full-fledged resort with the accommodation capacity of 10 thousand people per day. The project has no analogues in Russia and matches the standards of the best world resorts".

## Exceptional and Standard-Matching

Construction and operation of the Alpine skiing resort "Roza Khutor"

Among these agreements were bilateral ones and Club Deals with a number of foreign banks (including those under the cover provided by export credit agencies). Within the framework of these agreements, “tied” credits were raised with a view to financing concrete investment projects, in the delivery of which Vnesheconombank participates.

The major “tied” deals of 2010 comprised:

■ Agreements with a syndicate of foreign banks on raising loans for the total amount of USD 1.44 billion, with the terms ranging from 5 to 13.5 years to finance an investment project for construction of a polypropylene plant in Tobolsk. Syndication participants: Credit Agricole Corporate and Investment Bank, Deutsche Bank, Intesa Sanpaolo, ING Bank, Societe Generale Corporate and Investment Banking, KfW IPEX-BANK, Sumitomo Mitsui Banking Corporation (Europe);

■ Agreements that provide for borrowing resources from a club of foreign banks (Banco Bilbao Vizcaya Argentaria, BNP Paribas, Credit Agricole Corporate and Investment Bank, Caja de Ahorros y Pensiones de Barcelona, Societe Generale, Banco Espanol de Credito) for the total amount of up to USD 770.5 million for the terms ranging from 5 to 12.5 years to finance a project for construction and modernization of the productive capacities implemented by OJSC “Khabarovsk Oil Refinery”;

■ Loan agreement with China Development Bank (China). The loan amount totals USD 361.5 million and the loan tenor is 11 years. The resources will be used for financing a project

for construction of a timber-processing complex to produce sawn timber and chipboard in the Vanino district, the Khabarovsk territory.

*Admittedly, raising a syndicated loan in the format of a Club Deal became a hallmark event of the year.* The syndication participants included 13 banks: Barclays Capital, The Bank of Tokyo – Mitsubishi UFJ, Societe Generale Corporate and Investment Banking, BNP Paribas, Sumitomo Mitsui Banking Corporation, Calyon, Deutsche Bank (London), Intesa Sanpaolo (Ireland), Citigroup, UniCredit Group, WestLB (London), UBS (London), HSBC Bank. *The loan amount totals USD 700 million and Euro 100.0 million, the loan tenor – 3 years.*

Alongside that, a loan for the amount of USD 115 million (3-year tenor) was raised from WestLB. The credit was arranged in a *Schuldscheindarlehen* certificate of indebtedness format. The deal participants include: Commerzbank, BayernLB, Raiffeisenlandesbank Oberoesterreich, Chang Hwa Commercial Bank and First Commercial Bank.

Also, framework loan and cooperation agreements, memorandums of understanding with major foreign banks were signed. These banks comprised: UBS (Switzerland), Caisse des Depots et Consignations (France), Landesbank Berlin (Germany), ING Bank (the Netherlands), Export-Import Bank of the United States (USA).

## 2

## FX and Interbank Money Market Operations, Managing the Bank's Securities Portfolio

The provisions of Vnesheconombank's Memorandum on Financial Policies stipulate, in particular, its activities in the domestic and foreign financial markets with a view to placing temporary idle funds and managing risks.

To this end, Vnesheconombank performs operations in FX, interbank money markets and securities markets. In effecting these operations, the Bank abides by the limits explicitly specified in the Memorandum. On an annual basis, Vnesheconombank's Supervisory Board establishes the maximum amount of funds allocated to manage the Bank's temporarily idle cash (liquidity).

Specific instruments, parameters and terms and conditions applicable to operations in the above segments of the financial markets are defined depending on the outcomes of a careful analysis of the current and forecast market environment.

### 2.1. FX and Interbank Money Market

In 2010, Vnesheconombank engaged in activities in the FX and interbank money markets against the backdrop of high volatility of the exchange rates of major global currencies.

At the beginning of the period under review, the EUR/USD exchange rate stood at 1.43. In H1 of the year, due to a worsening Euro zone debt crisis (first manifested in Greece), the US dollar exchange rate was gaining relative to Euro to stand at 1.19 in June. But H2 of the year saw restored positions of the Euro and at year-

end 2010, the EUR/USD exchange rate was fixed at 1.34.

Over the year, the range of the exchange rate fluctuation of the Russian ruble relative to the US dollar was within RUB 28.93–31.78, relative to the Euro – RUB 37.42–43.46.

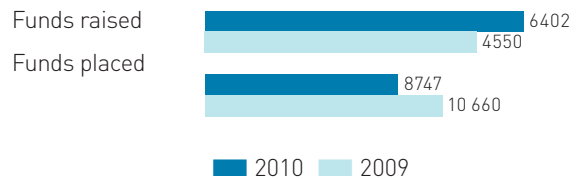
Throughout the year, the Bank of Russia was continuously reducing the refinancing rate and, as at 01.01.2011, it made 7.75% (as compared to 8.75% as at 01.01.2010).

Simultaneously, short-term rates in the interbank loan market were decreasing over the entire period of 2010 from 3.0–4.2% to 1.9–3.0%. That obviously reflected high amounts of excessive liquidity.

In light of this, the volumes of funds raised by commercial banks under REPO operations with the CBR were quite negligible. In order to reduce excessive liquidity volumes, tenders for placements of the CBR's bonds were arranged.

The overall turnover under the Bank's FX operations decreased from RUB 36 402 billion in 2009 to RUB 11 000 billion in 2010, including a decline in "currency swap" operations from RUB 31 627 billion to RUB 8 417 billion. A decrease witnessed in the Bank's FX operations volumes in the reporting period could be explained by the fact that demand for foreign currency-denominated resources required for financing investment projects was satisfied by funds generated in 2010 through issuance by the Bank of Eurobonds and domestic dollar-denominated bonds.

Turnover of Money Market Operation/short-term interbank loans, RUB billion



Notably, at the end of the year, the turnover of the funds placed (less long-term and "tied" credits) and funds raised in the interbank money market totalled an equivalent of RUB 8747 billion and RUB 6402 billion respectively.

## 2.2. Managing Securities Portfolio

### Equities

The price dynamics in the equities segment of the Russian market reflected instability of the global economy. In H1 2010, against the backdrop of the debt crisis unfolding in Greece and worsening macroeconomic indicators in the USA, the Russian Trading System (RTS) index posted a 15% decrease. Starting from H2 of the year, as a result of the anti-crisis measures taken by the EU and the IMF, as well as due to the US economy rebound, a distinct change in the sentiment of international and Russian investors was witnessed. Responding to a rising demand for risky assets and following the trends in the global stock markets, by the end of 2010 the RTS index was 22.5% up, as compared to the beginning of the year.



Increased numbers and volumes of share placements performed by Russian companies through IPOs/SPOs signaled a rebound in the stock market. By way of example, if in 2009 the IPOs/SPOs by Russian companies generated USD 1.3 billion, then the respective figure for 2010 exceeded USD 6.0 billion.

### Eurobonds

Within most of 2010, the yield on the major "market benchmark", i.e. the US 10-year Treasury bills<sup>23</sup> decreased from the peak values of 3.9–4.0% posted in January – April to 2.3% in October 2010 to rise again to 3.4% by the end of the year.

Overall, in 2010, the prevailing situation in the emerging countries' Eurobonds market was quite favorable, except for the period (April–May), when the European crisis reached its peak. In the year under review, sovereign ratings of many emerging nations, including China, Turkey, Argentina, Indonesia, Chili and Kazakhstan were upgraded.

The yield spreads of emerging economies Eurobonds, calculated on the JP Morgan EMBI+ index, narrowed from the maximum values of 330–350 basis points (April–May 2010) to 230–250 basis points (the end of 2010).

In 2010, Russia made a debut sovereign Eurobond placement for the amounts of USD 2.0 billion (5-year term) and USD 3.5 billion

(10-year term), with the yield standing at 3.741% and 5.082 % respectively.

The amount of new placements of the Russian issuers' corporate Eurobonds reached USD 28 billion, demonstrating a substantial increase on the same indicator of 2009 (USD 15.2 billion).

The overall volume of the Russian corporate Eurobond issues (in circulation) increased from USD 99.4 billion at the start of the year to USD 112.1 billion at the end of the year.

### Ruble-denominated bonds

In H1 2010, the yield on the ruble-denominated bonds decreased to finish at levels recorded in mid 2008 (the pre-crisis yield levels). However, the past few months of 2010 witnessed an upward yield trend for the ruble-denominated bonds, which was driven by the market participants' expectations of tightening the Russian Federation monetary policy due to an explicit trend of inflation acceleration.

Just as before, the market of OFZs served as a benchmark for determining the yield on corporate ruble-denominated bonds. In September 2010, "Major Guidelines of the Russian Federation Debt Policy for 2011–2013" that stipulated the use of the domestic debt market as a key source for financing the budget deficit were approved. Given a benign dynamics of the budget revenues, the Russian Ministry of Finance would not seek to fully implement the planned program of domestic borrowing, having issued within the year OFZs for the total amount of RUB 715.2 billion. That reduced the yield on government bonds maturing in 1–5 years from 6.8–8.0% to 4.6–7.4%.

23. Notionally, the US Treasury bills are viewed as "risk free" instruments, with their yield levels being used to characterise the levels of risk inherent to other bonds. The difference (spread) between the yield on this or that bond and the yield on the US Treasury bills (same maturity) serves as a risk measure.

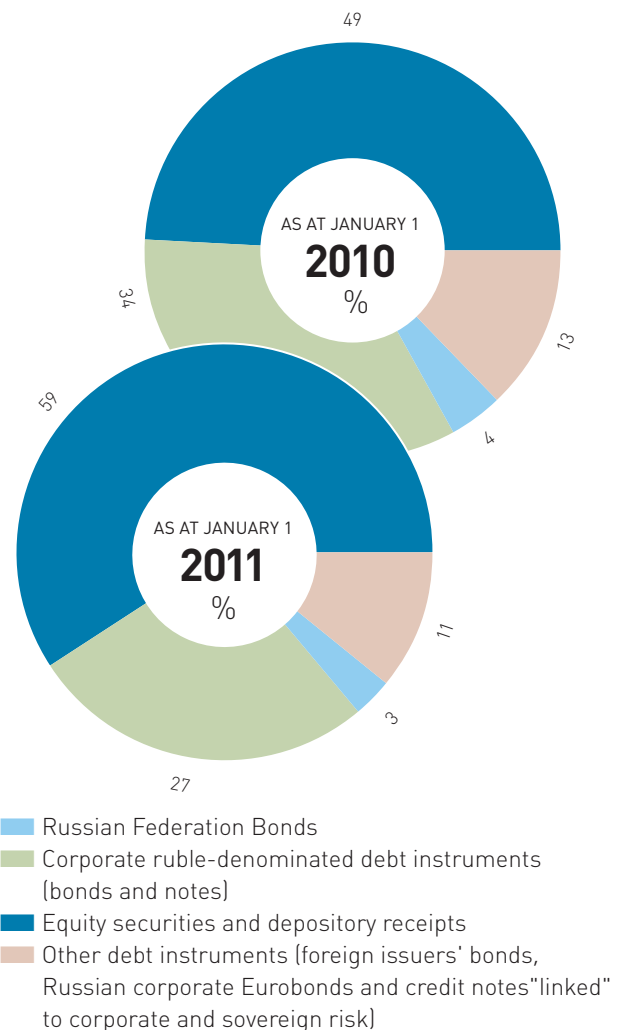
High ruble liquidity levels maintained enabled the corporate issuers make successful placements of 207 issues amounting to RUB 850.8 billion versus RUB 1026.0 billion in 2009. Decreased amounts of placements were, in particular, motivated by reallocation of liquidity by commercial banks in favor of increased amounts of corporate and retail lending in the circumstances of waning attractiveness of the ruble-denominated bonds (rising prices). The year-end 2010 saw a downward yield trend for ruble-denominated corporate "first line" bonds from 8.5–9.5% to 6.3–7.5%, for the "second line" bonds – from 10–12% to 7.5–9.0%.

In managing its securities portfolio, the Bank's policy was overall characterized by the principles of a well-measured and conservative decision-making policy in respect of changes in investment structure and volumes. The portfolio is diversified by types of securities and issuers, with the liquid instruments of most credible Russian issuers making the bulk of investments.

Vnesheconombank's portfolio encompasses debt and equity securities: government bonds and foreign issuers' bonds, Russian corporate Eurobonds, corporate and sovereign risk-linked credit notes, corporate ruble-denominated bonds, promissory notes, shares and depositary receipts.

Over the period under review, the volume of the securities portfolio grew by RUB 98.3 billion and at 01.01.2011 totalled RUB 474.1 billion (+26% on the beginning of 2010).

### Securities Portfolio Structure



## 3

## Depository Activities

Vnesheconombank provides a universal range of depository, settlement and information services in respect of a wide spectrum of Russian and foreign securities.

Vnesheconombank's Depository (hereinafter – the Depository) is a leading Russian depository servicing the secondary market of MinFins and the Russian Federation Eurobonds.

The Bank's Depository activities are conducted on a high professional level that allows it to service securities traded in the Russian market and in the markets of more than 100 countries worldwide and to work with certificates of documentary securities.

For Vnesheconombank, direct accounts were opened with Euroclear Bank and Clearstream Banking (international depositories), The Bank of New York Mellon (a major custodian bank), in the leading Russian depositories. Also, the accounts of a nominal holder were opened for the Bank with shareholders' registers that are maintained with 23 registrar companies. The Bank has its own certified vault for safekeeping documentary securities.

As at 01.01.2011, the overall number of client depo accounts maintained by Depository was running at 1159, including more than 400 depo accounts of banks and financial sector companies. Over 2010, 68 new client depo accounts were opened.

The number of depository operations over the client accounts in 2010 made 17 703 (in 2009 – 24 902). The year 2010 saw 7767 operations on realization of corporate actions of issuers of securities recorded on client depository accounts.

In order to meet high market participants' requirements for quality and accessibility of depository services, Vnesheconombank's Depository professionals continued work aiming to enhance the automation level of operations. The currently achieved automation level allows the Bank's professionals to promptly process client instructions, transferred in SWIFT formats, ensuring thereby speedy and reliable settlements even if the number of operations is huge.

With a view to providing consulting support for clients that use SWIFT system for information exchange, recommendations with respect to filling in SWIFT messages (category 5) applied for settlements in securities operations were made available on Vnesheconombank's web-site [www.veb.ru](http://www.veb.ru) (Depository section).

In 2010, in order to enhance efficiency of operations in the registers of securities owners, the Depository switched over to an electronic document turnover with two registrar companies on the basis of technological solutions offered by "National Settlement Depository" (NSD).

Over the period under review, Vnesheconombank, drawing on the federal budget funds, made coupon payments under the IV, V and VII Tranche Minfin bonds, as well as payments of principal amounts under the IV and V Tranche of Minfins when the bonds were presented to

Vnesheconombank by bondholders, as well as when exchanging the balances on clients' blocked and special currency accounts for MinFin bonds. The total amount of payments in 2010 reached USD 32.16 million.

In 2010, Vnesheconombank acting as the payment agent to service bonds of OJSC "AHML" effected payments under Tranche A2–A9, A14, A15 OJSC AHML bonds amounting to RUB 4.78 billion. OJSC "AHML" bonds are guaranteed by the Russian Federation Ministry of Finance. Also, Vnesheconombank was appointed as a payment agent to service new issues of Tranche A16 and A17 of OJSC AHML bonds (maturing in 2021 and 2022) amounting to RUB 18 billion. Payments under the above issues will be made starting from 2011.

Also, Depository professionals went ahead with the task of keeping depository records and registering securities that serve as a collateral under credits and loans extended by the Bank. Apart from that, the Bank's professionals performed the functions related to servicing bonds issued by the Bank, as well as the functions of keeping depository records of proprietary operations with securities and Vnesheconombank's operations as the STMC to manage the pension savings.

## 4

## Agent for the Government of the Russian Federation

In 2010, Vnesheconombank continued to perform the functions of the agent for the Government of the Russian Federation in payment/settlement and information and analytical servicing of Russia's sovereign foreign debt, managing external state financial assets of the Russian Federation, ensuring repayment of debt owed to the Russian Federation by legal entities, constituent entities of the Russian Federation and municipalities, as well as the functions related to extending and executing of the Russian Federation state guarantees.

Priority was given to reducing the amount of the sovereign foreign debt of the Russian Federation and the respective servicing costs. Also, the Bank was seeking to ensure maximum possible revenues for the federal budget by means of debt repayments by debtor countries and Russian borrowers.

Issues of sovereign foreign debt settlement and state external asset management were in the focus of the Bank's professionals' substantive information and analytical work. The Bank's specialists directly participated in the international negotiation process.

In the period under review, the Bank developed and prepared 25 reports and analytical opinions on debt recovery. Documents and/or proposals on trade-economic and scientific-technical cooperation of the Russian Federation with foreign countries for inclusion into the agenda of 24 meetings and sessions of inter-governmental bodies (or committees and sub-

committees established within their framework) were prepared.

The Bank's representatives participated in the work of the Russian delegation at all the 11 sessions of the Paris Club of creditors, in the annual "Club" meeting with a number of sovereign creditors and representatives of the private sector, as well as in 8 rounds of multilateral negotiations of the Paris Club with debtor-countries (including 5 rounds with Russia's debtors – Afghanistan, the Republic of Congo, the Democratic Republic of Congo /2 rounds/, Guinea Bissau). Based on the results of the negotiations, multilateral protocols of the Club with the debtors were signed.

## Servicing the sovereign foreign debt of the Russian Federation

In 2010, in line with the instruction of the Russian Federation Ministry of Finance, Russian Eurobonds with maturities in 2015 and 2020 amounting to USD 2.0 billion and 3.5 billion respectively were recorded on Vnesheconombank's books.

Vnesheconombank in due time effected payments totalling USD 4.1 billion (drawing on the Russian Federation budget funds) in redemption and servicing of the Russian Federation sovereign foreign debt. In particular, the Bank made payments of principal amounts totalling USD 3.6 billion, as well as coupon payments under the Russian Federation Eurobonds (under the 1998 bond issue – USD 0.7 billion, under the Russian Government bonds "2010" and "2030" –

USD 2.8 billion, under the Russian Government bonds "2015" and "2020" – USD 0.1 billion). Thus, settlements under the Russian Federation Eurobonds with final maturity in 2010 were fully completed.

The Bank's professionals carried out work on finalizing the results of the 3rd closing stage (December 2009) of exchange of the former USSR commercial debt for foreign currency-denominated bonds of the Russian Federation maturing in 2010 and 2030. As at 01.01.2011, in total, 1946 claims amounting to USD 398.72 million were exchanged.

In the reporting period, Vnesheconombank, based on results of the 3 stages of exchange of the former USSR commercial debt, informed the former USSR foreign trade importer-organizations that their obligations were settled drawing on the budget funds. In this context, 47 notifications with attached detailed lists of the settled debt positions were prepared and forwarded.

Alongside that, record-keeping/settlement support was provided for operations related to redemption of Russia's debt towards creditor-countries beyond the framework of the Paris Club. Overall, USD 313.5 million worth of this foreign debt category was redeemed, inclusive of USD 164.9 million worth of cash payments made, USD 122.1 million redeemed within the framework of the "debt-for-goods-swap" and USD 26.4 million – within other debt redemption schemes. As a result of these operations, the former USSR debt owed to the Arab Republic of Egypt and the Republic of Slovenia was finally redeemed. In 2010, an expertise of 5 inter-governmental draft agreements/supplements

(the Oriental Republic of Uruguay, the Republic of Macedonia, the Republic of Slovenia, Montenegro and the People's Republic of China) was made, as well as the signing of 4 interbank agreements/supplements on the procedure for bookkeeping/settlements was ensured (the Oriental Republic of Uruguay, the Republic of Macedonia, the Republic of Slovenia and Montenegro).

During the period under review, the Bank continued work to settle the former USSR internal foreign currency-denominated debt owed to legal entities of the CIS countries and the Baltic states. Within the framework of the events held to bolster financial-economic relations between the Russian Federation and the CIS countries, Vnesheconombank in the reporting period prepared analytical data on the present state of settlements under the former USSR internal foreign currency-denominated debt owed to the CIS countries and the Baltic States. Also, Vnesheconombank prepared a qualified opinion in respect of the redemption of this debt category.

## Managing state external financial assets of the Russian Federation

Vnesheconombank keeps records and effects settlements related to the debt of 54 Russia's debtor-countries under state loans extended by the Russian Federation in accordance with 287 loan agreements.

Overall, in 2010, as a result of the Bank's state external financial asset management operations, the funds transferred to the federal budget amounted to USD 1727.0 million (in 2009 –

USD 874.3 million), while the volume of payments by foreign borrowers to redeem and service the debt totalled USD 1231.3 million. The proceeds delivered as a result of the realization of clearing and blocked currency-denominated debt amounted to USD 492.7 million.

Over the period under review, Vnesheconombank's professionals signed:

■ 22 trilateral agreements between the Russian Federation Ministry of Finance, Vnesheconombank and Russian organisations on the procedure for providing budget financing to Russian exporters that supply goods and render services drawing on the state loans;

■ 5 interbank agreements/supplements on extending new state loans and on debt settlement (Abkhazia, the Hashemite Kingdom of Jordan, the People's Republic of China, Mongolia and the Republic of Serbia);

■ 5 agreements on technical procedure of bookkeeping/settlements under state credits (Abkhazia, the Hashemite Kingdom of Jordan, the People's Republic of China, the Republic of Serbia and Sri Lanka).

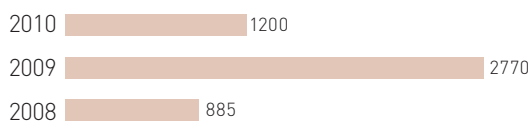
## Ensuring repayment of debt owed to the Russian Federation by legal entities, constituent entities of the Russian Federation and municipalities

In an agency capacity, Vnesheconombank also places a tight focus on resolving issues related to the settlement of bad debts owed by

legal entities, the constituent entities of the Russian Federation and municipalities under the federal budget loans, as well as to settlement of indebtedness under targeted financing provided for Russian legal entities in exchange for equities transferred into the Russian Federation ownership.

In 2010, the total volume of indebtedness settled towards the federal budget amounted to about USD 1.2 billion.

#### Indebtedness Settled, USD million



Vnesheconombank's specialists participated in 271 court hearings with respect to 75 lawsuits. Within the in- and out-of-court procedure of debt settlement, USD 455 million was transferred to the Federal budget, inclusive of USD 247 million transferred under amicable agreements and agreements on debt restructuring concluded earlier.

### Extension and execution of state guarantees of the Russian Federation

In conformity with Federal Law No. 308-FZ dated 02 December 2009 "On Federal Budget for 2010 and the Planned Period of 2011 and 2012" and the Russian Federation Government Directives, Vnesheconombank performed the functions of the Agent for the Russian Federation Government in extending and executing state guarantees of the Russian Federation:

under loans raised by organizations that were selected in accordance with the procedure set forth by the Russian Federation Government (the Russian Federation Government Directive No. 103 dated 14 February 2009);

under loans raised by strategic companies representing the defense industry (the Russian Federation Government Directive No. 104 dated 14 February 2009);

under borrowings raised to provide engineering infrastructure for plots of land and to modernize public utilities infrastructure facilities with the view of housing construction (Federal Law No. 308-FZ dated 02 December 2009);

under bond loans raised by legal entities to deliver investment projects (the Russian Federation Government Directive No. 128 dated 05 March 2010);

under loans raised by legal entities that are registered and carry out their core statutory activities in the Chechen Republic for delivery of investment projects in the Chechen Republic (the Russian Federation Government Directive No. 223 dated 12 April 2010);

under credits or bond loans raised by state corporation "Russia Corporation of Nanotechnologies" (the Russian Federation Government Directive No. 709 dated 10 September 2010);

under a bond loan raised by OJSC "United Aircraft Building Corporation" (the Russian Federation Government Directive No. 721 dated 13 September 2010);



■ under a bond loan raised by OJSC “United Industrial Corporation Oboronprom” (the Russian Federation Government Directive No. 722 dated 13 September 2010);

■ under credits or bond loans raised by state company OJSC “Russian Highways” ( the Russian Federation Government Directive No. 786 dated 05 October 2010).

Acting as the agent for the Russian Federation Government, Vnesheconombank made a thorough scrutiny of applications for state guarantees, prepared the relevant conclusions, ensured analysis/record keeping of state guarantees of the Russian Federation, which were extended, and of the respective organizations’ commitments.

Overall, over the period of 2009-2010, the Bank scrutinized 204 applications for provision of state guarantees submitted for consideration. Positive decisions were made in respect of 162 applicants only. The year 2010 witnessed preparation of 86 conclusions to agree amendments/supplements to loan agreements and contracts on securing commitment fulfillment, which, among other things, are covered by extended state guarantees of the Russian Federation.

Alongside that, Vnesheconombank performed other agency functions in this particular area. These included evaluating and analyzing the principals’ financial positions, as well as checking the liquidity of the collateral offered under loan agreements secured by state guarantees. In 2010, the relevant checks with respect to 80 principals were performed.

Overall, over the period of 2009-2010, 148 state guarantees of the Russian Federation amounting to RUB 401.1 billion were placed on Vnesheconombank’s books for analytical record keeping.



РЕГ. № 63544  
ПРОСМОТРЕНО: 10/05/16 Т.  
ВЫПЕЛЕТ: 45/63/66 М.  
ДАТА СПЕД:  
ТЕХ. ОСНОВ: 06.06.2012

УДАЛЕНА  
ПРОБЛЕМА  
ГРУЗА

Крановый станок  
№ 43-20  
№ 44-20  
Вместимость груза  
№ 44-20

**SERGEY BRUSNITSIN**

Chief shipbuilder,  
OJSC "Sovkomflot"

"Innovative solutions secure both efficient performance of the tankers and navigation safety in any weather conditions. Even with the temperatures overboard plummeting to 40 below zero, in extreme ice conditions, most accommodating working conditions for the team and smooth operation of the tanker machinery will be ensured".

**MIKHAIL AIVAZOV**

Deputy Director, Department for Infrastructure  
Vnesheconombank

"The project has a double priority for us. We are seeking to support the domestic shipbuilding industry and innovation. Built by OJSC "Admiralteiskie Verfi" (St. Petersburg), the oldest shipbuilding facility since Peter the Great times, the shuttle Arctic tankers (deadweight-carrying capacity — 94 thousand tons) are the biggest and probably the most technological vessels ever produced in the USSR or Russia".

# Tradition and Innovation

Acquisition and operation by OJSC "Sovkomflot"  
of Arctic shuttle tankers

## 5

## State Trust Management Company

For Vnesheconombank, performing the function of the State Trust Management Company to manage the pension savings of the insured citizens (hereinafter – the “STMC”<sup>24</sup>), which was delegated to it by the Russian Federation Government<sup>25</sup> in 2003, is one of the socially responsible aspects of its activities.

As the STMC, whose activities are regulated by Federal Law No. 111-FZ dated 24 July 2002 “On Investing Funds for Financing Accumulative Part of Labour Pensions in the Russian Federation”, Vnesheconombank ensures management of the pension savings of the insured citizens of the Russian Federation who have not exercised the right to choose a private pension fund or a private asset management company and of those who have shown a preference for the STMC.

In 2010, just as in the previous years, the STMC priority tasks included ensuring the safety of the pension savings transferred to Vnesheconombank for trust management, minimizing market risks when investing the respective funds and effecting operations to secure the return of the funds at request of the Russian Federation Pension Fund.

Major factors that negatively impacted the STMC activities in 2010 were growing inflation in H2 of the year under review and insufficient

24. The given aspect of the Bank’s activities is reflected in Federal Law No. 82-FZ dated 17 May 2007 “On Bank for Development”. In accordance with the Law (Article 21, part 2), Vnesheconombank shall perform the functions of the STMC till the date set by the Russian Federation Government.

25. The Russian Federation Government Directives No. 34 dated 22 January 2003 and No. 970 dated 22 December 2008.

supply of bonds of credible issuers (both in the primary and secondary markets).

## Extended investment portfolio

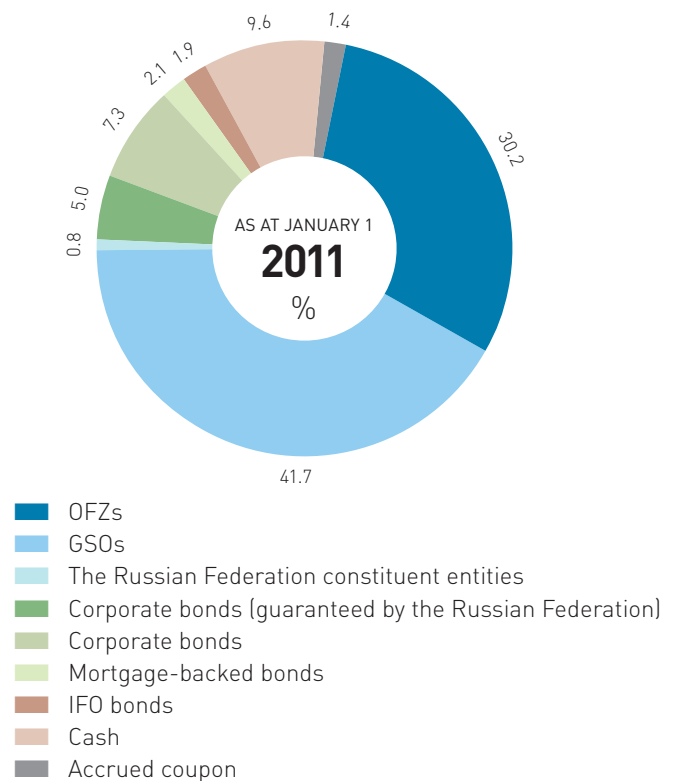
Throughout 2010, the Russian Federation Pension Fund transferred to the STMC pension savings in the total amount of RUB 241.1 billion. These funds were earmarked for management within an extended investment portfolio scheme.

As at year-end 2010, the market value of the extended investment portfolio amounted to RUB 737.8 billion (as at year start – RUB 480.08 billion).

The outcomes of the reporting period show that the structure of the extended investment portfolio underwent certain changes, since the STMC implemented plans to increase positions in corporate bonds of highly credible issuers. That brought about a significant increase in the share of new investment instruments in the portfolio (at market value) from 3.7% to 17% as at 2010 year-start and year-end respectively. The share of government bonds decreased, but still accounted for the bulk of the portfolio: 71.9% as at 01.01.2011 (versus 80.3% as at 01.01.2010).

Throughout 2010, 4 deposit auctions were held, where the STMC placed RUB 56.8 billion worth of funds for a term of up to 1 year with banks that meet eligibility criteria of the pension savings investment legislation. The average weighted interest rate on placing funds in deposits was 5.5% per annum.

## Structure of the STMC Extended Portfolio



In 2010, the yield on the STMC extended investment portfolio amounted to 7.62%.

## Investment portfolio of government securities

The market value of the investment portfolio of government securities at the start of the period under review amounted to RUB 0.765 billion. In 2010, the Russian Federation Pension Fund transferred to the STMC pension savings in the total amount of RUB 1.56 billion. These funds were earmarked for investment and management within the given portfolio.

At year-end 2010, the market value of the portfolio amounted to RUB 2.4 billion.

In the absence of a possibility to diversify investment instruments, the STMC continued to form the portfolio with the OFZs.

As at 01.01.2011, the share of OFZs in the portfolio (at market value) accounted for 93% (as compared with 60,8% as at 01.01.2010).

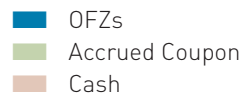
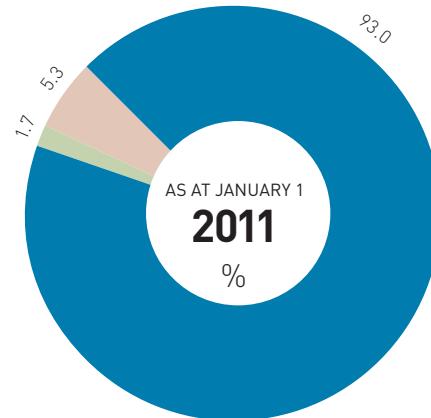
The investment yield on the government securities investment portfolio made 8.17 % per annum.

It is important to note that all the operations related to the pension savings management were effected in strict compliance with the legislation in force (with the principle of independence and segregation of the above operations from the Bank's other activities strictly observed), as well as in compliance with the investment decisions of the Committee on Pension Savings Trust Management, a working body of Vnesheconombank.

Reports and other Information relating to pension savings management operations required by the Russian legislation, the relevant rules, regulations and agreements were submitted to the Russian Federation Pension Fund and the Federal Service for Financial Markets (FSFM) in a timely and complete manner.

Information on the pension savings investment was presented on Vnesheconombank's web-site in compliance with the formats and timeframes set forth in the document "Standards of Information Disclosure on Pension Sav-

#### Structure of the STMC Russian Government Securities Portfolio



ings Investment" (in conformity with the Russian Ministry of Finance Directive No. 107 dated 22 August 2005 "On Approving Standards of Information Disclosure on Pension Savings Investment").

## 6

## Corporate Governance

We acknowledge that in pursuit of the tasks of good corporate governance we are guided by the globally accepted approaches and the analysis of the best practices offered by foreign development banks.

Overall, the system of corporate governance developed at the Bank proved its efficiency even in a most challenging financial crisis environment. At the same time, the scale and scope of the tasks the Bank for Development is called to accomplish, the new functions that are delegated to it motivated a number of changes in the system of corporate governance.

### Governing Bodies

In compliance with the Federal Law “On Bank for Development”, Vnesheconombank’s governing bodies consist of the Supervisory Board, the Board and the Chairman of Vnesheconombank.

**The Supervisory Board** is Vnesheconombank’s supreme governing body. The Chairman of the Russian Federation Government is the Chairman of Vnesheconombank’s Supervisory Board. The Supervisory Board consists of 8 members appointed by the Government

of the Russian Federation and the Chairman of Vnesheconombank, who is on the Supervisory Board ex officio.

Among the key functions of the Supervisory Board are: defining the major areas of the Bank's activities, approving the Bank's revenues/expenditures plan (budget), the annual report and other basic internal documents, approving an independent external auditor, appointing Head of the Bank's Internal Control Department, as well as making decisions pertaining to approving transactions within the established competences.

In the reporting period, 23 meetings of the Supervisory Board were held with 100 issues carefully scrutinized.

**The Board** is a collegiate executive body of the Bank consisting of Vnesheconombank's Chairman (ex officio) and 8 Board members appointed by Vnesheconombank's Supervisory Board on the nomination of Vnesheconombank's Chairman. The Chairman of Vnesheconombank heads the Board and is in charge of its activities.

The Board acts within the powers set forth by Federal Law "On Bank for Development", the Provisions on the respective governing body of Vnesheconombank and in compliance with the established procedures. The procedures envisage regular Board meetings (at least once a month). Within the period under review, 225 meetings of Vnesheconombank's Board were arranged and 871 issues were subject to detailed consideration.

**The Chairman of Vnesheconombank** acts as the sole executive body of the Bank and man-

ages its day-to-day operations. Vnesheconombank's Chairman is appointed to office by the President of the Russian Federation on the nomination of the Chairman of the Russian Federation Government.

With a view to supporting the governing bodies' activities, collegiate working bodies operate at the Bank on a continuous basis. Their functions comprise giving preliminary consideration to issues that come within the competences of the Bank's executive bodies and preparing the relevant recommendations. These committees include: Committee for Strategic Development, Committee for Development of Investment Operations, Credit Committee, Committee on Trust Management of the Pension Savings, Budget Committee and Technology Committee.

In 2010, Committee for Assets/Liabilities Management was established. Provision of quality assistance to the Bank's governing bodies is its key function. This is to be mainly achieved through delivering opinions and recommendations in respect of assets/liabilities management. Managing the Bank's market and structural risks to secure viability also comes within the respective Committee competences.

## Risk management system

Vnesheconombank's professionals have put in place a risk management system that is functioning successfully. The system, in terms of methodological and technological support, can be evaluated as a most advanced one for a major Russian bank. The system complies with the Basel Committee recommendations in respect

of banking oversight and the best globally accepted practices.

In our risk management policies, we are guided by a conservative approach to risk assessment.

The procedures applied to risk management concern monitoring and analysis, on a regular basis, of the state of the external environment, assessing the risks assumed/to be assumed by the Bank, undertaking measures on risk mitigation, including proposals in respect of the structure/amount of limits set on risks, setting exposure limits and exercising control over their enforcement, making reserves for loss coverage and preparation of reports, analytical and other guidance documents.

Vnesheconombank's Supervisory Board duly approved the major internal documents regulating the Bank's risk management activities.

Throughout 2010, with a view to enhancing efficiency of the risk management system, major internal regulatory documents related to risk management were upgraded.

Credit risk management includes monitoring and analyzing of credit risk levels (associated both with a single borrower and groups of inter-related borrowers), as well as a set of measures designed to mitigate/reduce risks assumed by the Bank.

The Bank has adopted methodologies to assess exposure by various categories of borrowers. For this particular purpose, it applies a single rating scale to assess risks inherent in various

borrower categories. The scale is also used for developing proposals in respect of setting limits and for assessing the costs of transactions associated with credit risks.

Within the procedures related to credit risk management expert opinions based on the analysis of the financial position and business record of borrowers and principals, collateral quality and other parameters of the given transactions were prepared. Setting limits (according to the outcomes of the analysis performed) proved to be an efficient mechanism designed to mitigate/reduce credit risks assumed by the Bank.

Within the procedures related to the market risk management, the Bank, on a daily basis, monitors levels of market risks (interest rate, currency and stock market). The market risk assessment uses a Value-at-Risk (VaR) measure.

To assess potential losses in portfolios of financial instruments and the Bank's open foreign currency positions that can occur in case of extreme deterioration of key market and financial factors and other conditions of the Bank's activities, the procedure for stress-testing is carried out both on a regular basis and ad hoc. Both historical and hypothetical scenarios are used. The results obtained serve as a significant supplement to risk assessments computed using VaR models.

To reduce market risk, limits are set on sizes and parameters of positions/portfolios. On a daily basis, using VaR models, the amount of risk of the Bank's positions in securities market instruments is calculated. VaR is calculated both



for individual instruments and for portfolios of certain types of instruments, as well as for the Bank's overall portfolio of securities market instruments.

In terms of currency risk, the amount of an open position in each currency is controlled. The level of currency risk under FX trading operations is limited by setting intraday limits. On a daily basis, using VaR models, the amount of risk of the Bank's overall open foreign currency position is calculated.

Interest rate risk management, carried out within the framework of the Bank's asset/liability management program, aims to maintain a balanced structure of assets and liabilities sensitive to interest rate fluctuations. In order to assess the risk of changes in the Bank's net interest income, scenario modeling is carried out regularly.

In order to control liquidity risk, the Bank continuously monitors and analyses maturity mismatches between the Bank's assets and liabilities. On a daily basis, the liquidity reserve and the amount of potential sources of market funding are monitored in order to identify funds available to cover unexpected liquidity gaps that could occur due to the unforeseen deterioration of market and credit factors. On a regular basis, stress testing of the Bank's liquidity position is carried out using various scenarios of market and credit risks realization. The obtained results are used in the Bank's asset/liability management. The minimum amount of funds to be allocated to manage the Bank's liquidity is determined annually by the decision of the Bank's Supervisory Board.

The Bank creates reserves for possible losses (under loans, loan indebtedness and loan equivalents, other assets and off-balance sheet positions) in compliance with the procedure of reserve formation approved by the Bank's Supervisory Board. The provisions and requirements set out in these documents fully comply with the approaches formulated in the CBR's regulatory documents.

Operational risk management is carried out through strict regulation of the Bank's business processes outlined in the respective internal documents, through exercising internal control over the established procedures, as well as concluding agreements on risk insurance.

Within the operational risk management, the procedures related to collection of data on events that led to losses resulting from operational risks realization were developed. The given data is classified, the losses are evaluated and the reasons for risk events are analyzed. Based on the outcome of the scrutiny, appropriate measures are taken.

Vnesheconombank set up a special division responsible for developing methodological documents regarding risk management, assessing risks and preparation of proposals in respect of risk reduction/mitigation, exercising control over the limits enforcement.

Since the Group of Vnesheconombank's subsidiaries has expanded, VEB Group risk control was substantially enhanced. In this context, in 2010, the Bank was developing the VEB Group regulatory documents in respect of liquidity risk management. Also, measures designed to up-

grade the Group's overall risk management system were introduced. Procedures for collecting data on the risks assumed by subsidiaries and associated banks were further developed. Work on developing uniform approaches to risk analyzing and monitoring within the Group was continued.

## Internal control system

The system of Vnesheconombank's internal control is organized in full compliance with the legislation of the Russian Federation. The system embraces all areas of the Bank's activities and is primarily designed to:

- enhance efficiency of the Bank's financial and economic activities in effecting banking operations and other transactions, of the Bank's asset/liability management program;

- adhere to the requirements set out by the Russian legislation and internal regulatory documents, as well as international rules and standards concerning procedures for effecting banking operations, preparing the relevant documentation, providing an accurate, full, objective and timely recognition of operations in book-keeping and tax reporting, as well as for ensuring information security;

- oblige the Bank's staff to apply the principle of segregation and division of powers and duties, to abide by the established decision-making procedures that impact the interests of the Bank and/or the interests of clients and to avoid conflicts of interest;

- ensure implementation in a timely and complete manner of a set of measures designed to counteract money laundering and terrorism financing;

- provide in due time a complete set of measures related to control over the Bank's activities as a professional participant in the securities market, as well as its activities as the STMC to manage the pension savings.

At the level of the Bank's units, internal control is exercised through special control procedures that are in-built into various business processes and aimed at preventing, identifying and correcting errors and distortions that can occur during operations/transactions, in making analytical calculations or other actions that are an integral part of a business process.

The key structural element of the internal control system is the Bank's specialized unit, the Internal Control Service (ICS), whose head is appointed by the Supervisory Board of Vnesheconombank. The ICS is accountable to Vnesheconombank's Supervisory Board and, in terms of its day-to-day activities, to the Chairman of the Bank.

Over the period under review, aiming to improve and upgrade the control procedures over the critical business processes, the Bank modernized 17 methodologies for monitoring the critical business processes.

As at 01.01.2011, ICS staff had 7 permits from the Russian Ministry of Finance authorizing them to engage in banking audit activities;

13 employees had certificates from the FCSM/FFMS to engage in various activities in the securities markets; 1 employee had an ITIL certificate and 1 employee had an MBA.

## The Bank's organizational structure and HR

In the reporting period, the Bank proceeded with upgrading its organizational structure. New structural units were set up to accommodate the areas of the Bank's activities relating to its support for investment projects involving innovations, leading-edge technologies and efficient utilization of natural resources.

Furthermore, the Bank's expanded activities in the Russian regions, in particular in the North-Caucasian Federal District, also resulted in establishing new structural units.

Vnesheconombank opened its representative offices in the French Republic, in Ekaterinburg and Pyatigorsk, as well as made preparations for opening a representative office in the Swiss Confederation.

In 2010, the Bank's Supervisory Board and the Board of Directors approved a new employee remuneration and incentive system based on the assessment of the Bank's overall and employee individual performance. The system was introduced from 01 January 2011.

In 2010, 724 employees, i.e. about 41% of the total staff number (651 employees, or 39% in 2009) participated in various training and professional development events. Training was

provided in such areas as counteracting legalization of illicit gains and terrorism financing, personnel appraisal and certification, principles and technologies for setting individual objectives, risk management, accounting and IFRS, individual performance efficiency, foreign languages and IT.

To study and introduce the best international HR practices, Vnesheconombank organized a number of events to exchange experience with Russian and foreign development institutions:

- practical training for Vnesheconombank's delegation at the China Development Bank. The aim of the training was to study the CDB's experience in corporate management, budgeting, devising a system of interaction with authorities, introducing business process controls and risk minimization;

- a visit by Vnesheconombank's representatives to the Brazilian Development Bank with a view to implementing an agreement on cooperation and exchange of experience related to investment activities including those on a PPP basis;

- 5<sup>th</sup> jubilee International Interbank HR Conference "Human Capital: New Development Horizons" brought together over 120 HR heads from leading Russian and foreign banks.

Taking care of its employees and retired members of the Bank's Labour Veteran Council remains on the priority list of Vnesheconombank's social policies. In 2010, the Bank commenced implementation of the personnel medical insurance program based on the employee

and the Bank's shared participation in the payment of insurance premiums.

Vnesheconombank provides the retired members of the Labour Veteran Council with a wide range of social guarantees and services, as well as monetary support.

Equally important is the Bank's considerable experience in implementing social programs aimed at improvement of the family welfare and social environment. Special attention is paid to working women. Since 2008, women employees with primary school-aged children are entitled to an additional paid day-off on 1 September. They may also have their working hours adjusted so that to ensure more favourable parenting conditions. The voluntary medical insurance program was extended to include such additional options as prenatal care and obstetric aid, thus easing the financial burden of childbirth. Such options are financed fully for the account of Vnesheconombank.

Seeking to give the underage children of its former employees better social protection, the Bank adopted on 1 January 2010 a Provision providing for a monthly allowance to such children in the event of the loss of a breadwinner.

As part of the work aimed to upgrade the Bank's HR and social policies, a report based on the results of the "My Bank" sociological survey conducted in 2009 was prepared and presented on the Intranet. Besides, to learn employee opinion about the events held at the Bank, throughout the year, weekly surveys on the Intranet were made available.

## Information policy

In delivering its information policy, the Bank abides by the principles of maximum openness and transparency. In 2010, given an ever-growing interest in Vnesheconombank's activities, especially in light of securities placements in the international and domestic bond markets, the Bank endeavored to ensure continuous and full awareness of the Russian and foreign public of various aspects of its activities. Special attention was devoted to such issues as Vnesheconombank's foreign and domestic borrowings, delivering the Program of the Bank's investment in the construction of affordable housing and mortgage lending programs.

In 2010, continued emphasis was placed on the use of a wider range of advanced communication channels that would provide information on the Bank's activities (it primarily concerned the delivery of investment projects that are key to the development of Russia's economy). That implied making an active use of the communication opportunities provided by TV, Internet, as well as print media and presentations offered at major forums, conferences and exhibitions. Thus, the Bank's presentation stand at St. Petersburg International Economic Forum was equipped with an electronic catalogue featuring the projects delivered.

Overall, within the year, Vnesheconombank participated in 36 important national conferences and forums. Among these public events came: World Economic Forum in Davos, Asia-Pacific Economic Summit, the IMF and World Bank sessions, the Russian-Italian Forum-Dialogue (civil society line), "Sochi — 2010" International

Investment Forum and the Krasnoyarsk Economic Forum.

The year 2010 saw continuation of monthly "Development Projects" broadcasts (8 TV programs) on the "Russia 24" TV channel. Major investment projects delivered with Vnesheconombank's participation were given due TV coverage.

Vnesheconombank's official web-site remained one of the key communication channels. In the reporting year, it would provide macroeconomic surveys and other analytical reports prepared by the Bank's professionals. Detailed information on the Bank's participation in the Russian Federation Government financial bailout program was presented. To respond to the new realities, the Bank's site was augmented to include such sections as "Investor Information" giving prominence to various legal and regulatory documents, providing information on the Bank's credit ratings, its borrowings, as well as offering documents subject to disclosure by the Bank as a securities issuer. The number of user visits to the Bank's site increased from 650 thousand in 2009 to 673.4 thousand in 2010.

Apart from it, in light of Vnesheconombank's commitment to the SME support agenda, the Bank arranged production of a series of mini-films to increase the Russian public understanding of the value of SMEs and to shape up positive public attitudes to them. In 2011, it is planned to broadcast these films on federal and regional TV channels in a social advertising format.

In order to take the Russian PPP market forward and enhance its participants awareness of the events, to advertise the use of PPP instru-

ments by the public authorities and local government, as well as to establish an appropriate PPP expert platform, in 2010, Vnesheconombank's specialists developed the "Public-Private Partnership in Russia" web-site ([www.pppinrussia.ru](http://www.pppinrussia.ru)), that was launched in a test regime in November 2010.

## Information technology activities

Vnesheconombank's strategic goal in the IT area is focused on development and application of well-balanced IT services (in terms of quality, cost, security and business effect) that are indispensable for ensuring the Bank's efficient performance and sustainable development. With this aim in view, the ITSM/ITIL methodology-based IT management system was introduced and has been successfully operating at the Bank. In the period under review, a strong focus was placed on enhanced efficiency and reliable functioning of the Bank's software/hardware infrastructure. Alongside that, a set of measures was undertaken to create new and upgrade the existing software packages.

Software platforms were developed/upgraded with a view to upgrading the automation level of the procedures applicable to securities portfolio management and to credit investment activities. In particular, in order to optimize the document turnover schemes, the software package "System of Planning, Analysis and Monitoring of Investment Projects" was modernized.

Efforts to further automate the risk management procedures were continued (including

the procedures for risk assessment in respect of the Russian Federation territorial entities' operations, as well as the procedures for the analysis of non-financial companies that are the Bank's counterparties).

To accommodate Vnesheconombank's enhanced scale and scope of work as an Agent for the Russian Federation Government, the respective software package was developed.

In conformity with the provisions of the Bank's "Concept of Information Protection" and "Policy of Information Security", a system of consolidated monitoring designed to timely identify, detect and effectively resolve information security incidents was tested and introduced.

On a regular basis, Vnesheconombank's automated information system was certified in accordance with 1G protection grade.

Since the Russian Federation Social Insurance Fund Order No. 19 dated 12 February 2010 "On Introducing Protected Document Exchange with the Use of Electronic Digital Signature for Purposes of Mandatory Social Insurance" came into force, an appropriate software package was put into operation.

Vnesheconombank pressed ahead with an effort to implement the project for developing an electronic document turnover in the Bank.

Work to ensure information and technological support for the interaction of VEB Group banks, as well as to create a corporate SWIFT system was continued.

A software package ensuring reporting in compliance with the CBR's Instruction No. 2470-U dated 17 June 2010 "On Making Amendments to Instruction No. 2332-U of the Bank of Russia dated 12 November 2009 "On the List, Forms and Procedures for Preparing and Submitting Report Forms by Credit Institutions to the Central Bank of the Russian Federation" was upgraded.

## 7 Participation in the Activities of Non-Commercial Organizations

Vnesheconombank is a member of Russian, international and multinational associations, unions, foundations, partnerships and public organizations. At the end of 2010, the total number of non-commercial organisations<sup>26</sup> was more than 30.

Non-commercial organisations, of which Vnesheconombank is a member, are mostly “professional” associations of securities market and FX market participants. They include the Association of Russian Banks (ARB), the Russian Trading System Stock Exchange, the National Foreign Exchange Association, the Russian National Association of Securities Market Participants, the National Securities Market Association, the Association of Bill Market Participants, the Professional Association of Registrars, Transfer Agents and Depositories (PARTAD), the Association of Russian Members of Euro-pay and International Capital Market Association (ICMA). Vnesheconombank’s participation in these organisations enables it to increase awareness and understanding by the Russian business community of its stance on developing corporate ethics, the principles and conditions defining an appropriate operation of participants in the domestic financial market, as well as to effect operations in the financial markets in line with the standards and practices gener-

26. Including a non-commercial organisation “Foundation for Development of the Centre for Research and Commercialization of New Technologies” (which acts as a managing company of the Skolkovo Innovation Centre). Information on the Bank’s participation in this organisation is given above (in the “Promoting Innovations” section, paragraph 1.2 of this Report).

ally accepted by the global financial community. The Bank's participation in these organisations also contributes to its cooperation with foreign partners.

Vnesheconombank is a member of the International Chamber of Commerce (ICC), actively participates in the work of the Commission on Banking Technique and Practice (a working body of the ICC) in Paris and the Russian National Committee of the ICC. In 2010, the ICC was focused on new requirements of the regulator in connection with the forthcoming release of "Basel III" recommendations, putting in place the Uniform Rules for Demand Guarantees, revising the Uniform Customs and Practice for Documentary Credits, as well as on other aspects.

Vnesheconombank's participation in organizations committed to promoting international cooperation, as well as a broad range of business contacts made at forums, meetings and round tables open up new opportunities for the Bank to foster its lending-investment activities. In particular, these organizations include the World Economic Forum, the Russo-British Chamber of Commerce, the Italian-Russian Chamber of Commerce, the American-Russian Business Council, the Russian-American Business Council, the Russian-Chinese Business Council and the Russian-Arab Business Council.

In 2010, the Bank significantly enhanced activities of the Russian-Italian Forum-Dialogue within the Framework of Civil Societies (hereinafter – "the Forum"). V. Dmitriev, Vnesheconombank's Chairman is Co-Chairman of the Forum on the Russian side. A number of important events

held in Russia and Italy allowed for strengthening the infrastructure of bilateral relations at the non-governmental level and promoting interaction between the public, cultural and business communities in Russia and Italy.

The Order of Merit towards the Italian Republic (Grand Officer Degree) was conferred on V. Dmitriev, Vnesheconombank's Chairman, in recognition of his great contribution to strengthening the Italian-Russian cooperation in the economic and financial spheres and, particularly, for his dedicated effort to enhance the Forum activities.

Creating the mechanism of interbank interaction between the BRIC countries' state financial development and export institutions was a prominent event in the reporting period. Within the framework of the BRIC countries summit held in April 2010 in Brasilia (Brazil), Vnesheconombank, BNDES, CDB and the Exim Bank of India signed a Memorandum of Cooperation.

The Memorandum mainly aims to develop comprehensive long-term interbank cooperation between the partners with a view to strengthening trade-economic relations between the BRIC countries and their institutions. It also seeks to support socially significant and regional projects implemented by the BRIC countries.

During 2010, Vnesheconombank was actively working with partner banks, international and national financial institutions, authorized state bodies of the Russian Federation to bolster Russia's economic and investment cooperation within the Shanghai Cooperation Organization Interbank Consortium (SCO IBC).



The Bank initiated elaboration of the mid-term strategy for further development of the SCO IBC activity. Vnesheconombank, with the assistance from the Russian Ministry of Finance, continued to work on establishment and operation of the SCO Special Account with a view to SCO IBC participants' financing of joint projects.

Seeking to enhance the export potential of the Russian economy and facilitate access for Russian businesses to new high potential markets, Vnesheconombank took part in the activities of the Coordinating Committee for Economic Cooperation with Sub-Saharan Countries (AfroCom). In 2010, the Committee arranged a number of events aimed at establishing mutually beneficial trade, investment and financial cooperation with African countries. These include the Russian-Congolese Business Forum in the Democratic Republic of Congo; the Visiting Mission of Russian Business Representatives to the Republic of Congo; the International Parliamentary Conference and Business Forum "Russia-Africa: Horizons of Cooperation" held for the first time in the history of the Russian-African relations (Vnesheconombank acted as a sponsor).

The Bank is a member of "The Russian Union of Industrialists and Entrepreneurs (RUIE)", the All-Russian union of employers, one of the most influential employer unions. Vnesheconombank's Chairman has been a member of the Bureau of the Management Board of RUIE since 2006.

## 8

## Participation In External Collegiate Bodies

In 2010, Vnesheconombank actively participated in the work of sub-commissions of the Government Commission for Economic Development and Integration. The Bank contributed to elaboration and implementation of measures designed to ensure sustainable development of the economy and various branches of the financial and real economy sectors, protection of the domestic market, in particular, employing various instruments of customs and tariff, as well as non-tariff regulation.

The Sub-commission on Sustainable Development of the Russian Economy, which notably has V. Dmitriev, Chairman of Vnesheconombank, serving as its member, examined proposals and worked out measures to expand the range of support mechanisms in areas that encompass: housing and mortgage lending market; improving coordination of development institutions' activities in this area; fostering domestic car-making and aircraft building; improving the investment climate; attracting direct investments and devising the banking sector development strategy.

The Bank's participation in 2010 in the work of the Sub-commission on Economic Integration of the Government Commission for Economic Development and Integration helped devise measures to ensure Russia's full-fledged membership of WTO and OECD and mutually beneficial cooperation with the CIS, EU, APEC, ASEAN, and Organization of Islamic Conference. In the course of 12 meetings in 2010, the Sub-commission paid special attention to the economic



**VLADIMIR MALYUTIN**

Head of Production Programs Department,  
"GRASS" Group of Companies

"The costs of producing autoclaved aerocrete walls are 2-3 times lower than of those made of brick. The aerocrete construction material "breathes", which allows for humidity level regulation. Moreover, it is inflammable, non-rusting, heat- and sound-proof. Today, it is practically an ideal material for low-height housing construction".

**ANTON GRIGOROV**

Head of Construction Industry Division,  
Vnesheconombank

"Aerocrete construction material allows for speedy, quality and low cost housing construction and maintenance. Vnesheconombank's participation in financing the construction of the plant is a tangible contribution to implementing the Program "Affordable and Comfortable Housing for the Russian Citizens"."

## Cost Efficiency and Quality

Construction of a plant to produce blocks and slabs out of autoclaved aerocrete in the Saratov region.

agenda of Russia's chairmanship in CIS, to establishing the Customs Union, promoting the initiative "Russia-EU Partnership for Modernization", as well as to creating the common economic space (Russia, Belarus and Kazakhstan).

Vnesheconombank's active work over the reporting period in the Council for Foreign Economic Activities of the Russian Ministry of Economic Development and in the Council working groups contributed to enhancing the Bank's role of a leading state financial development institution operating in the system of the Russian foreign economic relations. The Bank came up with a number of initiatives to support SMEs engaged in export production, as well as to develop those areas of regional economic cooperation that show a considerable potential.

The fact that the Bank was included into the Interagency working group established by the Russian Ministry of Economic Development in December 2010 with a view to devising and implementing the state program "Development of Foreign Economic Activities" is clear acknowledgement of Vnesheconombank's expert potential in foreign economic activities.

On a regular basis, Vnesheconombank took part in the work of the Interagency Commission to upgrade long-term forecast of economic and technological development of the Russian Federation. The Commission prepared and scrutinized proposals on various aspects of forecasting the economic and technological development of the country.

By entering in 2010 the Committee for Expert Appraisal of Investment Projects established by

the CIS Financial and Banking Council, as well as by participating in its work, Vnesheconombank considerably expanded its opportunities for identification and selection of potentially worthwhile projects in the CIS countries that would help reestablish and further develop economic relations, as well as promote investment cooperation on the post-Soviet space.

Furthermore, in the reporting period the Bank participated in:

■ the Working group on modernization of single-industry towns established under the auspices of the Government Commission for Economic Development and Integration and designed to coordinate federal and regional executive bodies' activities on transformation and modernization of the economy of single-industry towns in the framework of the state anti-crisis program of support to single-industry settlements. I. Makieva, Deputy Chairman of Vnesheconombank, heads the Working group. In 2010, the Working group reviewed 35 comprehensive modernization plans and outlined proposals for budgetary financing in 2010 of 26 comprehensive plans (in the form of subsidies and budget loans).

■ the Expert Council for Regional Investment Policy established under the auspices of the Russian Ministry of Regional Development. The Council's activities aim to help pursue regional investment policies, attract investments in regional investment projects (including those delivered on a PPP basis). Membership of the Council enables the Bank to participate in considering regional investment projects with a view to their possible financing by Vnesheconombank.

■ the Working group on implementation of Strategy for social and economic development of the Far East and the Baikal Region up to 2025 established by the Russian Ministry of Regional Development.

Vnesheconombank's active participation in various intergovernmental commissions is driven by their increased role in the system of Russia's economic relations with other countries. Over the reporting period, Vnesheconombank's representatives took part in the work of more than 70 commissions established with participation of foreign and the CIS countries, including Ukraine, Kazakhstan, Uzbekistan, Cuba, India, Italy, Great Britain, Germany, Japan, Algeria and Syria.

During 2010, Vnesheconombank as a member of the Russian interagency working group (comprising representatives of the Russian Ministry of Finance, Ministry of Economic Development, Ministry of Foreign Affairs and the Bank of Russia) took part in the annual meeting of the Board of Governors of the Inter-American Development Bank (IDB) and in the 43rd annual session of the Board of Governors of the Asian Development Bank (ADB). The major objectives of these events were to further examine Russia's possible engagement in IDB's activities and consultations on Russia's accession to ADB.

## 9

## Charitable Activities and Sponsorship

For years, Vnesheconombank has been actively involved in charitable support and sponsorship aiming to enhance the living standards for the Russian citizens, develop the social sphere and promote economic cooperation.

Traditionally, the Bank's sponsorship and charitable activities are focused on support for healthcare, culture, arts and sports. Besides, the Bank has acted as a sponsor and partner of the leading Russian and international economic forums and conferences. Special attention is devoted to support for long-term programs, which, as experience suggests, are most effective.

In 2010, for the purposes of ecosystem support, the Bank started financing a new project intended for preserving the flora and fauna variety at the Belovezhskaya Pushcha National Park.

### Healthcare and social support for citizens

In the area of healthcare, Vnesheconombank continued to aid the First Hospice for Children with cancer problems ensuring an appropriate level of medical care and consultations for seriously ill children. The Bank financed the pur-

chase of anesthetic and intensive care medical equipment for the Research Institute of Children's Oncology and Hematology of the Russian Science Centre named after N. Blokhin.

In October 2010, by a long-standing tradition, the Bank arranged an annual festive event "Sunny Day" for the recovering children at one of the Mosfilm Pavilions. Over 200 children took part in the event.

Moreover, funds were transferred to the Moscow region psycho-neurological clinic for children with the central nervous system disorders (which has been supported by the Bank since 2002) to finance the purchase of sophisticated equipment for the restoration of movement functions, correction of defects in posture and scoliosis treatment.

Vnesheconombank supported orphanages, organisations for veterans and disabled veterans of the Great Patriotic War, families of military men and employees wounded or killed in flashpoints as well as talented students of Moscow universities.

## Culture

For more than 12 years, Vnesheconombank has supported the "Pyotr Fomenko Studio" Moscow theatre and the Academy of Young Opera Singers of the Mariinskiy Theatre. Participation of young singers in the events held on the occasion of opening Vnesheconombank's Representative Offices in different countries and Russian regions became a long-established tradition and a distinguishing feature of Vnesheconombank.

Support for the St. Petersburg Academy of Russian Ballet named after A. Vaganova is a new project of 2010.

Just as before, the Bank supported cultural events. These include the exhibitions entitled "Pablo Picasso; Artworks from the Collection of the Picasso Museum in Paris" at the Pushkin State Museum of Fine Arts and "The Art of Rene Lalique" at the Moscow Kremlin Museums, the festivals of Russian arts in Bari and Milan and the festival of Italian arts in Moscow called "Winter Garden of Arts".

## Support for Russian Orthodox Church

For years, the Bank has rendered financial aid to the Russian Orthodox Church. The Bank continued financing the construction and completion works for the Patriarch Centre of Spiritual Development of Children and Young People at the Moscow Danilov Monastery. Vnesheconombank supported the annual program "From His Holiness the Patriarch of Moscow and all Russia to Children and Young People of Russia". Due to Vnesheconombank's financial support, children from different Russian regions that won regional contests offered by the project could demonstrate their talent and skills within the framework of cultural events, which took place in Moscow.

Financing the preservation and restoration of operating churches, which have historic and cultural value, is also viewed by the Bank as one of the priority tasks. In 2010, funds were transferred to ensure repairs of the Spaso-Preo-

brazhenskiy Solovetskiy Monastery in the village of Solovki (the Arkhangelsk region), the Presvyataya Bogoroditsa Pokrov Church in the village of Tyunezh (the Tula region), the Svyatye Petr and Pavel Apostols Church of Svyato-Troitze-Sergieva Lavra in Sergiev Posad, the Spasskaya Church in the village of Ubory (the Moscow region, the Odintsovo district), the Feodorovskaya Icon of the Mother of God Church in St. Petersburg, the Ioanno-Predtechenskiy Church in the village of Butyrki (the Yaroslavl region). Apart from this, the Bank transferred funds to the Representation of the Russian Orthodox Church in Strasbourg (France) and the Russian Orthodox Church Parish of Prepodobnyi Sergey Radonezhskiy in Johannesburg (the Republic of South Africa).

### Economic forums, conferences, exhibitions

In line with the program subject to the Supervisory Board's annual approval, the Bank ensures sponsor support for various events and projects that receive a wide public response in the Russian and global business community.

The World Universal Exhibition "EXPO-2010" in Shanghai, China, where Vnesheconombank acted as a general partner of the Russian Pavilion, was a prominent event of the year. D. Medvedev, President of the Russian Federation, made a speech at the official opening ceremony of the EXPO-2010 Day of Russia. From May to October, the Russian Pavilion welcomed about 10 million visitors. The Russian Pavilion won the Better City – Better Life Silver Award from the Jury of the International Exhibitions Bureau for

effective development of the Expo 2010 major theme.

The Russian National Exhibition in Paris inaugurated by Vladimir Putin, Chairman of the Russian Federation Government, was also a significant event within the framework of the Year of Russia in France and the Year of France in Russia. Vnesheconombank acted as a general partner of the exhibition. The exposition presented the high-tech science-driven industries and the related Russian-French cooperation, as well as Russia's achievements in science and arts.

During the period under review, Vnesheconombank also participated as a sponsor in a number of major exhibitions both in Russia and abroad. These include the IV<sup>th</sup> International Exhibition "Transport of Russia 2010"; the X<sup>th</sup> Moscow International Show for Innovation and Investment; the Ural International Exhibition and Forum "INNOPROM-2010"; the International Forums and Exhibitions "Engineering Technologies-2010" and "Maritime Industry of Russia"; the Exhibition "Defence and Protection-2010".

Vnesheconombank acted as a co-arranger of the Russian-Brazil Economic Forum "Brazil-Russia: Strengthening of Strategic Partnership", which coincided with the formal visit of the Brazilian President Lula da Silva to Russia.

In order to enhance Russia's investment image, the Bank sponsored a number of Russian and international projects including the "St. Petersburg International Economic Forum – 2010", the IX<sup>th</sup> International Investment Forum "Sochi-2010", the VII<sup>th</sup> Krasnoyarsk Economic



Forum, an annual session of the Russian Economic and Financial Forum; the Regional Cooperation Forum in Switzerland, Austria and Germany and the Annual Banking Forum of the Eastern Europe and the CIS countries. Also, Vnesheconombank acted as a partner in such major regional events as the IV<sup>th</sup> International Pacific Economic Congress (Vladivostok) and the X<sup>th</sup> Russian-German Civil Society Forum “St-Petersburg Dialog” (Yekaterinburg).

## Sports

Seeking to maintain the tradition of the past years, the Bank supported the development of Russian sports of records. In accordance with Vnesheconombank Supervisory Board’s decision, the Bank delivered sponsor aid to Russia’s National hockey team within the framework of the preparation for 2010 Vancouver Winter Olympic Games. Apart from it, during the reporting period, the Bank acted as a partner of the “Golden Boat” International University Regatta. The Bank is a longstanding partner of the All-Russia Volley-Ball Federation, the All-Russia Swimming Federation and the Russian Cycling Federation. In 2010, the Bank started financing the construction of the Sapega “Voley Grad” Sports Centre for Training and Health-Improving in Anapa.

## Volunteer campaigns

In 2010, 14 volunteer campaigns with participation of the Bank’s employees and members of their families were arranged. These include:

■ a volunteer campaign aimed at helping people injured in the fire in the city of Perm; all the proceeds were transferred to the Perm Regional Fund for Social Support for Population in order to aid children and relatives of those who died or were injured in the fire;

■ a “Hot Line” operating continuously in the Bank’s Intranet portal that makes it possible for every employee to turn to colleagues for help. In 2010, on the employee initiative, 4 projects to support the Bank’s employees and their relatives in trouble were arranged.

Apart from this, the following volunteer campaigns were arranged:

■ 2 blood donation campaigns for the benefit of medical organisations that are in extreme need of donor blood (including those after terrorist attacks in the Moscow underground);

■ a campaign to help people who suffered from fires in the summer of 2010;

■ an Easter campaign to assist children from the orphanage in the Sviato-Nikolskiy Convent and the Ilinskiy Church in the village of Petrovskoye;

■ a number of projects to support the children of the Voskresensk orphanage:

■ a new monthly campaign called “Child’s Birthday Day”, which makes it possible for every child to receive a most desired gift purchased either by Vnesheconombank’s staff members or from the resources of the “Child’s Birthday Fund” regularly replenished by the staff;

■ the Moscow City Paintball Federation together with the Bank's trade union arranged a paintball competition held in the Moscow region with participation of children from the sponsored orphanage;

■ by 1 September, all the children were accommodated for the new academic year with the Bank's aid (all the required school accessories, textbooks, stationery etc. were purchased).

## 10

## Accounting and Reporting

In compliance with Federal Law No. 82-FZ dated 17 May 2007 “On Bank for Development”, Vnesheconombank organizes its accounting procedure in accordance with the accounting and reporting rules established for Russian banks, with due regard for certain accounting specifics provided for Vnesheconombank by the Central Bank of Russia.

Over 2010, the Bank engaged in accounting procedure in line with the Accounting Rules to Apply to Banks on the Territory of the Russian Federation, as approved by the CBR Directive No. 302-P dated 27 March 2007.

In accordance with the Tax Code of the Russian Federation, Vnesheconombank pays taxes on the territory of Russia and it is registered with Interregional Tax Inspectorate for Major Taxpayers No. 9 of the Federal Tax Service, Russia (St.-Petersburg).

In compliance with Memorandum on Financial Policies of State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” and with a view to complying with the requirements set by the global financial community, Vnesheconombank prepares and submits to the Russian Government and external users its annual financial statements prepared in conformity with International Financial Reporting Standards (IFRS).

# Independent auditors' report



**Ernst & Young LLC**  
Sadovnicheskaya Nab., 77, bld. 1  
Moscow, 115035, Russia  
Tel.: +7 (495) 705-9700  
+7 (495) 755-9700  
Fax: +7 (495) 755-9701  
www.ey.com

**ООО «Эрнст энд Янг»**  
Россия, 115035, Москва,  
Садовническая наб., 77, стр. 1  
Тел.: +7 (495) 705-9700  
+7 (495) 755-9700  
Факс: +7 (495) 755-9701  
ОКПО 59002827

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

*Ernst & Yang LLC*

# Consolidated Statement of Financial Position

## As of 31 December 2010

(in millions of Russian rubles)

|  | Notes | 2010             | 2009             |
|--|-------|------------------|------------------|
| 1  | 2     | 3                | 4                |
| <b>ASSETS</b>  |       |                  |                  |
| 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           |
| <b>Total assets</b>  |       | <b>2,043,472</b> | <b>1,939,214</b> |
| <b>LIABILITIES</b>   |       |                  |                  |
| 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            |
| <b>Total liabilities</b>   |       | <b>1,548,368</b> | <b>1,483,978</b> |

| 1  | Notes | 2010             | 2009             |
|--|-------|------------------|------------------|
| 1  | 2     | 3                | 4                |
| <b>EQUITY</b>  |       |                  |                  |
|  | 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              |
| <b>Equity attributable to the Russian Government</b>         |       | <b>493,666</b>   | <b>453,002</b>   |
| <b>Non-controlling interests</b>                             |       | <b>1,438</b>     | <b>2,234</b>     |
| <b>Total equity</b>  |       | <b>495,104</b>   | <b>455,236</b>   |
| <b>Total liabilities and equity</b>                          |       | <b>2,043,472</b> | <b>1,939,214</b> |

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

Vladimir A. Dmitriev

Lubov M. Bylova

29 April 2011

*Chairman of the Bank*

*Acting Chief Accountant*

*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            |
|---|--------|-----------------|-----------------|
| 1   | 2      | 3               | 4               |
| <b>CONTINUING OPERATIONS</b>  |        |                 |                 |
| <b>Interest income</b>  |        |                 |                 |
| 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          |
|   |        | <b>145,697</b>  | <b>136,688</b>  |
| Financial assets at fair value through profit or loss   |        | 2,066           | 2,106           |
|   |        | <b>147,763</b>  | <b>138,794</b>  |
| <b>Interest expenses</b>  |        |                 |                 |
| 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)         |
|   |        | <b>(81,090)</b> | <b>(86,858)</b> |
| <b>Net interest income</b>  |        | <b>66,673</b>   | <b>51,936</b>   |
| Provision for impairment of interest-earning assets   | 11, 13 | (45,735)        | (114,837)       |
| <b>Net interest income/(expense) after provision for impairment of interest-earning assets</b>  |        | <b>20,938</b>   | <b>(62,901)</b> |
| <b>Net fee and commission income</b>  | 26     | <b>6,030</b>    | <b>7,189</b>    |
| 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           |
| <b>Non-interest income</b>  |        | <b>27,594</b>   | <b>118,277</b>  |



|  | Notes | 2010            | 2009            |
|--|-------|-----------------|-----------------|
| 1  | 2     | 3               | 4               |
| 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)         |
| <b>Non-interest expense</b>                                    |       | <b>(27,793)</b> | <b>(23,833)</b> |
| <b>Net income from continuing operations before income tax</b> |       | <b>26,769</b>   | <b>38,732</b>   |
| Net income tax benefit/(expense)                               | 18    | 1,306           | (417)           |
| <b>Net income for the year from continuing operations</b>      |       | <b>28,075</b>   | <b>38,315</b>   |
| <b>Discontinued operations</b>                                 |       |                 |                 |
| Net income for the year from discontinued operations           | 29    | 172             | —               |
| <b>Net income for the year</b>                                 |       | <b>28,247</b>   | <b>38,315</b>   |
| Attributable to:   |       |                 |                 |
| the Russian Government   |       | 28,342          | 41,443          |
| non-controlling interests                                      |       | (95)            | (3,128)         |
|  |       | <b>28,247</b>   | <b>38,315</b>   |

*The accompanying notes 1 to 34 are an integral part of these consolidated financial statements.*

# Consolidated Statement of Comprehensive Income

## For the year ended 31 December 2010

(in millions of Russian rubles)

|   | Notes | 2010          | 2009           |
|---|-------|---------------|----------------|
| 1   | 2     | 3             | 4              |
| <b>Net income for the year</b>  |       | <b>28,247</b> | <b>38,315</b>  |
| <b>Other comprehensive income</b>   |       |               |                |
| 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)          |
| <b>Other comprehensive income for the year, net of tax</b>                      |       | <b>11,751</b> | <b>78,115</b>  |
| <b>Total comprehensive income for the year</b>                                  |       | <b>39,998</b> | <b>116,430</b> |
| Attributable to:  |       |               |                |
| the Russian Government  |       | 40,069        | 119,755        |
| non-controlling interests   |       | (71)          | (3,325)        |
|   |       | <b>39,998</b> | <b>116,430</b> |

*The accompanying notes 1 to 34 are an integral part of these consolidated financial statements.*

# Consolidated Statement of Changes in Equity

## For the year ended 31 December 2010

(in millions of Russian rubles)

| 1  | 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 |                |                           |                |
|  | 2                                      | 3  | 4   | 5                                    | 6              | 7                         | 8              |
| <b>31 December 2008</b>                          | <b>261,489</b>                         | <b>(43,981)</b>                          | <b>(4,639)</b>  | <b>856</b>                           | <b>213,725</b> | <b>1,571</b>              | <b>215,296</b> |
| Total comprehensive income for the year          | —                                      | 41,443                                   | 78,582  | (270)                                | 119,755        | (3,325)                   | 116,430        |
| Acquisition of subsidiaries                      | —                                      | —  | —   | —                                    | —              | 4,174                     | 4,174          |
| Increase in interest in subsidiaries             | —                                      | (1,271)                                  | (3)   | (204)                                | (1,478)        | (186)                     | (1,664)        |
| Contribution of the Russian Government (Note 24) | 121,000                                | —  | —   | —                                    | 121,000        | —                         | 121,000        |
| <b>31 December 2009</b>                          | <b>382,489</b>                         | <b>(3,809)</b>                           | <b>73,940</b>   | <b>382</b>                           | <b>453,002</b> | <b>2,234</b>              | <b>455,236</b> |
| 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)            |
| <b>31 December 2010</b>                          | <b>382,571</b>                         | <b>25,043</b>                            | <b>85,679</b>   | <b>373</b>                           | <b>493,666</b> | <b>1,438</b>              | <b>495,104</b> |

The accompanying notes 1 to 34 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

## For the year ended 31 December 2010

(in millions of Russian rubles)

|   | Notes | 2010          | 2009          |
|---|-------|---------------|---------------|
| 1   | 2     | 3             | 4             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |       |               |               |
| 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         |
| <b>Cash flows from operating activities before changes in operating assets and liabilities</b>                      |       | <b>66,834</b> | <b>62,409</b> |
| Net (increase)/decrease in operating assets   |       |               |               |
| 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)       |
| Net increase/(decrease) in operating liabilities  |       |               |               |
| 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         |

|   | Notes | 2010          | 2009             |
|---|-------|---------------|------------------|
| 1   | 2     | 3             | 4                |
| Securities issued, net of bonds                             |       | (2,022)       | 7,378            |
| Other liabilities   |       | 2,339         | (1,212)          |
| <b>Net cash flows from / (used in) operating activities</b> |       | <b>87,701</b> | <b>(166,424)</b> |

### 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              |
| <b>Net cash used in investing activities</b>               |  | <b>(112,479)</b> | <b>(142,389)</b> |

### 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               |
| <b>Net cash from financing activities</b>  |          | <b>52,304</b>  | <b>169,462</b>   |
| Effect of changes in foreign exchange rates against the ruble on cash and cash equivalents                             |          | 230            | 26,594           |
| <b>Net increase/(decrease) in cash and cash equivalents</b>  |          | <b>27,756</b>  | <b>(112,757)</b> |
| <b>Cash and cash equivalents, beginning</b>  |          | <b>168,916</b> | <b>281,673</b>   |
| <b>Cash and cash equivalents, ending</b>   | <b>9</b> | <b>196,672</b> | <b>168,916</b>   |

### 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.

# Notes to 2010 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" (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 "ROSEXIM-BANK" 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 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.

## 1. Principal activities (continued)

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.



## 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.

## 2. Basis of preparation (continued)

### General (continued)

#### *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.

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.

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

## 2. Basis of preparation (continued)

### General (continued)

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 "Oboronprom-leasing" 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.

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 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:

(in millions of Russian rubles)

|   | 2010           |                                   | 2009           |                                   |
|---|----------------|-----------------------------------|----------------|-----------------------------------|
|   | Equity         | Net income for the reporting year | Equity         | Net income for the reporting year |
| <b>Before adjustments and reclassifications</b>   | <b>517,474</b> | <b>28,851</b>                     | <b>497,583</b> | <b>30,957</b>                     |
| 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)                             |
| <b>International Financial Reporting Standards</b>  | <b>495,104</b> | <b>28,247</b>                     | <b>455,236</b> | <b>38,315</b>                     |

### 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.

#### *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

### 3. Summary of significant accounting policies (continued)

#### Changes in accounting policies (continued)

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 became 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 de-



cision 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.

## 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:

### 3. Summary of significant accounting policies (continued)

#### Basis of consolidation (continued)

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.

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.

### 3. Summary of significant accounting policies (continued)

#### Business combinations (continued)

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 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.

#### *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 recogni-

### 3. Summary of significant accounting policies (continued)

#### Financial assets (continued)

tion 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.

#### *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

### 3. Summary of significant accounting policies (continued)

#### Repurchase and reverse repurchase agreements and securities lending (continued)

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 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.

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

### 3. Summary of significant accounting policies (continued)

#### Leases (continued)

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.

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 esti-

### 3. Summary of significant accounting policies (continued)

#### Impairment of financial assets (continued)

mated 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.

#### *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.

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.

### 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.

ity, 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.

### 3. Summary of significant accounting policies (continued)

#### Taxation (continued)

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.

#### 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.

### 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.

### 3. Summary of significant accounting policies (continued)

#### 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.

### 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:

### 3. Summary of significant accounting policies (continued)

#### *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.

### *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.

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.

### 3. Summary of significant accounting policies (continued)

#### 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.

### *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

### 3. Summary of significant accounting policies (continued)

#### Future changes in accounting policies (continued)

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.

### 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 bor-



rowers. 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.

## 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.

(in millions of Russian rubles)

## 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.

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                 |
|   | <b>103,583</b>                            | <b>103,487</b>      |
| Amounts due to credit institutions                      | 27,270                                    | 27,270              |
| Amounts due to customers                                | 57,211                                    | 57,211              |
| Deferred tax liability (Note 18)                        | 1,569                                     | 1,545               |
| Provisions (Note 19)                                    | 533                                       | 533                 |
| Other liabilities                                       | 1,360                                     | 1,360               |
|   | <b>87,943</b>                             | <b>87,919</b>       |
| Net assets  | 15,640                                    | 15,568              |
| Less: minority interests                                | (3,910)                                   |                     |
| <b>Net assets acquired</b>                              | <b>11,730</b>                             |                     |
| Less: excess of net assets over the cost of acquisition | (4,826)                                   |                     |
| <b>Cost of acquisition</b>                              | <b>6,904</b>                              |                     |
| Cash outflow on acquisition of the subsidiary:          |   |                     |
| Net cash acquired with the subsidiary                   |   | 6,442               |
| Less: cash consideration transferred in 2008            |   | (1,998)             |
| <b>Net cash inflow</b>                                  |   | <b>4,444</b>        |

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

(in millions of Russian rubles)

## 5. Business combinations (continued)

### Acquisitions in 2009 (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<br>on acquisition<br>2009 | Carrying value<br>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                    |
|   | <b>55,208</b>                                   | <b>54,665</b>          |
| Amounts due to credit institutions                      | 1,225   | 1,225                  |
| Amounts due to customers                                | 30,256  | 30,256                 |
| Debt securities issued                                  | 4,020   | 4,020                  |
| Deferred tax liability (Note 18)                        | 355   | 246                    |
| Provisions (Note 19)                                    | 31  | 31                     |
| Other liabilities                                       | 111   | 111                    |
|   | <b>35,998</b>                                   | <b>35,889</b>          |
| Net assets  | 19,210  | 18,776                 |
| Less: minority interests                                | (204)   |                        |
| <b>Net assets acquired</b>                              | <b>19,006</b>                                   |                        |
| Less: excess of net assets over the cost of acquisition | (19,006)  |                        |
| <b>Cost of acquisition</b>                              | <b>0</b>  |                        |
| Cash outflow on acquisition of the subsidiary:          |   |                        |
| Net cash acquired with the subsidiary                   |   | 31,635                 |
| Less: cash paid on acquisition                          |   | (0)                    |
| <b>Net cash inflow</b>                                  |   | <b>31,635</b>          |

From the date of acquisition of CJSC "GLOBEXBANK", the Group's profit has 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.

Management monitors the operating results of each segment separately to make decisions on allocation of resources and to assess 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.

(in millions of Russian rubles)

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

| 2010  | Segment 1        | Segment 2       |
|---|------------------|-----------------|
| <b>INCOME</b>   |                  |                 |
| <b>External clients</b>   |                  |                 |
| Interest income   | 102,780          | 18,928          |
| Fee and commission income   | 3,869            | 1,652           |
| Gains less losses arising from financial instruments at fair value through profit or loss | 10,011           | 256             |
| Gains less losses from investment securities available for sale                           | 11,988           | 1,479           |
| Gains less losses from foreign currencies   | 403              | 298             |
| Share in income of associates   | 208              | —               |
| Other income/(expenses)   | 801              | 466             |
| <b>Total external income</b>  | <b>130,060</b>   | <b>23,079</b>   |
| <b>Intersegment income</b>  |                  |                 |
| Interest income   | 5,055            | 239             |
| Other intersegment income less expenses   | 524              | 761             |
| <b>Total intersegment income</b>  | <b>5,579</b>     | <b>1,000</b>    |
| <b>Total income</b>   | <b>135,639</b>   | <b>24,079</b>   |
| <b>Total external expense</b>   |                  |                 |
| Interest expense  | (63,895)         | (7,513)         |
| Fee and commission expense  | (783)            | (422)           |
| Allowance for loan impairment   | (30,460)         | (4,064)         |
| Personnel expenses  | (3,956)          | (4,095)         |
| Depreciation  | (399)            | (436)           |
| Other impairment provision (charges)/reversal   | (96)             | (138)           |
| Other expenses  | (4,975)          | (4,259)         |
| <b>Total external expense</b>   | <b>(104,564)</b> | <b>(20,927)</b> |
| <b>Intersegment expenses</b>  |                  |                 |
| Interest expense  | (456)            | (2,335)         |
| Other intersegment (expenses)/income  | (1,437)          | (82)            |
| <b>Total intersegment expenses</b>  | <b>(1,893)</b>   | <b>(2,417)</b>  |
| <b>Total expenses</b>   | <b>(106,457)</b> | <b>(23,344)</b> |
| <b>Segment results</b>  | <b>29,182</b>    | <b>735</b>      |
| Income tax expense/(benefit)  |                  |                 |
| <b>Profit after taxation for the year from continuing operations</b>                      |                  |                 |
| Profit/(loss) from discontinued operations  |                  |                 |
| <b>Profit for the year</b>  |                  |                 |
| Segment assets  | 1,631,391        | 274,192         |
| <b>Other segment information</b>  |                  |                 |
| Capital expenditure   | 246              | 561             |
| Investments in associates   | 155              | —               |

| Segment 3       | Segment 4      | Segment 5      | Total before intersegment (income)/losses | Intersegment (income)/losses | Total            |
|-----------------|----------------|----------------|---|------------------------------|------------------|
| 19,509          | 2,521          | 4,025          | 147,763                                   | —                            | 147,763          |
| 1,253           | 709            | 32             | 7,515                                     | —                            | 7,515            |
| —               | —              | (89)           | 10,178                                    | —                            | 10,178           |
| (343)           | 1              | 4              | 13,129                                    | —                            | 13,129           |
| 928             | 655            | 185            | 2,469                                     | —                            | 2,469            |
| —               | 16             | (20)           | 204                                       | —                            | 204              |
| (675)           | 575            | 447            | 1,614                                     | —                            | 1,614            |
| <b>20,672</b>   | <b>4,477</b>   | <b>4,584</b>   | <b>182,872</b>                            | <b>—</b>                     | <b>182,872</b>   |
| —               | (2)            | 17             | 5,309                                     | (5,309)                      | —                |
| (139)           | 126            | 105            | 1,377                                     | (1,377)                      | —                |
| <b>(139)</b>    | <b>124</b>     | <b>122</b>     | <b>6,686</b>                              | <b>(6,686)</b>               | <b>—</b>         |
| <b>20,533</b>   | <b>4,601</b>   | <b>4,706</b>   | <b>189,558</b>                            | <b>(6,686)</b>               | <b>182,872</b>   |
| (7,594)         | (728)          | (1,360)        | (81,090)                                  | —                            | (81,090)         |
| (155)           | (109)          | (16)           | (1,485)                                   | —                            | (1,485)          |
| (10,898)        | (249)          | (64)           | (45,735)                                  | —                            | (45,735)         |
| (2,536)         | (1,076)        | (702)          | (12,365)                                  | —                            | (12,365)         |
| (460)           | (102)          | (59)           | (1,456)                                   | —                            | (1,456)          |
| 100             | (29)           | (58)           | (221)                                     | —                            | (221)            |
| (2,317)         | (712)          | (1,488)        | (13,751)                                  | —                            | (13,751)         |
| <b>(23,860)</b> | <b>(3,005)</b> | <b>(3,747)</b> | <b>(156,103)</b>                          | <b>—</b>                     | <b>(156,103)</b> |
| (1,654)         | (192)          | (637)          | (5,274)                                   | 5,274                        | —                |
| —               | (3)            | 3              | (1,519)                                   | 1,519                        | —                |
| <b>(1,654)</b>  | <b>(195)</b>   | <b>(634)</b>   | <b>(6,793)</b>                            | <b>6,793</b>                 | <b>—</b>         |
| <b>(25,514)</b> | <b>(3,200)</b> | <b>(4,381)</b> | <b>(162,896)</b>                          | <b>6,793</b>                 | <b>(156,103)</b> |
| <b>(4,981)</b>  | <b>1,401</b>   | <b>325</b>     | <b>26,662</b>                             | <b>107</b>                   | <b>26,769</b>    |
|                 |                |                |   |                              | 1,306            |
|                 |                |                |   |                              | <b>28,075</b>    |
|                 |                |                |   |                              | 172              |
|                 |                |                |   |                              | <b>28,247</b>    |
| 126,863         | 36,994         | 87,082         | 2,156,522                                 | (113,050)                    | 2,043,472        |
| 974             | 598            | 3,423          | 5,802                                     | —                            | 5,802            |
| 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     |
|---|----------------|---------------|
| <b>INCOME</b>   |                |               |
| <b>External clients</b>   |                |               |
| Interest income   | 102,356        | 15,191        |
| Fee and commission income   | 5,067          | 1,306         |
| Gains less losses arising from financial instruments at fair value through profit or loss   | 17,150         | 10,352        |
| Gains less losses from investment securities available for sale   | 42,737         | 203           |
| Gains less losses from foreign currencies   | 10,638         | (1,059)       |
| Share in income of associates   | 44             | —             |
| Other income  | 12,004         | 660           |
| <b>Total external income</b>  | <b>189,996</b> | <b>26,653</b> |
| <b>Intersegment income</b>  |                |               |
| Interest income   | 4,579          | 24            |
| Other intersegment income less expenses   | 491            | 44            |
| <b>Total intersegment income</b>  | <b>5,070</b>   | <b>68</b>     |
| Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost | —              | —             |
| <b>Total income</b>   | <b>195,066</b> | <b>26,721</b> |
| Interest expense  | (70,563)       | (6,104)       |
| Allowance for loan impairment   | (18,302)       | (82,009)      |
| Fee and commission expense  | (958)          | (496)         |
| Personnel expenses  | (3,587)        | (2,738)       |
| Depreciation  | (327)          | (444)         |



| Segment 3     | Segment 4    | Segment 5    | Total before intersegment (income)/ losses | Intersegment (income)/ losses and other adjustments | Total          |
|---------------|--------------|--------------|--|---|----------------|
| 16,619        | 2,363        | 2,265        | 138,794                                    | —   | 138,794        |
| 1,756         | 733          | —            | 8,862                                      | —   | 8,862          |
| 22            | —            | —            | 27,524                                     | —   | 27,524         |
| —             | —            | —            | 42,940                                     | —   | 42,940         |
| 143           | 260          | 521          | 10,503                                     | —   | 10,503         |
| 8             | 4            | —            | 56   | —   | 56             |
| 162           | 421          | 175          | 13,422                                     | —   | 13,422         |
| <b>18,710</b> | <b>3,781</b> | <b>2,961</b> | <b>242,101</b>                             | <b>—</b>  | <b>242,101</b> |
| —             | —            | —            | 4,603                                      | (4,603)   | —              |
| —             | 11           | —            | 546  | (546)   | —              |
| —             | <b>11</b>    | —            | <b>5,149</b>                               | <b>(5,149)</b>                                      | —              |
| —             | —            | —            | —  | 23,832  | 23,832         |
| <b>18,710</b> | <b>3,792</b> | <b>2,961</b> | <b>247,250</b>                             | <b>18,683</b>                                       | <b>265,933</b> |
| (8,921)       | (889)        | (381)        | (86,858)                                   | —   | (86,858)       |
| (14,104)      | (345)        | (77)         | (114,837)                                  | —   | (114,837)      |
| (129)         | (84)         | (6)          | (1,673)                                    | —   | (1,673)        |
| (2,707)       | (996)        | (124)        | (10,152)                                   | —   | (10,152)       |
| (547)         | (93)         | (10)         | (1,421)                                    | —   | (1,421)        |

(in millions of Russian rubles)

## 6. Segment information (continued)

| 2009  | Segment 1       | Segment 2       |
|---|-----------------|-----------------|
| Other impairment provision (charges)/reversal | (333)           | (425)           |
| Other expenses                                | (3,583)         | (3,042)         |
| <b>Total external expense</b>                 | <b>(97,653)</b> | <b>(95,258)</b> |
| <b>Intersegment expenses</b>                  |                 |                 |
| Interest expense                              | (24)            | (2,314)         |
| Other intersegment expenses                   | (1,036)         | (7)             |
| <b>Total intersegment expenses</b>            | <b>(1,060)</b>  | <b>(2,321)</b>  |
| <b>Total expenses</b>                         | <b>(98,713)</b> | <b>(97,579)</b> |
| <b>Segment results</b>                        | <b>96,353</b>   | <b>(70,858)</b> |
| Income tax expense/(benefit)                  |                 |                 |
| <b>Profit for the year</b>                    |                 |                 |
| Segment assets                                | 1,668,005       | 186,259         |
| <b>Other segment information</b>              |                 |                 |
| Capital expenditure                           | 1,064           | 430             |
| Investments in associates                     | 5,436           | —               |

| Segment 3       | Segment 4      | Segment 5      | Total before intersegment (income)/ losses | Intersegment (income)/ losses and other adjustments | Total            |
|-----------------|----------------|----------------|--|---|------------------|
| (570)           | —              | 1              | (1,327)                                    | —   | (1,327)          |
| (2,501)         | (557)          | (1,250)        | (10,933)                                   | —   | (10,933)         |
| <b>(29,479)</b> | <b>(2,964)</b> | <b>(1,847)</b> | <b>(227,201)</b>                           | —   | <b>(227,201)</b> |
| (2,072)         | (100)          | (477)          | (4,987)                                    | 4,987   | —                |
| (1)             | —              | (3)            | (1,047)                                    | 1,047   | —                |
| <b>(2,073)</b>  | <b>(100)</b>   | <b>(480)</b>   | <b>(6,034)</b>                             | <b>6,034</b>  | —                |
| <b>(31,552)</b> | <b>(3,064)</b> | <b>(2,327)</b> | <b>(233,235)</b>                           | <b>6,034</b>  | <b>(227,201)</b> |
| <b>(12,842)</b> | <b>728</b>     | <b>634</b>     | <b>14,015</b>                              | <b>24,717</b>                                       | <b>38,732</b>    |
|                 |                |                |  |   | (417)            |
|                 |                |                |  |   | <b>38,315</b>    |
| 106,136         | 21,645         | 19,394         | 2,001,439                                  | (62,225)  | 1,939,214        |
| 504             | 360            | 17             | 2,375                                      | —   | 2,375            |
| —               | 26             | —              | 5,462                                      | —   | 5,462            |

(in millions of Russian rubles)

## 6. Segment information (continued)

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.

### 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 institutions 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            |
| <b>Due to the Russian Government, its institutions and the Bank of Russia</b>              | <b>814,901</b> | <b>987,563</b> |

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.

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

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

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.

### 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

(in millions of Russian rubles)

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           |
| <b>Due to London Club</b>  | <b>1,123</b> | <b>1,115</b> |

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

### London Club (continued)

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.

## 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.



(in millions of Russian rubles)

## 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         |
| <b>Cash and cash equivalents</b>  | <b>196,672</b> | <b>168,916</b> |

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         |
| <b>Financial assets at fair value through profit or loss</b>        | <b>76,144</b> | <b>51,507</b> |

(in millions of Russian rubles)

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

Trading securities held by the Group comprise:

|  | 2010          | 2009          |
|--|---------------|---------------|
| <b>Debt securities:</b>                                      |               |               |
| 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           |
|  | <b>13,853</b> | <b>11,868</b> |
| 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            |
|  | <b>26,209</b> | <b>28,481</b> |
| Promissory notes   | —             | 140           |
|  | <b>26,209</b> | <b>28,621</b> |
| <b>Equity securities:</b>                                    |               |               |
| Shares   | 11,068        | 18,925        |
| <b>Trading securities</b>                                    | <b>37,277</b> | <b>47,546</b> |

### 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)  | —                                 |

(in millions of Russian rubles)

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.

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 |

(in millions of Russian rubles)

## 11. Amounts due from credit institutions (continued)

|   | 2010           | 2009           |
|---|----------------|----------------|
| Subordinated loans                                      | 347,090        | 388,208        |
| Term interest-bearing deposits with credit institutions | 59,169         | 41,787         |
|   | <b>417,360</b> | <b>468,841</b> |
| Less allowance for impairment                           | (1,719)        | (1,533)        |
| <b>Amounts due from credit institutions</b>             | <b>415,641</b> | <b>467,308</b> |

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.

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.

(in millions of Russian rubles)

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

|                    | 2010         | 2009         |
|--------------------|--------------|--------------|
| <b>1 January</b>   | <b>1,533</b> | <b>133</b>   |
| Charge             | 186          | 1,400        |
| <b>31 December</b> | <b>1,719</b> | <b>1,533</b> |

## 12. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

|   | 2010               |               |              |                    |              |              | 2009  |           |
|---|--------------------|---------------|--------------|--------------------|--------------|--------------|-------|-----------|
|   | Notional principal | Fair value    |              | Notional principal | Fair value   |              | Asset | Liability |
|   |                    | Asset         | Liability    |                    | Asset        | Liability    |       |           |
| <b>Foreign exchange contracts</b>           |                    |               |              |                    |              |              |       |           |
| 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          |       |           |
| <b>Securities forward contracts</b>         |                    |               |              |                    |              |              |       |           |
| Units                                       | 368                | 719           | –            | 684                | 276          | –            |       |           |
| Russian Eurobonds                           | –                  | –             | –            | 865                | 1            | 0            |       |           |
| <b>Interest rate swaps</b>                  |                    |               |              |                    |              |              |       |           |
| Foreign contracts                           | 21,378             | 8             | 1,691        | 23,494             | 479          | 1,436        |       |           |
| Domestic contracts                          | 4,746              | 66            | 72           | 1,800              | 102          | 71           |       |           |
| <b>Option contracts</b>                     | 41,070             | 7,232         | 2,090        | –                  | –            | –            |       |           |
| <b>Cross-currency interest rate swap</b>    | 6,889              | –             | 248          | 739                | –            | 180          |       |           |
| <b>Total derivative assets/ liabilities</b> |                    | <b>11,285</b> | <b>5,416</b> |                    | <b>2,214</b> | <b>2,599</b> |       |           |

## 12. Derivative financial instruments (continued)

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.

### *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.

(in millions of Russian rubles)

*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          |
| <b>Gross loans to customers</b>                  | <b>932,137</b> | <b>964,699</b> |
| Less: Allowance for impairment                   | (144,211)      | (121,161)      |
| <b>Loans to customers</b>                        | <b>787,926</b> | <b>843,538</b> |

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 millions of Russian rubles)

### 13. Loans to customers (continued)

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.

#### *Allowance for impairment of loans to customers*

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

|  | Project<br>finance<br>2010 | Commercial<br>loans<br>2010 | Pre-export<br>finance<br>2010 |
|--|----------------------------|-----------------------------|-------------------------------|
| 1 January 2010   | 62,054                     | 54,347                      | 1,847                         |
| (Charge)/reversal  | 14,947                     | 26,696                      | 31                            |
| Write-offs   | (2)                        | (14,198)                    | —                             |
| Interest accrued on impaired loans                             | (7,029)                    | (990)                       | (111)                         |
| <b>31 December 2010</b>  | <b>69,970</b>              | <b>65,855</b>               | <b>1,767</b>                  |
| Individual impairment  | 61,965                     | 52,106                      | 1,471                         |
| Collective impairment  | 8,005                      | 13,749                      | 296                           |
|  | <b>69,970</b>              | <b>65,855</b>               | <b>1,767</b>                  |
| <b>Individually impaired loans before impairment allowance</b> | <b>152,739</b>             | <b>103,789</b>              | <b>1,999</b>                  |

|  | Project<br>finance<br>2009 | Commercial<br>loans<br>2009 | Pre-export<br>finance<br>2009 |
|--|----------------------------|-----------------------------|-------------------------------|
| 1 January 2009   | 7,705                      | 3,397                       | 620                           |
| Charge   | 57,537                     | 51,821                      | 1,289                         |
| Write-offs   | —                          | (652)                       | —                             |
| Interest accrued on impaired loans                             | (3,188)                    | (219)                       | (62)                          |
| <b>31 December 2009</b>  | <b>62,054</b>              | <b>54,347</b>               | <b>1,847</b>                  |
| Individual impairment  | 56,111                     | 39,339                      | 786                           |
| Collective impairment  | 5,943                      | 15,008                      | 1,061                         |
|  | <b>62,054</b>              | <b>54,347</b>               | <b>1,847</b>                  |
| <b>Individually impaired loans before impairment allowance</b> | <b>145,257</b>             | <b>80,809</b>               | <b>3,135</b>                  |

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



| Financing of operations with securities 2010 | Promissory notes 2010 | Reverse repurchase agreements 2010 | Back-to-back finance 2010 | Other 2010   | Total 2010     |
|--|-----------------------|------------------------------------|---------------------------|--------------|----------------|
| 669  | 183                   | 501                                | —                         | 1,560        | 121,161        |
| 2,067  | 561                   | (281)                              | 96                        | 1,432        | 45,549         |
| (153)  | —                     | —                                  | —                         | (16)         | (14,369)       |
| —  | —                     | —                                  | —                         | —            | (8,130)        |
| <b>2,583</b>                                 | <b>744</b>            | <b>220</b>                         | <b>96</b>                 | <b>2,976</b> | <b>144,211</b> |
| 2,043  | 77                    | 213                                | —                         | 2,844        | 120,719        |
| 540  | 667                   | 7                                  | 96                        | 132          | 23,492         |
| <b>2,583</b>                                 | <b>744</b>            | <b>220</b>                         | <b>96</b>                 | <b>2,976</b> | <b>144,211</b> |
| <b>2,056</b>                                 | <b>77</b>             | <b>346</b>                         | <b>—</b>                  | <b>2,844</b> | <b>263,850</b> |

| Financing of operations with securities 2009 | Promissory notes 2009 | Reverse repurchase agreements 2009 | Other 2009   | Total 2009     |
|--|-----------------------|------------------------------------|--------------|----------------|
| —  | 118                   | —                                  | 6            | 11,846         |
| 669  | 66                    | 501                                | 1,554        | 113,437        |
| —  | (1)                   | —                                  | —            | (653)          |
| —  | —                     | —                                  | —            | (3,469)        |
| <b>669</b>                                   | <b>183</b>            | <b>501</b>                         | <b>1,560</b> | <b>121,161</b> |
| 540  | 23                    | 478                                | 1,414        | 98,691         |
| 129  | 160                   | 23                                 | 146          | 22,470         |
| <b>669</b>                                   | <b>183</b>            | <b>501</b>                         | <b>1,560</b> | <b>121,161</b> |
| <b>1,150</b>                                 | <b>48</b>             | <b>976</b>                         | <b>2,687</b> | <b>234,062</b> |

## 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

(in millions of Russian rubles)

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.

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          |
|                                       | <b>932,137</b> | <b>964,699</b> |

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  |

(in millions of Russian rubles)

## 13. Loans to customers (continued)

### Concentration of loans to customers (continued)

|                      | 2010           | %          | 2009           | %          |
|----------------------|----------------|------------|----------------|------------|
| 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          |
|                      | <b>932,137</b> | <b>100</b> | <b>964,699</b> | <b>100</b> |

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)      |
| <b>Net investment in finance leases</b>          | <b>10,886</b>         | <b>26,476</b>                           | <b>10,554</b>      | <b>47,916</b> |

The analysis of finance lease receivables at 31 December 2009 is as follows:

|  | Not later than 1 year | Later than 1 and not later than 5 years | Later than 5 years | Total         |
|--|-----------------------|---|--------------------|---------------|
| Finance lease receivables                        | 4,707                 | 11,469                                  | 2,570              | 18,746        |
| Unearned future finance income on finance leases | (1,857)               | (3,468)                                 | (347)              | (5,672)       |
| <b>Net investment in finance leases</b>          | <b>2,850</b>          | <b>8,001</b>                            | <b>2,223</b>       | <b>13,074</b> |

(in millions of Russian rubles)

## 14. Investment securities

### *Investment securities available for sale*

Investment securities available for sale comprise:

|   | 2010           | 2009           |
|---|----------------|----------------|
| <b>Debt securities</b>  |                |                |
| 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            |
|   | <b>186,977</b> | <b>172,292</b> |
| <b>Equity securities</b>  |                |                |
| Shares  | 284,898        | 160,561        |
| Less: Allowance for impairment (Note 19)  | (120)          | (114)          |
|   | <b>284,778</b> | <b>160,447</b> |
| <b>Investment securities available for sale</b>                                     | <b>471,755</b> | <b>332,739</b> |
| <b>Securities pledged under repurchase agreements</b>                               |                |                |
| 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             | —              |
| <b>Investment securities available for sale pledged under repurchase agreements</b> | <b>4,828</b>   | <b>13,328</b>  |

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           |
|  | <b>21,617</b> | <b>22,643</b> |
| Less: Allowance for impairment (Note 19)             | (81)          | (277)         |
| <b>Investment securities held to maturity</b>        | <b>21,536</b> | <b>22,366</b> |

## 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.

(in millions of Russian rubles)

## 16. Investments in associates

### Associates

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

| Associates   | Share/<br>voting, %    | Country | Industry                | Date of<br>acquisition |
|--|------------------------|---------|-------------------------|------------------------|
| <b>2010</b>  |                        |         |                         |                        |
| OJSC "Ilyushin Finance Co."                                | 21.4                   | Russia  | Leasing                 | August 2006            |
| LLC "Interbank Trading House"                              | 50                     | Russia  | Trade and<br>investment | June 2006              |
| LLC "Interfax – Center of Economic Analysis"               | 49                     | Russia  | Media                   | August 2005            |
| OJSC "Corporation of development of Krasnoyarsk Territory" | 25                     | Russia  | Finance<br>intermediary | December<br>2006       |
| CJSC "Konsultbankir"                                       | 34                     | Russia  | Publishing              | October<br>1996        |
| CJSC "CentrEnergStroyMontazh"                              | 25                     | Russia  | Construction            | March 2007             |
| LLC "PROMINVEST"   | 25                     | Russia  | Finance<br>intermediary | November<br>2001       |
| LLC "Managing Company "Bioprocess Capital Partners"        | 25.1                   | Russia  | Finance<br>intermediary | April 2008             |
| LLC "VEB-Invest"   | 19                     | Russia  | Investments             | December<br>2008       |
| CMIF "Bioprocess Capital Ventures"                         | Share of<br>assets: 50 | Russia  | Investments             | April 2008             |
| <b>2009</b>  |                        |         |                         |                        |
| OJSC "Ilyushin Finance Co."                                | 21.4                   | Russia  | Leasing                 | August 2006            |
| LLC "Interbank Trading House"                              | 50                     | Russia  | Trade and<br>investment | June 2006              |
| LLC "Interfax – Center of Economic Analysis"               | 49                     | Russia  | Media                   | August 2005            |
| OJSC "Corporation of development of Krasnoyarsk Territory" | 25                     | Russia  | Finance<br>intermediary | December<br>2006       |
| CJSC "Konsultbankir"                                       | 34                     | Russia  | Publishing              | October<br>1996        |
| CJSC "CentrEnergStroyMontazh"                              | 25                     | Russia  | Construction            | March 2007             |
| LLC "PROMINVEST"   | 25                     | Russia  | Finance<br>intermediary | November<br>2001       |
| LLC "Managing Company "Bioprocess Capital Partners"        | 25.1                   | Russia  | Finance<br>intermediary | April 2008             |
| LLC "VEB-Invest"   | 19                     | Russia  | Investments             | December<br>2008       |
| CMIF "Bioprocess Capital Ventures"                         | Share of<br>assets: 50 | Russia  | Investments             | April 2008             |

(in millions of Russian rubles)

## 16. Investments in associates (continued)

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)          |
|   | <b>5,638</b> | <b>5,500</b> |
| Less: Allowance for impairment (Note 19)            | —            | (38)         |
| <b>Investments in associates, end of the period</b> | <b>5,638</b> | <b>5,462</b> |

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       |
| <b>Net assets</b>                               | <b>7,088</b> | <b>16,643</b> |

| 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         |
|--|---------------|------------|--------------|----------------|------------------------|---|---------------|
| <b>COST</b>  |               |            |              |                |                        |   |               |
| <b>31 December 2009</b>  | <b>16,021</b> | <b>215</b> | <b>4,337</b> | <b>682</b>     | <b>499</b>             | <b>3,938</b>  | <b>25,692</b> |
| 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)   | —             |
| <b>31 December 2010</b>  | <b>15,830</b> | <b>231</b> | <b>4,954</b> | <b>2,002</b>   | <b>335</b>             | <b>6,632</b>  | <b>29,984</b> |
| <b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>                             |               |            |              |                |                        |   |               |
| <b>31 December 2009</b>  | <b>2,790</b>  | <b>—</b>   | <b>2,064</b> | <b>351</b>     | <b>81</b>              | <b>2</b>  | <b>5,288</b>  |
| 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            |
| <b>31 December 2010</b>  | <b>3,098</b>  | <b>—</b>   | <b>2,662</b> | <b>537</b>     | <b>135</b>             | <b>2</b>  | <b>6,434</b>  |
| <b>NET BOOK VALUE:</b>   |               |            |              |                |                        |   |               |
| <b>31 December 2009</b>  | <b>13,231</b> | <b>215</b> | <b>2,273</b> | <b>331</b>     | <b>418</b>             | <b>3,936</b>  | <b>20,404</b> |
| <b>31 December 2010</b>  | <b>12,732</b> | <b>231</b> | <b>2,292</b> | <b>1,465</b>   | <b>200</b>             | <b>6,630</b>  | <b>23,550</b> |
| <b>COST</b>  |               |            |              |                |                        |   |               |
| <b>31 December 2008</b>  | <b>4,869</b>  | <b>—</b>   | <b>3,117</b> | <b>560</b>     | <b>327</b>             | <b>2,658</b>  | <b>11,531</b> |
| 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)  | —             |
| <b>31 December 2009</b>  | <b>16,021</b> | <b>215</b> | <b>4,337</b> | <b>682</b>     | <b>499</b>             | <b>3,938</b>  | <b>25,692</b> |
| <b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>                             |               |            |              |                |                        |   |               |
| <b>31 December 2008</b>  | <b>1,747</b>  | <b>—</b>   | <b>1,433</b> | <b>302</b>     | <b>23</b>              | <b>—</b>  | <b>3,505</b>  |
| Depreciation charge  | 367           | —          | 811          | 165            | 78                     | —   | 1,421         |

(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         |
|-------------------------|---------------|------------|--------------|----------------|------------------------|---|---------------|
| Disposals               | (14)          | —          | (180)        | (116)          | (134)                  | —   | (444)         |
| Impairment              | 690           | —          | —            | —              | 114                    | 2   | 806           |
| <b>31 December 2009</b> | <b>2,790</b>  | <b>—</b>   | <b>2,064</b> | <b>351</b>     | <b>81</b>              | <b>2</b>  | <b>5,288</b>  |
| <b>NET BOOK VALUE:</b>  |               |            |              |                |                        |   |               |
| <b>31 December 2008</b> | <b>3,122</b>  | <b>—</b>   | <b>1,684</b> | <b>258</b>     | <b>304</b>             | <b>2,658</b>  | <b>8,026</b>  |
| <b>31 December 2009</b> | <b>13,231</b> | <b>215</b> | <b>2,273</b> | <b>331</b>     | <b>418</b>             | <b>3,936</b>  | <b>20,404</b> |

In 2009, due to rapid and significant decline in real estate prices caused by the deteriorating economic environment in Ukraine, the Group recognized a RUB 690 million impairment of buildings owned by its subsidiary.

## 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)      |
| <b>Income tax expense/(benefit)</b>   | <b>(1,306)</b> | <b>417</b> |

Deferred tax recorded in other comprehensive income relates to unrealized gains/ (losses) from transactions with investment securities available for sale.

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 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 millions of Russian rubles)

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           |
| <b>Income tax assets</b>        | <b>2,350</b> | <b>856</b>   |
| Current income tax liabilities  | 27           | 13           |
| Deferred income tax liabilities | 1,015        | 1,935        |
| <b>Income tax liabilities</b>   | <b>1,042</b> | <b>1,948</b> |

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

|   | 2010           | 2009          |
|---|----------------|---------------|
| Income before tax from continuing operations  | 26,769         | 38,732        |
| Loss before tax from discontinued operations  | (184)          | —             |
| <b>Income before tax</b>  | <b>26,585</b>  | <b>38,732</b> |
| Statutory tax rate  | 20%            | 20%           |
| <b>Theoretical income tax expense/(benefit) at the statutory rate</b>   | <b>5,317</b>   | <b>7,746</b>  |
| 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           |
| <b>Income tax (benefit)/expense</b>   | <b>(1,662)</b> | <b>417</b>    |
| <b>Income tax (benefit)/expense recognized in the consolidated statement of income</b>  | <b>(1,306)</b> | <b>417</b>    |
| <b>(Benefit)/expense related to the income tax from discontinued operations</b>   | <b>(356)</b>   | <b>—</b>      |
|   | <b>(1,662)</b> | <b>417</b>    |

(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 |                            |                               |
|--|---|----------------------------|-------------------------------|
|  | 2008  | In the statement of income | In other comprehensive income |
| <b>Tax effect of deductible temporary differences:</b>     |   |                            |                               |
| Allowance for loan impairment                              | 242   | 180                        | —                             |
| Change in fair value of securities                         | 1,499   | (1,437)                    | (18)                          |
| Initial recognition of financial instruments at fair value | —   | —                          | —                             |
| Tax losses carried forward                                 | 1,376   | 3,472                      | —                             |
| Accrued income and expense                                 | 15  | (3)                        | —                             |
| Derivative financial instruments                           | 4   | 8                          | —                             |
| Property and equipment                                     | 69  | 29                         | —                             |
| Other  | 68  | (1,037)                    | 19                            |
|  | <b>3,273</b>                                      | <b>1,212</b>               | <b>1</b>                      |
| Unrecognized deferred tax assets                           | (2,547)   | (3,043)                    | 16                            |
|  | <b>726</b>  | <b>(1,831)</b>             | <b>17</b>                     |
| <b>Tax effects of taxable temporary differences:</b>       |   |                            |                               |
| Securities   | (8)   | (294)                      | (60)                          |
| Loans to customers   | (428)   | (78)                       | —                             |
| Initial recognition of financial instruments at fair value | —   | —                          | —                             |
| Allowances for losses                                      | (6)   | (110)                      | —                             |
| Customers' accounts  | (70)  | 70                         | —                             |
| Accrued income and expense                                 | (60)  | (33)                       | —                             |
| Derivative financial instruments                           | —   | (110)                      | —                             |
| Property and equipment                                     | (211)   | 375                        | —                             |
| Other  | (124)   | 2,288                      | —                             |
|  | <b>(907)</b>                                      | <b>2,108</b>               | <b>(60)</b>                   |
| <b>Deferred tax asset</b>                                  | <b>79</b>   | <b>42</b>                  | <b>(37)</b>                   |
| <b>Deferred tax liability</b>                              | <b>(260)</b>                                      | <b>235</b>                 | <b>(6)</b>                    |

| Effect of business combination | Currency translation effect | Origination and reversal of temporary differences |                            |                               |                             | 2010           |
|--------------------------------|-----------------------------|---|----------------------------|-------------------------------|-----------------------------|----------------|
|                                |                             | 2009  | In the statement of income | In other comprehensive income | Currency translation effect |                |
| 81                             | (17)                        | 486   | 236                        | —                             | (2)                         | 720            |
| 54                             | —                           | 98  | 178                        | (52)                          | —                           | 224            |
| —                              | —                           | —   | 907                        | —                             | —                           | 907            |
| —                              | —                           | 4,848   | (197)                      | —                             | —                           | 4,651          |
| —                              | —                           | 12  | (12)                       | —                             | —                           | —              |
| —                              | (1)                         | 11  | 5                          | —                             | —                           | 16             |
| 10                             | (16)                        | 92  | 108                        | —                             | (4)                         | 196            |
| 2,574                          | 39                          | 1,663   | 474                        | (11)                          | 94                          | 2,220          |
| <b>2,719</b>                   | <b>5</b>                    | <b>7,210</b>                                      | <b>1,699</b>               | <b>(63)</b>                   | <b>88</b>                   | <b>8,934</b>   |
| —                              | 11                          | (5,563)   | (179)                      | —                             | 4                           | (5,738)        |
| <b>2,719</b>                   | <b>16</b>                   | <b>1,647</b>                                      | <b>1,520</b>               | <b>(63)</b>                   | <b>92</b>                   | <b>3,196</b>   |
| 213                            | 7                           | (142)   | 78                         | (5)                           | (1)                         | (70)           |
| —                              | —                           | (506)   | 59                         | —                             | —                           | (447)          |
| —                              | —                           | —   | (914)                      | —                             | —                           | (914)          |
| (261)                          | 11                          | (366)   | 263                        | —                             | (2)                         | (105)          |
| —                              | —                           | —   | —                          | —                             | —                           | —              |
| —                              | 14                          | (79)  | (14)                       | —                             | 3                           | (90)           |
| (60)                           | —                           | (170)   | (104)                      | —                             | —                           | (274)          |
| (2,175)                        | 32                          | (1,979)   | 1,992                      | —                             | (29)                        | (16)           |
| (2,360)                        | (64)                        | (260)   | (347)                      | —                             | (50)                        | (657)          |
| <b>(4,643)</b>                 | <b>—</b>                    | <b>(3,502)</b>                                    | <b>1,013</b>               | <b>(5)</b>                    | <b>(79)</b>                 | <b>(2,573)</b> |
| —                              | (4)                         | 80  | 1,543                      | (63)                          | 78                          | 1,638          |
| <b>(1,924)</b>                 | <b>20</b>                   | <b>(1,935)</b>                                    | <b>990</b>                 | <b>(5)</b>                    | <b>(65)</b>                 | <b>(1,015)</b> |

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

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded within liabilities.

## 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         |
|   | <b>37,204</b> | <b>12,147</b> |
| Less allowance for impairment of other assets (Note 19) | (1,307)       | (927)         |
| <b>Other assets</b>                                     | <b>35,897</b> | <b>11,220</b> |

(in millions of Russian rubles)

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.

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        |
| <b>Other liabilities</b>                    | <b>13,611</b> | <b>6,030</b> |

## 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             |
| <b>Amounts due to credit institutions</b>                      | <b>235,027</b> | <b>201,137</b> |

## 21. Amounts due to credit institutions (continued)

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.

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.



(in millions of Russian rubles)

## 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          |
| <b>Amounts due to customers</b>                   | <b>290,098</b> | <b>202,223</b> |
| <b>Held as security against guarantees</b>        | <b>2,118</b>   | <b>1,572</b>   |
| <b>Held as security against letters of credit</b> | <b>3,695</b>   | <b>846</b>     |

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         |
|  | <b>109,869</b> | <b>81,973</b> |

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          |
| <b>Amounts due to customers</b>       | <b>290,098</b> | <b>202,223</b> |

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            |
| <b>Debt securities issued</b>                               | <b>186,947</b> | <b>78,896</b> |
| <b>Promissory notes held as security against guarantees</b> | <b>1,856</b>   | <b>1,401</b>  |

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).

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%.

## 23. Debt securities issued (continued)

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)

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        |
| <b>Net gains/(losses) on investment securities available for sale</b>  | <b>11,817</b> | <b>78,622</b> |

##### *Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## 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.

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           |
|--|----------------|----------------|
| <b>Credit related commitments</b>  |                |                |
| Undrawn loan commitments   | 436,271        | 231,321        |
| Guarantees   | 156,237        | 131,577        |
| Letters of credit  | 49,806         | 33,285         |
|  | <b>642,314</b> | <b>396,183</b> |
| <b>Operating lease commitments</b>   |                |                |
| 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            |
|  | <b>3,944</b>   | <b>4,205</b>   |
| Capital expenditure commitments  | 10,901         | 6,951          |
|  | <b>657,159</b> | <b>407,339</b> |
| Less provisions (Note 19)  | (152)          | (2,440)        |
| <b>Commitments and contingencies (before deducting collateral)</b>                               | <b>657,007</b> | <b>404,899</b> |
| Less Group's cash and promissory notes held as security against guarantees and letters of credit | (7,752)        | (3,083)        |
| <b>Commitments and contingencies</b>   | <b>649,255</b> | <b>401,816</b> |

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



(in millions of Russian rubles)

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          |
| <b>Fee and commission income</b>     | <b>7,515</b>   | <b>8,862</b>   |
| <b>Fee and commission expense</b>    | <b>(1,485)</b> | <b>(1,673)</b> |
| <b>Net fee and commission income</b> | <b>6,030</b>   | <b>7,189</b>   |

## 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        |
| <b>Total gains less losses from investment securities available for sale</b>   | <b>13,129</b> | <b>42,940</b> |

(in millions of Russian rubles)

## 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        |
| <b>Other operating expenses</b>                        | <b>7,833</b> | <b>6,006</b> |

## 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 5<sup>th</sup> 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.

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.

## 30. Risk management (continued)

### Introduction (continued)

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.

### *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

## 30. Risk management (continued)

### Introduction (continued)

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.

### *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.

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 com-

## 30. Risk management (continued)

### Introduction (continued)

municated 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.



## 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, moni-

(in millions of Russian rubles)

## 30. Risk management (continued)

### Credit risk (continued)

toring 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.

### *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                 |
|   |       | <b>1,650,136</b>      | <b>1,701,854</b>      |
| Financial commitments and contingencies                   | 25    | 642,162               | 393,743               |
| <b>Total credit risk exposure</b>                         |       | <b>2,292,298</b>      | <b>2,095,597</b>      |

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 13.

### *Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Bank using internal credit ratings. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the inputs for measuring the counterparty risk. 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

(in millions of Russian rubles)

### 30. Risk management (continued)

#### Credit risk (continued)

the credit quality of assets have been developed for the purpose of preparing Group's consolidated financial statements.

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<br>2010 | Total<br>2010 |
|--|-----------|-----------------------|---------------------------|----------------|-----------------------------------|--------------------------------------|------------------|---------------|
|  |           | Not impaired          |                           |                | Sub-<br>standard<br>grade<br>2010 | Individu-<br>ally impai-<br>red 2010 |                  |               |
|  |           | High<br>grade<br>2010 | Standard<br>grade<br>2010 |                |                                   |                                      |                  |               |
| <b>Amounts due from credit institutions</b>                              | <b>11</b> |                       |                           |                |                                   |                                      |                  |               |
| 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           |               |
|  |           | <b>406,311</b>        | <b>7,115</b>              | <b>2,327</b>   | <b>316</b>                        | <b>1,291</b>                         | <b>417,360</b>   |               |
| <b>Loans to customers</b>  | <b>13</b> |                       |                           |                |                                   |                                      |                  |               |
| 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            |               |
|  |           | <b>204,739</b>        | <b>339,607</b>            | <b>120,279</b> | <b>199,622</b>                    | <b>67,890</b>                        | <b>932,137</b>   |               |
| <b>Debt investment securities</b>  | <b>14</b> |                       |                           |                |                                   |                                      |                  |               |
| 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           |               |
|  |           | <b>157,471</b>        | <b>46,339</b>             | <b>9,266</b>   | <b>113</b>                        | <b>89</b>                            | <b>213,278</b>   |               |
| <b>Total</b>   |           | <b>768,521</b>        | <b>393,061</b>            | <b>131,872</b> | <b>200,051</b>                    | <b>69,270</b>                        | <b>1,562,775</b> |               |

(in millions of Russian rubles)

|  | Notes     | Not past due       |                           |                                   |                                  | Past due<br>2009 | Total<br>2009    |
|--|-----------|--------------------|---------------------------|-----------------------------------|----------------------------------|------------------|------------------|
|  |           | Not impaired       |                           |                                   | Individually<br>impaired<br>2009 |                  |                  |
|  |           | High grade<br>2009 | Standard<br>grade<br>2009 | Sub-<br>standard<br>grade<br>2009 |                                  |                  |                  |
| <b>Amounts due from credit institutions</b>                              | <b>11</b> |                    |                           |                                   |                                  |                  |                  |
| Back-to-back finance   |           | 383,039            | 4,959                     | —                                 | —                                | —                | 387,998          |
| Subordinated loans   |           | 210                | —                         | —                                 | —                                | —                | 210              |
| Interbank loans under small and medium-sized business support program    |           | 22,589             | 3,091                     | 84                                | 24                               | 24               | 25,812           |
| Other amounts due from credit institutions                               |           | 48,642             | 4,128                     | 58                                | 1,993                            | —                | 54,821           |
|  |           | <b>454,480</b>     | <b>12,178</b>             | <b>142</b>                        | <b>2,017</b>                     | <b>24</b>        | <b>468,841</b>   |
| <b>Loans to customers</b>  | <b>13</b> |                    |                           |                                   |                                  |                  |                  |
| Back-to-back finance   |           | 191,466            | 46,031                    | —                                 | —                                | —                | 237,497          |
| Commercial loans   |           | 88,991             | 101,780                   | 27,735                            | 22,102                           | 66,474           | 307,082          |
| Project finance  |           | 63,864             | 84,656                    | 19,473                            | 139,148                          | 6,109            | 313,250          |
| Pre-export finance   |           | 47,844             | 3,798                     | 19,456                            | 3,135                            | 6,479            | 80,712           |
| Financing of operations with securities                                  |           | 3,855              | 1,590                     | 824                               | —                                | 2,017            | 8,286            |
| Promissory notes   |           | 3,884              | 565                       | 3,383                             | —                                | 49               | 7,881            |
| Reverse repurchase agreements  |           | 1,565              | 2,065                     | —                                 | —                                | 976              | 4,606            |
| Other  |           | 599                | 561                       | 1,531                             | —                                | 2,694            | 5,385            |
|  |           | <b>402,068</b>     | <b>241,046</b>            | <b>72,402</b>                     | <b>164,385</b>                   | <b>84,798</b>    | <b>964,699</b>   |
| <b>Debt investment securities</b>  | <b>14</b> |                    |                           |                                   |                                  |                  |                  |
| 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           |
|  |           | <b>174,275</b>     | <b>21,328</b>             | <b>82</b>                         | <b>—</b>                         | <b>201</b>       | <b>195,886</b>   |
| <b>Total</b>   |           | <b>1,030,823</b>   | <b>274,552</b>            | <b>72,626</b>                     | <b>166,402</b>                   | <b>85,023</b>    | <b>1,629,426</b> |

### *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<br>7 days<br>2010 | 7 to 30<br>days<br>2010 | More than<br>30 days<br>2010 | Total<br>2010 |
|---------------------|-----------------------------|-------------------------|------------------------------|---------------|
| Loans to customers: |                             |                         |                              |               |
| Commercial loans    | 189                         | 347                     | 3,126                        | 3,662         |
|                     | Less than<br>7 days<br>2009 | 7 to 30<br>days<br>2009 | More than<br>30 days<br>2009 | Total<br>2009 |
| Loans to customers: |                             |                         |                              |               |
| Commercial loans    | 543                         | 237                     | 6,987                        | 7,767         |

(in millions of Russian rubles)

### 30. Risk management (continued)

#### Credit risk (continued)

|   | Less than<br>7 days<br>2009 | 7 to 30<br>days<br>2009 | More than<br>30 days<br>2009 | Total<br>2009 |
|---|-----------------------------|-------------------------|------------------------------|---------------|
| Pre-export finance                      | —                           | —                       | 6,479                        | 6,479         |
| Financing of operations with securities | —                           | —                       | 867                          | 867           |
| Promissory notes                        | —                           | —                       | 1                            | 1             |
| Other                                   | 5                           | 0                       | 2                            | 7             |
| <b>Total</b>                            | <b>548</b>                  | <b>237</b>              | <b>14,336</b>                | <b>15,121</b> |

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 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           |
| <b>Total</b>                            | <b>74,047</b> | <b>51,167</b> |

#### *Impairment assessment*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Impairment assessment is performed in two areas: individually assessed allowances and collectively assessed allowances.

### *Individually assessed allowances*

The allowances appropriate for each individually significant loan are determined on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

### *Collectively assessed allowances*

Allowances are assessed collectively for impairment of loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are assessed on each reporting date with each portfolio receiving a separate review.

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;

## 30. Risk management (continued)

### Liquidity risk and funding management (continued)

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 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

(in millions of Russian rubles)

### 30. Risk management (continued)

#### Liquidity risk and funding management (continued)

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.

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<br>month<br>2010 | 1 to 6<br>months<br>2010 | 6 to 12<br>months<br>2010 | Over 1<br>year<br>2010 | No stated<br>maturity<br>2010 | Total<br>2010 |
|---|--------------------------|--------------------------|---------------------------|------------------------|-------------------------------|---------------|
| <b>Monetary assets:</b>                               |                          |                          |                           |                        |                               |               |
| 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:                                |                          |                          |                           |                        |                               |               |

(in millions of Russian rubles)

|   | Up to 1 month<br>2010 | 1 to 6 months<br>2010 | 6 to 12 months<br>2010 | Over 1 year<br>2010 | No stated maturity<br>2010 | Total<br>2010    |
|---|-----------------------|-----------------------|------------------------|---------------------|----------------------------|------------------|
| 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           |
|   | <b>452,989</b>        | <b>162,760</b>        | <b>139,052</b>         | <b>986,803</b>      | <b>254,108</b>             | <b>1,995,712</b> |
| <b>Monetary liabilities:</b>                              |                       |                       |                        |                     |                            |                  |
| 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            |
|   | <b>245,126</b>        | <b>156,001</b>        | <b>382,109</b>         | <b>753,277</b>      | <b>881</b>                 | <b>1,537,394</b> |
| <b>Net position</b>                                       | <b>207,863</b>        | <b>6,759</b>          | <b>(243,057)</b>       | <b>233,526</b>      | <b>253,227</b>             | <b>458,318</b>   |
| <b>Accumulated gap</b>                                    | <b>207,863</b>        | <b>214,622</b>        | <b>(28,435)</b>        | <b>205,091</b>      | <b>458,318</b>             |                  |

|   | Up to 1 month<br>2009 | 1 to 6 months<br>2009 | 6 to 12 months<br>2009 | Over 1 year<br>2009 | No stated maturity<br>2009 | Total<br>2009    |
|---|-----------------------|-----------------------|------------------------|---------------------|----------------------------|------------------|
| <b>Monetary assets:</b>                                   |                       |                       |                        |                     |                            |                  |
| Cash and cash equivalents                                 | 165,177               | 3,739                 | —                      | —                   | —                          | 168,916          |
| Precious metals   | —                     | —                     | —                      | —                   | 248                        | 248              |
| Financial assets at fair value through profit or loss     | 49,391                | 1,258                 | 1                      | 857                 | —                          | 51,507           |
| Amounts due from credit institutions                      | 37,822                | 22,674                | 20,680                 | 384,120             | 2,012                      | 467,308          |
| Loans to customers  | 24,368                | 88,636                | 285,608                | 444,841             | 85                         | 843,538          |
| 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            |
|   | <b>453,981</b>        | <b>155,774</b>        | <b>308,122</b>         | <b>850,138</b>      | <b>146,236</b>             | <b>1,914,251</b> |

(in millions of Russian rubles)

### 30. Risk management (continued)

#### Liquidity risk and funding management (continued)

|   | Up to 1<br>month<br>2009 | 1 to 6<br>months<br>2009 | 6 to 12<br>months<br>2009 | Over 1<br>year<br>2009 | No stated<br>maturity<br>2009 | Total<br>2009    |
|---|--------------------------|--------------------------|---------------------------|------------------------|-------------------------------|------------------|
| <b>Monetary liabilities:</b>                            |                          |                          |                           |                        |                               |                  |
| Amounts due to credit institutions                      | 70,699                   | 27,259                   | 32,990                    | 70,189                 | —                             | 201,137          |
| Derivative financial liabilities                        | 200                      | 348                      | 364                       | 1,687                  | —                             | 2,599            |
| Due to the Russian Government and<br>the Bank of Russia | 47,704                   | 32,843                   | 436,957                   | 470,059                | —                             | 987,563          |
| Amounts due to customers                                | 100,716                  | 57,905                   | 16,481                    | 27,121                 | —                             | 202,223          |
| Debt securities issued                                  | 871                      | 74,931                   | 1,699                     | 1,395                  | —                             | 78,896           |
| Income tax liabilities                                  | —                        | 13                       | —                         | 1,935                  | —                             | 1,948            |
| Other liabilities                                       | 1,725                    | 725                      | 266                       | 461                    | 1,090                         | 4,267            |
|   | <b>221,915</b>           | <b>194,024</b>           | <b>488,757</b>            | <b>572,847</b>         | <b>1,090</b>                  | <b>1,478,633</b> |
| <b>Net position</b>                                     | <b>232,066</b>           | <b>(38,250)</b>          | <b>(180,635)</b>          | <b>277,291</b>         | <b>145,146</b>                | <b>435,618</b>   |
| <b>Accumulated gap</b>                                  | <b>232,066</b>           | <b>193,816</b>           | <b>13,181</b>             | <b>290,472</b>         | <b>435,618</b>                |                  |

Maturities represent remaining terms until repayment in accordance with underlying contractual arrangements at the reporting date.

While the majority of available-for-sale securities is shown as "up to 1 month", realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not always be liquidated in a short period of time without adverse price effects.

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.

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.

(in millions of Russian rubles)

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<br>At 31 December 2010                                     | Less than<br>3 months | 3 to 12<br>months | 1 to 5<br>years | Over<br>5 years | Total            |
|--|-----------------------|-------------------|-----------------|-----------------|------------------|
| Amounts due to credit institutions   | 90,584                | 34,793            | 121,899         | 22,993          | 270,269          |
| Derivative financial instruments settled through<br>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<br>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            |
| <b>Total undiscounted financial liabilities</b>                                  | <b>301,018</b>        | <b>502,323</b>    | <b>433,229</b>  | <b>755,704</b>  | <b>1,992,274</b> |

| Financial liabilities<br>At 31 December 2009                                     | Less than<br>3 months | 3 to 12<br>months | 1 to 5<br>years | Over<br>5 years | Total            |
|--|-----------------------|-------------------|-----------------|-----------------|------------------|
| Amounts due to credit institutions   | 85,187                | 46,527            | 62,133          | 21,137          | 214,984          |
| Derivative financial instruments settled through<br>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<br>Russia                          | 60,284                | 470,052           | 195,832         | 609,410         | 1,335,578        |
| Amounts due to customers   | 117,549               | 62,239            | 29,353          | 417             | 209,558          |
| Debt securities issued   | 8,297                 | 70,575            | 1,471           | 9               | 80,352           |
| Other liabilities  | 2,242                 | 443               | 413             | 1,237           | 4,335            |
| <b>Total undiscounted financial liabilities</b>                                  | <b>273,660</b>        | <b>651,885</b>    | <b>291,487</b>  | <b>633,017</b>  | <b>1,850,049</b> |

(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<br>3 months | 3 to 12<br>months | 1 to 5<br>years | Over<br>5 years | Total          |
|------|-----------------------|-------------------|-----------------|-----------------|----------------|
| 2010 | 92,633                | 133,077           | 385,816         | 30,788          | <b>642,314</b> |
| 2009 | 64,523                | 143,127           | 177,098         | 11,435          | <b>396,183</b> |

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.

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

## 30. Risk management (continued)

### Market risk (continued)

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 inter-



est 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.

(in millions of Russian rubles)

## 30. Risk management (continued)

### Market risk (continued)

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<br>in basis points<br>2010 | Sensitivity of<br>the statement of<br>income 2010 | Sensitivity<br>of equity<br>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<br>in basis points<br>2010 | Sensitivity of<br>the statement of<br>income 2010 | Sensitivity<br>of equity<br>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)  | —                                |

(in millions of Russian rubles)

| Rate                          | Increase<br>in basis points<br>2009 | Sensitivity of<br>the statement of<br>income 2009 | Sensitivity<br>of equity<br>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  | —                                |

| Rate                          | Decrease<br>in basis points<br>2009 | Sensitivity of<br>the statement of<br>income 2009 | Sensitivity<br>of equity<br>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 USTreasuries           | -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

(in millions of Russian rubles)

### 30. Risk management (continued)

#### Market risk (continued)

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)  |

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.

(in millions of Russian rubles)

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)                               |

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.

(in millions of Russian rubles)

### 30. Risk management (continued)

#### Market risk (continued)

##### 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 Exchange index | 45%                   |                              |                                   | 44%                          | 11                     |
|                                | -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                     |

| 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 |
|--------------------------------|-----------------------|------------------------------|-----------------------------------|------------------------------|------------------------|
|                                | -39%                  | -47%                         | (2,391)                           | -47%                         | (17)                   |
| Ukrainian Stock Exchange index | 47%                   |                              |                                   | 38%                          | 7                      |
|                                | -47%                  | -                            | -                                 | -38%                         | (7)                    |

### *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.

(in millions of Russian rubles)

### 30. Risk management (continued)

#### Operational risk (continued)

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 2010   | Level 1 | Level 2 | Level 3 | Total  |
|---|---------|---------|---------|--------|
| <b>Financial assets</b>   |         |         |         |        |
| 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 |



| At 31 December 2010   | Level 1        | Level 2       | Level 3      | Total          |
|---|----------------|---------------|--------------|----------------|
| Investment securities available-for-sale<br>(including those pledged under repurchase agreements) | 452,984        | 22,479        | 1,120        | 476,583        |
|   | <b>515,085</b> | <b>33,045</b> | <b>4,597</b> | <b>552,727</b> |
| <b>Financial liabilities</b>  |                |               |              |                |
| Derivative financial instruments  | -              | 5,416         | -            | 5,416          |
|   | -              | <b>5,416</b>  | -            | <b>5,416</b>   |

| At 31 December 2009  | Level 1        | Level 2       | Level 3      | Total          |
|--|----------------|---------------|--------------|----------------|
| <b>Financial assets</b>  |                |               |              |                |
| Trading securities   | 47,387         | 159           | -            | 47,546         |
| Derivative financial instruments                                       | 0              | 1,938         | 276          | 2,214          |
| Financial assets designated as at fair value<br>through profit or loss | -              | -             | 1,747        | 1,747          |
| Investment securities available for sale                               | 327,079        | 18,582        | 406          | 346,067        |
|  | <b>374,466</b> | <b>20,679</b> | <b>2,429</b> | <b>397,574</b> |
| <b>Financial liabilities</b>   |                |               |              |                |
| Derivative financial instruments                                       | 2              | 2,597         | -            | 2,599          |
|  | <b>2</b>       | <b>2,597</b>  | -            | <b>2,599</b>   |

### *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.

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.

(in millions of Russian rubles)

### 31. Fair value of financial instruments (continued)

#### *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<br>1 January<br>2010 | Gains/(losses)<br>recorded in<br>profit or loss | Gains/(losses)<br>recorded in other<br>comprehensive<br>income | Purchases    | At<br>31 December<br>2010 |
|---|-------------------------|---|--|--------------|---------------------------|
| <b>Financial assets</b>   |                         |   |  |              |                           |
| 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                     |
| <b>Total Level 3</b>  | <b>2,429</b>            | <b>(178)</b>                                    | <b>897</b>   | <b>1,449</b> | <b>4,597</b>              |

|   | At<br>1 January<br>2009 | Gains/(losses)<br>recorded in<br>profit or loss | Gains/(losses)<br>recorded in other<br>comprehensive<br>income | Purchases    | At<br>31 December<br>2009 |
|---|-------------------------|---|--|--------------|---------------------------|
| <b>Financial assets</b>   |                         |   |  |              |                           |
| Derivative financial instruments                                    | -                       | 276   | -  | -            | 276                       |
| Financial assets designated as at fair value through profit or loss | 1,063                   | (162)   | -  | 846          | 1,747                     |
| Investment securities available for sale                            | -                       | -   | (266)  | 672          | 406                       |
| <b>Total Level 3</b>  | <b>1,063</b>            | <b>114</b>                                      | <b>(266)</b>   | <b>1,518</b> | <b>2,429</b>              |

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

#### *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:

(in millions of Russian rubles)

|  | Transfers from Level 2 to Level 1, |  |
|--|------------------------------------|--|
|  | 2010                               |  |
| <b>Financial assets</b>                  |                                    |  |
| Investment securities available for sale | 20                                 |  |

|  | Transfers from Level 1 to Level 2, |       |
|--|------------------------------------|-------|
|  | 2010                               | 2009  |
| <b>Financial assets</b>                  |                                    |       |
| 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 |
| <b>Financial assets</b>   |                     |   |
| 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 |
| <b>Financial assets</b>   |                     |   |
| Derivative financial instruments                                    | 276                 | 18  |
| Financial assets designated as at fair value through profit or loss | 1,747               | 0   |
| Investment securities available for sale                            | 406                 | (19)  |

(in millions of Russian rubles)

### 31. Fair value of financial instruments (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<br>2010 | Fair value<br>2010 | Unrecognized<br>gain/(loss)<br>2010 | Carrying value<br>2009 | Fair value<br>2009 | Unrecognized<br>gain/(loss)<br>2009 |
|---|------------------------|--------------------|-------------------------------------|------------------------|--------------------|-------------------------------------|
| <b>Financial assets</b>                                   |                        |                    |                                     |                        |                    |                                     |
| 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                                  |
| <b>Financial liabilities</b>                              |                        |                    |                                     |                        |                    |                                     |
| 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)                               |
| <b>Total unrecognized change in unrealized fair value</b> |                        |                    | <b>(599)</b>                        |                        |                    | <b>(9,132)</b>                      |

(in millions of Russian rubles)

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.

## 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:

(in millions of Russian rubles)

## 32. Related party transactions (continued)

|   | 2010          |                           |            |                          |
|---|---------------|---------------------------|------------|--------------------------|
|   | State         | State controlled entities | Associates | Key management personnel |
| <b>Cash and cash equivalents</b>  | <b>19,322</b> | <b>28,363</b>             | -          | -                        |
| <b>Precious metals</b>  | -             | <b>201</b>                | -          | -                        |
| <b>Financial assets at fair value through profit or loss</b>                        | <b>13,495</b> | <b>47,034</b>             | -          | -                        |
| 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)                  | -          | -                        |
| <b>Amounts due from credit institutions at 31 December</b>                          | <b>1,596</b>  | <b>315,630</b>            | -          | -                        |
| Less allowance for impairment   | -             | (24)                      | -          | -                        |
| <b>Amounts due from credit institutions at 31 December, net</b>                     | <b>1,596</b>  | <b>315,606</b>            | -          | -                        |
| <b>Interest income on amounts due from credit institutions and cash equivalents</b> | <b>57</b>     | <b>27,943</b>             | -          | -                        |
| <b>Investment securities available for sale</b>                                     | <b>4,258</b>  | <b>332,077</b>            | -          | -                        |
| <b>Investment securities pledged under repurchase agreements</b>                    | <b>2,277</b>  | <b>749</b>                | -          | -                        |
| <b>Investment securities held to maturity</b>                                       | <b>1,389</b>  | <b>4,854</b>              | -          | -                        |
| <b>Interest income on trading securities</b>  | <b>1,172</b>  | <b>483</b>                | -          | -                        |
| <b>Interest income on investment securities</b>                                     | <b>358</b>    | <b>12,987</b>             | -          | -                        |
| 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)                      |

|  | 2010            |                           |                |                          |
|--|-----------------|---------------------------|----------------|--------------------------|
|  | State           | State controlled entities | Associates     | Key management personnel |
| Write-offs   | -               | -                         | (0)            | -                        |
| Other changes  | (164)           | 1,892                     | 2,502          | (4)                      |
| <b>Loans to customers at 31 December</b>   | <b>7,076</b>    | <b>148,520</b>            | <b>147,035</b> | <b>17</b>                |
| Less allowance for impairment  | (102)           | (7,591)                   | (40,216)       | (0)                      |
| <b>Loans to customers at 31 December, net</b>  | <b>6,974</b>    | <b>140,929</b>            | <b>106,819</b> | <b>17</b>                |
| <b>Interest income on loans to customers</b>   | <b>781</b>      | <b>15,397</b>             | <b>7,403</b>   | <b>(0)</b>               |
| <b>Charge of allowance for impairment for loans to customers</b>                     | <b>(21)</b>     | <b>(1,075)</b>            | <b>(6,265)</b> | <b>(0)</b>               |
| <b>Due from the Russian Government</b>   | <b>119</b>      | -                         | -              | -                        |
| <b>Receivable from the Russian Government under London Club Arrangement</b>          | <b>1,123</b>    | -                         | -              | -                        |
| <b>Other assets</b>  | <b>376</b>      | <b>5,871</b>              | <b>61</b>      | -                        |
| <b>Correspondent Loro accounts</b>   | -               | <b>6,718</b>              | -              | -                        |
| 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)            | -                        |
| <b>Loans and deposits received from credit institutions at 31 December</b>           | -               | <b>41,708</b>             | -              | -                        |
| <b>Interest expense on amounts due to credit institutions and the Bank of Russia</b> | <b>(19,306)</b> | <b>(717)</b>              | -              | -                        |
| <b>Derivative financial liabilities</b>  | -               | <b>2,090</b>              | -              | -                        |
| <b>Due to the Russian Government and the Bank of Russia</b>                          | <b>814,901</b>  | -                         | -              | -                        |
| <b>Current customer accounts</b>   | <b>327</b>      | <b>57,778</b>             | <b>296</b>     | <b>49</b>                |
| Customer deposits at 1 January   | 53              | 8,230                     | 4,052          | 647                      |
| Deposits received during the year  | 3,668           | 82,084                    | 13,148         | 885                      |

(in millions of Russian rubles)

## 32. Related party transactions (continued)

|  | 2010            |                           |              |                          |
|--|-----------------|---------------------------|--------------|--------------------------|
|  | State           | State controlled entities | Associates   | Key management personnel |
| Proceeds related to changes in the Group                                       | -               | -                         | -            | -                        |
| Deposits repaid during the year  | (128)           | (38,878)                  | (15,817)     | (615)                    |
| Other changes  | 2               | (479)                     | 6            | 4                        |
| <b>Customer deposits at 31 December</b>  | <b>3,595</b>    | <b>50,957</b>             | <b>1,389</b> | <b>921</b>               |
| <b>Interest expense on amounts due to customers and the Russian Government</b> | <b>(34,770)</b> | <b>(3,517)</b>            | <b>(115)</b> | <b>(81)</b>              |
| 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                     | -            | -                        |
| <b>Debt securities issued at 31 December</b>                                   | <b>-</b>        | <b>27,191</b>             | <b>-</b>     | <b>-</b>                 |
| <b>Interest expense on debt securities issued</b>                              | <b>(202)</b>    | <b>(577)</b>              | <b>-</b>     | <b>-</b>                 |
| <b>Other liabilities</b>   | <b>740</b>      | <b>517</b>                | <b>-</b>     | <b>36</b>                |
| <b>Guarantees issued and undrawn loan commitments</b>                          | <b>3,644</b>    | <b>240,007</b>            | <b>991</b>   | <b>8</b>                 |
| <b>Fee and commission income, net</b>  | <b>749</b>      | <b>1,605</b>              | <b>47</b>    | <b>-</b>                 |
| <b>Dividends</b>   | <b>-</b>        | <b>1,390</b>              | <b>-</b>     | <b>-</b>                 |
| <b>Other operating income</b>  | <b>7</b>        | <b>111</b>                | <b>0</b>     | <b>0</b>                 |
| <b>Other operating expenses</b>  | <b>(172)</b>    | <b>(292)</b>              | <b>(152)</b> | <b>0</b>                 |



(in millions of Russian rubles)

|   | 2009          |                           |                |                          |
|---|---------------|---------------------------|----------------|--------------------------|
|   | State         | State controlled entities | Associates     | Key management personnel |
| <b>Cash and cash equivalents</b>  | <b>20,912</b> | <b>25,095</b>             | <b>1,416</b>   | -                        |
| <b>Precious metals</b>  | -             | <b>166</b>                | -              | -                        |
| <b>Financial assets at fair value through profit or loss</b>                        | <b>16,704</b> | <b>20,083</b>             | -              | -                        |
| Amounts due from credit institutions at 1 January                                   | 13            | 269,314                   | 2,580          | -                        |
| Amounts placed during the year  | 12,173        | 141,297                   | 2,896          | -                        |
| Changes in the Group and related parties  | 74            | (1,929)                   | (151)          | -                        |
| Amounts repaid during the year  | (14,195)      | (64,011)                  | (4,363)        | -                        |
| Other changes   | 2,344         | (3,680)                   | 9              | -                        |
| <b>Amounts due from credit institutions at 31 December</b>                          | <b>409</b>    | <b>340,991</b>            | <b>971</b>     | -                        |
| Less allowance for impairment   | -             | (5)                       | (2)            | -                        |
| <b>Amounts due from credit institutions at 31 December, net</b>                     | <b>409</b>    | <b>340,986</b>            | <b>969</b>     | -                        |
| <b>Interest income on amounts due from credit institutions and cash equivalents</b> | <b>759</b>    | <b>25,761</b>             | <b>548</b>     | -                        |
| <b>Investment securities available for sale</b>                                     | <b>5,699</b>  | <b>245,736</b>            | -              | -                        |
| <b>Investment securities held to maturity</b>                                       | <b>122</b>    | <b>3,401</b>              | -              | -                        |
| <b>Interest income on trading securities</b>  | <b>1,290</b>  | <b>415</b>                | -              | -                        |
| <b>Interest income on investment securities</b>                                     | <b>173</b>    | <b>8,812</b>              | <b>7</b>       | -                        |
| 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)                      |
| <b>Loans to customers at 31 December</b>  | <b>6,562</b>  | <b>214,072</b>            | <b>125,932</b> | <b>22</b>                |

## 32. Related party transactions (continued)

|  | 2009            |                           |                 |                          |
|--|-----------------|---------------------------|-----------------|--------------------------|
|  | State           | State controlled entities | Associates      | Key management personnel |
| Less allowance for impairment  | (351)           | (12,833)                  | (38,174)        | (0)                      |
| <b>Loans to customers at 31 December, net</b>  | <b>6,211</b>    | <b>201,239</b>            | <b>87,758</b>   | <b>22</b>                |
| <b>Interest income on loans to customers</b>   | <b>527</b>      | <b>17,985</b>             | <b>6,108</b>    | <b>2</b>                 |
| <b>Charge of allowance for impairment for loans to customers</b>                     | <b>(318)</b>    | <b>(10,859)</b>           | <b>(35,481)</b> | <b>(0)</b>               |
| <b>Due from the Russian Government</b>   | <b>207</b>      | <b>-</b>                  | <b>-</b>        | <b>-</b>                 |
| <b>Receivable from the Russian Government under London Club Arrangement</b>          | <b>1,115</b>    | <b>-</b>                  | <b>-</b>        | <b>-</b>                 |
| <b>Other assets</b>  | <b>484</b>      | <b>569</b>                | <b>31</b>       | <b>-</b>                 |
| <b>Correspondent Loro accounts</b>   | <b>-</b>        | <b>7,890</b>              | <b>11</b>       | <b>-</b>                 |
| Loans and deposits received from credit institutions at 1 January                    | -               | 9,452                     | 1               | -                        |
| Loans and deposits received during the year  | -               | 1,541,161                 | 5,818           | -                        |
| Changes in the Group and related parties   | -               | (1,608)                   | -               | -                        |
| Loans and deposits repaid during the year  | -               | (1,514,160)               | (4,749)         | -                        |
| Other changes  | -               | (1,575)                   | 1               | -                        |
| <b>Loans and deposits received from credit institutions at 31 December</b>           | <b>-</b>        | <b>33,270</b>             | <b>1,071</b>    | <b>-</b>                 |
| <b>Interest expense on amounts due to credit institutions and the Bank of Russia</b> | <b>(29,118)</b> | <b>(1,403)</b>            | <b>(85)</b>     | <b>-</b>                 |
| <b>Derivative financial liabilities</b>  | <b>-</b>        | <b>25</b>                 | <b>-</b>        | <b>-</b>                 |

(in millions of Russian rubles)

|  | 2009            |                           |               |                          |
|--|-----------------|---------------------------|---------------|--------------------------|
|  | State           | State controlled entities | Associates    | Key management personnel |
| <b>Due to the Russian Government and the Bank of Russia</b>                    | <b>987,563</b>  | –                         | –             | –                        |
| <b>Current customer accounts</b>   | <b>324</b>      | <b>60,832</b>             | <b>1,134</b>  | <b>33</b>                |
| Customer deposits at 1 January   | 119             | 5,654                     | 700           | 49                       |
| Deposits received during the year  | 235             | 18,717                    | 7,229         | 2,060                    |
| Proceeds related to changes in the Group                                       | –               | –                         | –             | 1,889                    |
| Deposits repaid during the year  | (308)           | (15,987)                  | (3,897)       | (3,358)                  |
| Other changes  | 7               | (154)                     | 20            | 7                        |
| <b>Customer deposits at 31 December</b>  | <b>53</b>       | <b>8,230</b>              | <b>4,052</b>  | <b>647</b>               |
| <b>Interest expense on amounts due to customers and the Russian Government</b> | <b>(31,894)</b> | <b>(3,450)</b>            | <b>(284)</b>  | <b>(40)</b>              |
| Debt securities issued at 1 January  | –               | 3,187                     | –             | –                        |
| Debt securities issued during the year   | –               | 33,965                    | –             | –                        |
| Debt securities repaid during the year   | –               | (4,663)                   | –             | –                        |
| Other changes  | 21,126          | (21,455)                  | –             | –                        |
| <b>Debt securities issued at 31 December</b>                                   | <b>21,126</b>   | <b>11,034</b>             | –             | –                        |
| <b>Interest expense on debt securities issued</b>                              | <b>(29)</b>     | <b>(566)</b>              | –             | –                        |
| <b>Other liabilities</b>   | <b>45</b>       | <b>1,062</b>              | –             | <b>8</b>                 |
| <b>Guarantees issued and undrawn loan commitments</b>                          | <b>1,635</b>    | <b>149,061</b>            | <b>25,139</b> | <b>10</b>                |
| <b>Fee and commission income, net</b>  | <b>743</b>      | <b>1,680</b>              | <b>2</b>      | –                        |
| <b>Dividends</b>   | –               | <b>793</b>                | –             | –                        |
| <b>Other operating income</b>  | <b>28</b>       | <b>37</b>                 | <b>1</b>      | <b>0</b>                 |
| <b>Other operating expenses</b>  | <b>(108)</b>    | <b>(304)</b>              | <b>(180)</b>  | <b>0</b>                 |

(in millions of Russian rubles)

Compensation to key management personnel comprises the following:

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

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

### 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)        |
| <b>Total capital</b>          | <b>363,590</b>   | <b>331,886</b>   |
| <b>Risk-weighted assets</b>   | <b>1,805,426</b> | <b>1,738,509</b> |
| 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 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 ac-

### 34. Subsequent events (continued)

tivities 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.

# Representative Offices Addresses and Telephones

## Representative Offices Abroad

### Great Britain, London

Representative Office  
of Vnesheconombank in the UK  
101 St. Martin's Lane,  
London WC2N 4 AZ, UK  
Tel.: +44 20 7395 58 41  
Fax: +44 20 7240 13 45  
E-mail: vebuk@veb.ru

### India, New-Delhi

Representative Office  
of Vnesheconombank in India, New-Delhi  
Plot EP-15, Dr. Jose P. Rizal Marg,  
Chanakyapuri, New-Delhi-110021, India  
Tel.: +91 11 2412 12 82  
Fax: +91 11 2412 15 77  
E-mail: vebindia@veb.ru

### India, Mumbai

Representative Office  
of Vnesheconombank in India, Mumbai  
World Trade Center, Cuffee Parade, Colaba,  
Mumbai 400005, India  
Tel.: +91 22 2218 27 05  
Fax: +91 22 2218 58 45  
E-mail: vebmumbai@veb.ru

### Italy, Milan

Representative Office  
of Vnesheconombank in Italy  
8, Piazzale Principessa Clotilde,  
Milano, 20121, Italy  
Tel.: +39 02 65 36 25  
Fax: +39 02 655 16 97  
E-mail: vebitaly@veb.ru

**China, Beijing**

Representative Office  
of Vnesheconombank in China  
20A, CITIC Building, 19,  
Jianguomenwai dajie,  
Beijing, 100004, China  
Tel.: +86 10 6592 89 05  
Fax: +86 10 6592 89 04  
E-mail: vebchina@veb.ru

**USA, New York**

Representative Office  
of Vnesheconombank in the USA  
777 Third Avenue, Suite 29B,  
NY 10017, New York, USA  
Tel.: +1 212 421 86 60  
Fax: +1 212 346 77 80  
E-mail: vebusa@veb.ru

**Germany, Frankfurt-am-Main**

Representative Office  
of Vnesheconombank in Germany  
Taunusanlage 1, 60329,  
Frankfurt, Germany  
Tel.: +49 69 272 21 97 00  
Fax: +49 69 272 21 97 29  
E-mail: vebgermany@veb.ru

**France, Paris**

Representative Office  
of Vnesheconombank in France  
24, Rue Tronchet,  
75008 Paris, France  
Tel.: +33 140 07 19 76  
Fax: +33 140 07 07 18  
E-mail: vebfrance@veb.ru

**RSA, Johannesburg**

Representative Office  
of Vnesheconombank in South Africa  
2024, 2nd fl., Chelsea Place,  
138 West Street, Sandton,  
Johannesburg, RSA  
Tel. +27 11 783 34 25  
Fax: +27 11 784 46 88  
E-mail: vebzar@veb.ru

**Swiss Confederation, Zurich**

*(opened in 2011)*  
Representative Office  
of Vnesheconombank in Switzerland  
31A, Drekonigstrasse, 8002,  
Zurich, Switzerland  
Tel.: +41 044 208 38 06  
Fax: +41 044 208 35 00



## Representative Offices in the Russian Federation

### Representative Office of Vnesheconombank in St. Petersburg

Area of Responsibility –  
Northwestern Federal District  
Shpalernaya Street 60,  
St. Petersburg, 191015  
Tel.: +7 (812) 331 51 01  
Fax: +7 (812) 331 51 02  
E-mail: reprf@veb.ru

### Representative Office of Vnesheconombank in Khabarovsk

Area of Responsibility –  
Far Eastern Federal District  
Kim Yu Chen Street 7, letter B,  
Khabarovsk, 680000  
Tel.: +7 (4212) 42 05 30, 42 05 31  
Fax: +7 (4212) 42 05 33  
E-mail: reprf@veb.ru

### Representative Office of Vnesheconombank in Yekaterinburg

Area of Responsibility –  
Ural Federal District  
Karl Libknecht Street 4, letter A,  
Yekaterinburg, 620075  
Tel./Fax: +7 (343) 359 04 36  
E-mail: reprf@veb.ru

### Representative Office of Vnesheconombank in Pyatigorsk

Area of Responsibility –  
North Caucasian Federal District  
Krayniy Street 49,  
Pyatigorsk, 357500  
Tel.: +7 (928) 493 16 60  
E-mail: reprf@veb.ru

### Representative Office of Vnesheconombank in Krasnoyarsk

*(opened in 2011)*  
Area of Responsibility –  
Siberian Federal District  
Vesna Street 3 "A",  
Krasnoyarsk, 660135  
Tel./Fax: +7 (391) 276 16 70  
E-mail: reprf@veb.ru

