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V. Dmitriev

Chairman of Vnesheconombank



V N E S H E C O N O M B A N K

1

Chairman's address

Honorable Colleagues and Partners!

I cannot, but admit that, when signing this annual report presented for your attention, I felt deeply emotional. Indeed, this is the last report of Vnesheconombank of the USSR, a unique state financial institution both in terms of number, scale and character of challenges it was invariably seeking to meet.

Admittedly, by the time you take up the document for reading, the legislative procedures related to transforming Vnesheconombank of the USSR into a state corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”, will be completed. Becoming a heritage of the past, Vnesheconombank of the USSR will pass on to its legal successor invaluable expertise it gained acting as a vehicle of the state economic policy. True, placed in a challenging environment, be it in the periods of peaceful

achievements or in the worst of the war times, the Bank was entrusted by the leadership of the country with most critically important tasks of financing projects designed to ensure creating industrial and energy infrastructure and reinforcing the defence potential. Throughout its more than 80 year-long history, Vnesheconombank has, in fact, successfully performed the functions of a financial institution called to assist the state in its development goals.

This state specialised bank, known as VEB, will definitely not go into oblivion. Its good name or, what is now popularly called a brand, will be passed over to the Bank for Development, which will inherit a strong foundation to build on.

We recognise that, for us, President V. Putin's TV Address in January 2006, in which the President addressed the need of creating the national development bank, and the designation by the Russian Government of Vnesheconombank as the



basis for such an institution, as well as the practical measures regarding Vnesheconombank's reorganisation, were the keynote events of the past year. Also, most important for us is that our thoughts and ideas about Vnesheconombank's reform tasks and goals, as well as the core business areas of the future Bank for Development, that we were expressly stating the past two years, were 'heard' and given serious consideration on the highest state level.

The Bank for Development is being created at the stage that would obviously by far define Russia's place and role in the global economy, its competitive economic strength, commitment to meet globalisation challenges and confidently respond to them. The state explicitly stated the priority task of the period: a switch over of the Russian economy to an innovative way of development that, among other things, envisages overall assisting innovation, removing infrastructure restrictions for economic growth, enhancing cost effectiveness in using up natural resources, as well as creating new and modernising the existing high-tech industries. The resources accumulated by the country will ensure the capitalisation of the Bank for Development that could obviously match the capital of its foreign peers.

In the federal law "On the Bank for Development", the Government of the Russian Federation, the President's Administration and the Federal Assembly formulated an appropriate list of the functions and powers of this financial institution. Moreover, the provisions of the law, as well as other legal acts, describe the prerequisites needed for the Bank's successful performance. Obviously, it would enable us to create an efficient state off-budget development institution designed to resolve the task of raising and placing funds for investment purposes, inclusive of using the mechanism of public-private partnership (PPP). Also, the institution is called to ensure financial and guarantee support for day-to-day activities of the Russian exporters and

producers of import-substituting goods, i.e. the state mechanism that was long since needed by the Russian regions and the high-tech industries.

The Bank for Development is to become a consolidating element in the infrastructure of the Russian state development institutions designed to give a fresh impetus to investment activities – the Investment Fund, the Agency for Special Economic Zones, the Russian Venture Company – and enhance the synergy effect of their activities. The Bank for Development will help identify the areas of common interest for the state and private investors in accomplishing strategic development tasks set out by the state in the economic and social areas. The Bank will aim to diversify and give a new quality touch to the structure of economic growth, as well as assist in integrating budget and off-budget resources.

Could we have ever believed that Vnesheconombank might be charged with a high and responsible mission of the Bank for Development?

Reasonably enough, we did have such hopes and expectations. But to translate them into business reality, we worked real hard in various areas of activities Vnesheconombank was entrusted with, including such socially important business as trust management of pension savings of the citizens.

In our judgment, the past year clearly demonstrated a strong need to upgrade the legal framework underlying investment of resources managed by the Bank as the State Trust Management Company. We were thinking of devising such investment schemes that would work both for the future generation of pensioners and the state. On the one hand, the schemes were to ensure a yield, which would exceed inflation, and on the other hand, facilitate industrial and transportation infrastructure development, as well as housing construction.

We are fairly confident that the lending and investment banking activities management system, created at the Bank in 2006,

has already started to operate on a well-established basis. Notably, the volume of financing of enterprises and organisations by 5 times exceeded the volume of the Bank's loan portfolio, as of December 31, 2005. In terms of the growth rate in the volume of the loans extended to non-financial enterprises and organisations, Vnesheconombank was taking the lead among Russian banks.

Also important is that the Bank's net income rose by 1.3 times on the year 2005 to total USD 301 million, while return on equity (ROE) totaled 25.6 percent.

The year saw substantial enhancement in the Bank's interaction with the regions of the Russian Federation. To illustrate, within the period under review, 10 cooperation agreements in the area of investment activities were signed by Vnesheconombank with the administrations of the subjects of the Russian Federation, including the agreements that envisage the Bank's participation as a creditor, an investor, a manager of financing or as a financial adviser in implementing regional investment programs and projects.

Equally important, being strategically focused on a considerable enhancement of financing volumes for the Russian economy, we were successfully accomplishing the task of building up our own resource base. Obviously, raising from foreign banks USD 0.8 billion worth of a 3-year term syndicated loan on exceptionally competitive price terms for a Russian bank, just the way it was with the debut syndicated loan in 2005, might well be viewed as a meaningful event of the period under review. Overall, in 2006, the volume of funds obtained showed a more than 3-time rise on the year 2005, with the maturities of the resources raised becoming much longer.

In 2006, in recognition of the Bank's activities, the leading foreign rating agencies Fitch Ratings and Standard&Poor's raised Vnesheconombank's foreign currency long-term rating to BBB+.

Admittedly, reinforced international reputation of Vnesheconombank as a reliable financial institution and high ratings assigned to it created solid foundations for a considerable expansion of the range of its foreign partners. Currently, among them are major foreign banks (inclusive of national development banks of foreign states), export credit agencies and insurance companies. I firmly believe that the agreements made with them will enable the new Bank for Development to successfully raise financial resources for Russia's economy on quite favorable terms, help Russian exporters move onto foreign markets. Also, the agreements will give us an opportunity to draw on the expertise gained by our foreign partners in the area of arranging financing for sophisticated structured projects, as well as capitalise on their experience in project finance based on the PPP mechanism.

Vnesheconombank continued to further upgrade the system of activities management seeking to adjust its components and finely tune them to the tasks of the lending and investment banking activities when operating in the environment of innovation-based economy.

The Bank for Development will become a financial institution that would seek to integrate in all its activities the principles of continuity and new meaningful elements, experience and innovation, systematic approach to project selection and a focus on key financing areas.

Principally, the state is creating the Bank for Development as a financial foundation for structural reforms that are designed to enhance Russia's socio-economic development. Hopefully, there are all the prerequisites and serious underpinnings for this institution to successfully accomplish the missions and goals it is given. In particular, the Bank for Development, obviously, can, just from the very start, make the best use of the methods and forms of management practiced by Vnesheconombank, as well as its staff's potential. The new Bank for

Development can draw on Vnesheconombank's methodological, technological, as well as logistical base, previously established business ties. In other words, on the practical front, a smooth and natural transition of Vnesheconombank to operating in a new organisational-legal environment has been prepared.

Recognising that the level of the tasks and the respective responsibilities of both the Bank and its every employee will considerably increase, we placed a tighter focus on the personnel management policy and corporate culture development. While aspiring to preserve Vnesheconombank's long-standing traditions, we are committed to move forward. New approaches and methodologies are being introduced and launched by the Bank. Hopefully, it would enable every employee to make the best use of the abilities, unleash the creative potential, enhance job satisfaction and ensure an appropriate professional training.

Being an integral part of the Russian society, Vnesheconombank deems extensive sponsorship and charitable activities to be its particular continuous responsibility. Traditionally, Vnesheconombank views supporting national healthcare, culture and arts and implementing major projects in the areas of education, science and sports as key areas of the charity and sponsorship program. Vnesheconombank renders all kind of support to the organisations of those who are socially unprotected in the modern society. The last few years Vnesheconombank's

interaction with the Russian Orthodox Church has acquired a new importance. Now that Vnesheconombank is opening a new chapter in its history, it aims to expand its participation in a noble cause of charity.

I would like to draw your special attention to the fact that, from the moment the procedure of Vnesheconombank's reorganisation, which is carried out in the form of transformation, is completed, in compliance with the legislation of the Russian Federation, the Bank for Development becomes an assignee of all the rights and obligations of the Bank for Foreign Economic Affairs of the USSR, including the obligations towards all its creditors and debtors, inclusive of those contested by the parties. Thus, the Bank for Development will become a universal legal successor to Vnesheconombank of the USSR.

To conclude, we very much hope for your understanding and support in Vnesheconombank's transformation effort. Equally, we expect your cooperation in the process of getting a new financial institution – a state corporation 'Bank for Development and Foreign Economic Affairs (Vnesheconombank)' solidly established.

Honorable colleagues and partners, we view most enriching cooperation with you as a key factor to ensure attaining the goals set for the Bank for Development. I am absolutely sure that, just as in the past years, it will be mutually rewarding.



V. Dmitriev



V N E S H E C O N O M B A N K

2

Financial highlights and operating statistics

Vnesheconombank is one of the oldest Russian banks with the status of a specialised state financial institution. It is well-known to the global business community, has well-established extensive business ties and a reputation of a prime-rate banking institution. Strategically, the Bank's main goal is to assist the state in meeting the challenge of the country's socio-economic development, inclusive of accomplishing the task that would facilitate a switch over of the country's economy to an innovative way of development. Obviously, such a way, in combination with the removal of infrastructure restrictions impeding economic growth, is designed to ensure sustainable economic growth, social stability and enhance the citizens' living standards.

Within the past few years, the Bank's role in implementing the state structural reforms in the real economy sector has substantially increased. We recognise that enhanced volumes of the funds raised by the Bank on the capital markets and increased volumes of financing the Russian enterprises and organisations, as well as volumes of funds transferred

through it, only evidence the increased scope of its activities as a financial intermediary.

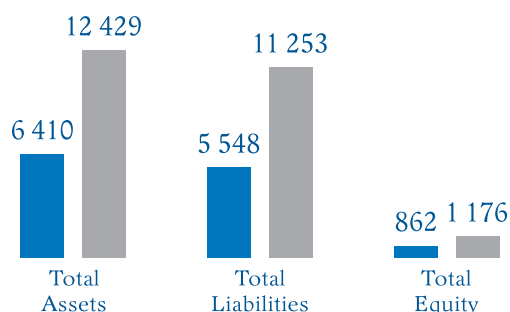
The Bank views long-term resources of the capital market participants, first and foremost, the funds of credit institutions as a priority source for resource base enhancement. As of December 31, 2006, the volume of loans raised from foreign banks with the final maturities of principal amounts that fall in 2008-2016 reached USD 3.4 billion. At the year-end 2005, the volume of similar loans, with the longest maturities falling in 2012, made USD 1.3 billion.

Notably, the Bank was able to ensure increased financing volumes for enterprises and organisations that reached USD 6.6 billion, demonstrating a 5-time rise in the Bank's loan portfolio, as compared to December 31, 2005.

The increases in the value of the securities portfolio made more than 22 percent. At the end of the period under review, the value of the securities portfolio reached USD 2.9 billion. Foreign currency-denominated Russian government securities and corporate bonds



Assets, Liabilities, Equity, USD Million



Assets Breakdown, USD Million

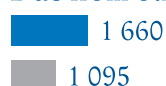
Cash and Cash Equivalents



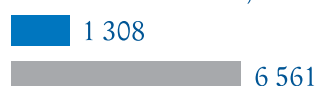
Securities



Due from other Banks, net



Commercial Loans, net

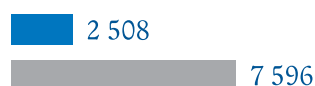


Other Assets, net

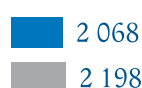


Liabilities Breakdown, USDMillion

Due to other Banks



Due to the Russian Government and the Bank of Russia



Amounts due to Customers



Other Liabilities



of sound and reliable foreign issuers linked to the Russian Federation sovereign risk or the risks of Russia's stable financial organisations, as well as shares of Russian enterprises, playing an important role in Russia's economy, represented the bulk of the portfolio.

As a result of the targeted efforts, the Bank ensured an increase in total assets under its proprietary operations up to USD 12.4 billion, which is almost a double increase on the year-end 2005. Net income rose by 1.3 times to total USD 301 million, the Bank's equity totaled USD 1 176 million (+36 percent).

The efficiency indicators of the Bank's operations in 2006 are as follows: the Bank's return on equity (ROE) was standing at 25.6 percent, while the return on assets (ROA) was 2.4 percent. The financial results delivered by the Bank at the year-end 2006 clearly evidence its retaining the role of a major Russian financial institution. As of 31 December 2006, among major Russian banks in terms of the assets volume¹, Vnesheconombank ranked: 2nd in terms of loans and deposits raised from banks, 4th in terms of income before income taxes, 5th in terms of securities portfolio and 8th in terms of the volume of commercial loans extended to Russian non-financial enterprises and organisations.

Remarkably, Vnesheconombank was also taking the lead in the growth rates of the portfolio of commercial loans extended to legal entities of the non-banking sector and ranked 2nd in terms of the assets volume growth rates.

In 2006, the leading foreign rating agencies Fitch Ratings and Standard & Poor's raised Vnesheconombank's foreign currency long-term rating to BBB+, while the rating agency Moody's assigned it a Baa2 rating in 2005, all the ratings assigned having a stable outlook. The long-term credit ratings assigned to Vnesheconombank are at par with the sovereign ratings of the Russian Federation and confirm both its positive evaluation by the world's leading rating agencies and the level of the Bank's support by the state.

¹ In compliance with the Russian Accounting Rules.



V N E S H E C O N O M B A N K

3

Corporate banking

Admittedly, placing a tight focus on customer base development and improving the quality of customer servicing in line with the approaches and standards generally accepted in international banking practices, Vnesheconombank is committed to establishing long-term and mutually rewarding cooperation with each of its partners.

Principally, our cooperation with customers is not reduced to just effecting standard banking operations. Recognising the need to further encourage customer relationships, Vnesheconombank is committed to promoting and facilitating its customers' businesses, inclusive of project implementation in foreign countries. To this end, an institute of personal managers, designed to coordinate work with strategically important customers, has been operating at the Bank.

In this context, the following customer groups are viewed by the Bank as a priority:

- financially sound and/or possessing a high development capability state and

private Russian enterprises and organisations:

- participating in the implementation of national and international investment programs and projects;
- engaging in the production and exports;
of domestic goods, as well as developing technologies and providing services that are in demand with foreign consumers;
- ensuring output of import-substituting goods for the domestic market;
- acting within the frameworks of military-technical cooperation and the state defence contracts;
- state executive bodies and local authorities that participate in implementing major infrastructure projects.

Presently, the list of Vnesheconombank's strategic priorities by sectors of economy embraces civil and defence industries, inclusive of aircraft and shipbuilding, instrument engineering, atomic sector,



communications and telecommunications. Special energies are devoted to business cooperation with the enterprises of energy, oil, gas and chemical industries, as well as specialised foreign trade organisations.

As of December 31, 2006, Vnesheconombank was servicing 2567 legal entities of the non-banking sector (2448 as of December 31, 2005). The aggregate volume of cash on customer accounts grew by 2.5 times, as compared with the start of the period under review. The yearly turnovers over the customer accounts also witnessed a substantial increase. Thus, just the turnovers over the accounts of customers, residents of the Russian Federation, reached the equivalent of USD 67.5 billion, which makes a USD 11 billion increase on the year 2005.

Among the Bank's new customers come "Uraltransmash" federal state unitary enterprise, the "Mariysk machine-engineering works" OJSC, TSZ "Titan-Express" CJSC, the "Muromsk radio metering devices works" OJSC, the "GOZ Obukhovsk Works" OJSC, the "Siberia" Aviation Company OJSC, "Oboronpromleasing" CJSC, the "Nizhnetagilsk institute for metal testing", as well as many others.

Notably, Vnesheconombank offers its clients a full range of services in the area of guarantee, payment/settlement, depository and securities operations, provides financial evaluation and analysis, as well

as ensures arranging financing for investment projects.

Traditionally, Vnesheconombank has had the reputation of a reliable and a strong professional financial institution. For years, Vnesheconombank has been one of the leading Russian banks servicing foreign economic activities. The sustained growth in the volume of customer payments related to international settlements effected by the Bank is reflective of the above: USD 32.0 billion² that is a 59 percent rise on the year 2005. The year under review was also marked by a 2.6-time increase in the yearly volume of rouble-denominated payments that was equivalent to USD 19.7 billion. The number of passports of deals made out for customers by the Bank posted a 19 percent growth.

All this taken together, evidences that the Bank commands the confidence and trust of its customers who come to it for servicing cash flows related to the whole spectrum of payment/settlement services effected both at home and abroad.

A strong impetus given to Vnesheconombank's lending and investment banking activities obviously contributed to a notable rise in the volume of the Bank's documentary business related to servicing the ongoing activities of its customers. As compared to 2005, the volume of documentary operations effected in 2006 witnessed a 2-time increase to reach the equivalent of USD 2.6 billion.

²Exclusive of the payments related to Russia's sovereign foreign debt servicing.



V N E S H E C O N O M B A N K

4

Cooperation with financial institutions

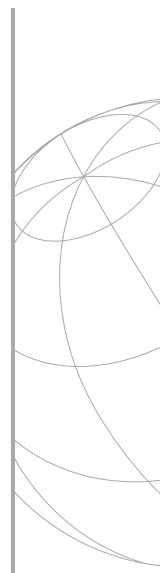
The main underpinnings of Vnesheconombank's successful cooperation with the Russian and foreign financial institutions are the Bank's extensive experience of operating on international financial markets, the Bank's time-proved reputation of a reliable partner, its unique status of a specialised state bank and its globally recognized impeccable record.

Within the framework of these activities, special energies were devoted to developing correspondent relations. Vnesheconombank's professionals pressed ahead with their concerted effort to enhance the Bank's correspondent network, a most extensive network among Russian banks, seeking to ensure a most adequate servicing of clients' and counterparties' cash flows, as well as the Bank's proprietary operations.

As of December 31, 2006, Vnesheconombank maintained correspondent relations with almost 1000 national and international banks. The number of correspondent accounts reached 857. The majority of NOSTRO

accounts were accounts opened with the banks in Europe and the North America, the largest number of LORO accounts were accounts opened for Russian banks.

Throughout 2006, in an effort to create a financial development institution on the basis of Vnesheconombank, special emphasis was placed on relations with national and regional development banks. Among them are the Bank's traditional long-standing partners: Kreditanstalt für Wiederaufbau (Germany), the China Development Bank (China), the Japan Bank for International Cooperation (Japan), the Black Sea Trade and Development Bank. Apart from this, over the reported period, correspondent relations were established with the Development Bank of Kazakhstan and the Eurasian Development Bank (for the latter the correspondent LORO accounts were opened with Vnesheconombank as well). Also, Vnesheconombank's professionals actively interacted with the Inter-American Development Bank and the Asian Development Bank with the aim



of Russia's possible accession to these inter-state financial institutions.

Vnesheconombank, representing Russia, participated in the Interbank Consortium within the framework of the Shanghai Cooperation Organisation (IBC SCO). Vnesheconombank's professionals came up with a number of meaningful initiatives aimed at further developing the above consortium and launching 'pilot' projects. Among the members of the Interbank Consortium within the framework of the SCO (IBC SCO) also are: the Development Bank of Kazakhstan, the China State Development Bank, the National Bank of Tajikistan, the National Bank for Foreign Economic Activity of the Republic of Uzbekistan. In 2006, the chairmanship in IBC SCO went to the Chairman of Vnesheconombank.

On a continuous basis, Vnesheconombank maintained relations with such major international financial institutions as the World Bank and the European Bank for Reconstruction and Development.

Throughout 2006, the Bank concluded a number of agreements with foreign credit organisations that envisage enhanced cooperation in the areas and regions of mutual interest and concern. In particular, in October 2006, within the frameworks of the visit of the President of Russia to Germany, Vnesheconombank and Dresdner Bank entered into an agreement on cooperation in the area of settlement, investment, documentary and other operations. Naturally, it opens up a new window of opportunity for fostering mutually rewarding business relations. To ensure assistance and support for the Russian organisations in implementing projects in African countries, Vnesheconombank entered into cooperation agreements with Nedbank, a major South African bank, and the Industrial Development Corporation. The documents provide for establishing long-term partnership relations in the area of servicing trade-economic cooperation of the Russian Federation with the Republic of South Africa, as well as other African countries.

A fresh impetus was given to fostering partnership relations with major Russian banks, as well as leading foreign export-import banks and export credit agencies.

Increased volumes of mutual limits set are reflective of ever-growing cooperation with financial institutions. The overall volume of limits set on Vnesheconombank by foreign financial institutions alone grew by one third to reach USD 2.7 billion.

In its turn, the volume of limits set by Vnesheconombank on financial institutions increased in 2006 by an equivalent of USD 2 billion and reached USD 10 billion.

To ensure partnership relationship development and exchange of experience in the area of trade finance, the Bank arranged the third annual interbank conference 'Trade Finance in Russia. The Most Pressing Issues'. More than 140 representatives of Russian and foreign financial institutions attended the conference. The participants appreciated the organisational level of the conference and found it most informative.

Special attention was devoted to the Bank's participation in the work of the interbank working groups, created within the frames of various intergovernmental councils and commissions designed to ensure the development of trade-economic cooperation. By way of example, Vnesheconombank participated as a coordinator on the Russian part in the work of the Russian-Austrian working group on cooperation in financial area of the mixed Russian Austrian Commission on Trade and Economic Cooperation. In 2006, the Bank's professionals, with the Austrian party's support, prepared for publishing in Russian and in English the brochure containing the materials of the expert group workshop 'Implementation of the Kyoto Protocol Mechanisms and their Utilisation for Enhancing Cooperation between Austrian and Russian Banks'. The professionals of both countries positively appraised the brochure distributed among a wide range of the interested Russian and Austrian enterprises, organisations and official institutions.



V N E S H E C O N O M B A N K

5

Lending and investment banking activities, guarantee support

It should be noted, that in the past few years, real prerequisites for a substantial enhancement of Russia's social-economic development emerged. Admittedly, it could be directly attributed to a benign foreign economic environment on the energy markets, a stable socio-political set-up in the country, an adoption of a set of measures and regulatory acts, designed to stimulate investment activities, and a well-measured credit-monetary policy. All these facts taken together positively impacted the macro-economic indicators dynamics and Russia's ratings and ensured the formation in the country of the Stabilisation and Investment Funds, as well as a subsequent enhancement of their volumes. Obviously, it enabled Russia to start practical implementation of large-scale structural reforms envisaged by the country's leadership in the economic and social areas.

Starting from 2004, Vnesheconombank, traditionally assisting the state in pursuit of its foreign economic policy, has viewed

a substantial enhancement of its role in accomplishing the task of removing infrastructure restrictions on economic growth and switching the Russian economy over to an innovative way of economic development as a key strategic priority.

By the start of the year 2006, when a state level decision was adopted to create a national bank for development, we had already laid solid foundations for a successful launching of a new state financial institution.

Clearly, underlying and underpinning these foundations lies a financial infrastructure defined by Vnesheconombank's cooperation agreements with major foreign financial institutions and the respective consortiums and associations (inclusive of national development banks, export credit agencies and insurance companies of foreign states). The other underpinning components were cooperation agreements made by the Bank with the state executive bodies of the Russian Federation, Russian and



foreign organisations. The overall number of the agreements made within the period of 2003-2005 totalled 38.

Developing partnership relations

Within the period under review, more than 40 agreements that envisage cooperation development, inclusive of agreements in the area of arranging financing for regional and sectoral programs and projects, were concluded. Obviously, these agreements, as well as those previously concluded, had all, but one thing in common – investment orientation.

The bulk of the agreements, signed by the end of the reported period, is targeted on the creation in Russia of such a powerful mechanism that stimulates investment as the public-private partnership (PPP). Currently, the task of addressing the need to create/modernise industrial facilities in capital-intensive and high-tech industries and remove infrastructure restrictions hampering economic growth acquires a new urgency. In future, Vnesheconombank's performance as a development bank envisages its acting as a financial intermediary between the state and business, including arranging financing for investment projects that are oriented towards meeting the above tasks.

Performing the function of a financial intermediary the Bank is intent on drawing on the expertise gained by foreign financial institutions in the area of structured financing with the use of the PPP mechanisms. To this end, Vnesheconombank signed bilateral cooperation agreements with Deutsche Bank AG and with Dresdner Bank AG on support of jointly implemented PPP projects financed out of the state and private resource sources. The agreements envisage rendering assistance to those engaged in the PPP projects when selecting financial schemes best suited for major investment projects. On the practical front, the methods of project

finance are to be widely introduced. The best use is also to be made of an insurance cover by foreign export credit agencies, as well as the opportunities offered by the Russian law on concessions.

The way we see it, an agreement made by Vnesheconombank in October of 2006 with the UNDP, a major UN organisation in the area of international technical assistance for emerging market countries, as well as countries with economies in transition, would also contribute to the application of international expertise in investment activities carried on in the Russian environment. According to the agreement, the PPP mechanisms development is viewed as one of the priorities in our interaction with the UNDP.

Within the framework of Vnesheconombank's enhanced cooperation with the federal executive bodies, a cooperation agreement between Vnesheconombank and Russia's Federal Agency for Industry was signed. It envisages interaction and coordination of efforts aimed at financing projects in such sectors as radio-electronics, civil aircraft building, shipbuilding and timber industry. The agreement also evidences the Bank's, as well as the Agency's intention to participate in financing projects included in the federal special-purpose program "National Technology Base".

In 2006, with the view of establishing strategic partnerships and developing long-term, efficient and mutually rewarding cooperation with the regions, Vnesheconombank signed more than 10 framework agreements with the executive bodies of the subjects of the Russian Federation. Among them are the agreements with the Chechen and Chuvash Republics, the Krasnodar Krai, the Kirovsk, Kurgansk, Murmansk, Orenburg, Ryazan, Sakhalin, Sverdlovsk, Tver and Ulianovsk regions. The documents define the main areas of cooperation and Vnesheconombank's role in developing the regions, as well as industrial priorities and general approaches to arranging financing related to the projects whose implementing is planned on the

territory of this or that subject of the Russian Federation.

Thus, the subject matter of the agreement made between the Council of Ministers of the Chuvash Republic and Vnesheconombank is assistance in implementing investment projects intended to help move high-tech exports-oriented goods produced in the republic to foreign markets. The document is reflective of the Bank's intention to participate in devising financing schemes for projects implemented on the territory of the republic, inclusive of those in scientific-industrial area. Under the agreement, the Bank shall assist the republic in implementing republican targeted programs and creating on the territory of the republic elements of an innovative infrastructure, including such elements as businesses that generate new technologies, the Venture Fund, technical, industrial and scientific development zones.

In March 2006, in the course of an official visit of the President of the Russian Federation to China, Vnesheconombank, the China Development Bank and the Government of the Chechen Republic signed a trilateral agreement, envisaging joint elaboration of financing schemes for projects implemented on the territory of the republic. Vnesheconombank and the China Development Bank shall engage in joint financial support for investment projects in various sectors of the Chechen economy, in particular, in machine-engineering, manufacturing sector, oil refining industry, as well as projects designed to develop infrastructure.

Within the frames of Cooperation Agreement with the Ulyanovsk region, the Bank aims to participate in arranging financing for projects to be implemented in the region in the area of aircraft- and shipbuilding, health-care, as well as agriculture.

Furthermore, the agreements made with the Administration of the Sakhalin region envisage elaborating financing schemes for investment projects, implemented on the territory of the region. The priority projects are in the real sector of economy and include: fuel

and energy complex, construction of industrial and social infrastructure facilities (inclusive of housing), transportation.

The subject matter of the agreement concluded with RAO UES of Russia and the Association of Constructors of Russia is joint participation of the parties concerned in a program designed to help develop systems of small-sized energy facilities in the regions of the Russian Federation, inclusive of those aimed at implementing the national project "Affordable and Comfortable Housing for the Citizens of Russia". The following agreements concluded by Vnesheconombank will be instrumental in implementing the given national project:

- in the course of the Vth International Economic Forum 'Kuban 2006' with the 'Eurasian' OJSC. The document envisages assistance by the parties concerned to the city infrastructure development, namely, in the area of water supply and water drainage, the major aims being enhanced efficiency and safety of the utility facilities functioning, raising investment for the housing and utilities complexes, improving the quality of services with a simultaneous cost reduction;
- with the Administration of the Kurgan Region and the "Tobolenergo" CJSC. The subject of the agreement is participation of the parties in implementing projects related to modernising public utility energy facilities.

The agreement with the Eurasian Industrial Association (EIA) provides for implementing projects related to constructing, modernising and enhancing capacities of the EIA industrial enterprises on the territory of Kazakhstan, as well engaging Russian companies in equipment deliveries. The agreement focuses on enhancing cooperation between the two countries and is critically important in moving domestic high value-added goods to foreign markets.

The Bank's participation in meeting the challenge of the socio-economic development of the Krasnoyarsk region, in particular,

its participation in implementing the “Complex Program for the Development of the Nizhneye Priangariye Region” clearly demonstrates that Vnesheconombank's agreements are being translated into practical deeds.

In addition to the formerly concluded Memorandum on cooperation related to the development of the Nizhneye Priangariye industrial timber complex and an Agreement on general principles to apply to financing investment projects on the territory of the region, Vnesheconombank and the “Corporation for the Krasnoyarsk Region Development” OJSC signed an Agreement on joint financing and raising investment in the volume exceeding RUB 25 billion for the construction of a pulp-and-paper plant in the Boguchansk region. Also important is the fact that the infrastructure facilities needed for the construction and operation of the plant are to be financed out of the Russian Federation Investment Fund.

Actually, the plant to be constructed is part of the “Complex Program for the Development of the Nizhneye Priangariye Region”. In view of a huge volume of investment planned within the frames of the Program, which actually exceeds RUB 330 billion (and that is besides the Russian Federation Investment Fund's money in the sum exceeding RUB 34 billion allocated for the purpose of implementing the infrastructure projects), one could suggest that, in the near-term, the investment projects to be implemented under the Program might become the major ones on the territory of the Russian Federation.

Forming the Bank's resource base drawing on external sources

Vnesheconombank's strategic focus on a considerable enhancement of financing extended brought about the need to build

up its own resource base drawing on the foreign resources.

The task was successfully accomplished, among other things, by way of long-term borrowing, thereby efficiently utilizing the opportunities offered by agreements concluded with foreign financial institutions. As of the year-end 2006, the volume of funds obtained from credit organisations was running at USD 7.6 billion showing a 3-time rise on the start of the period under review.

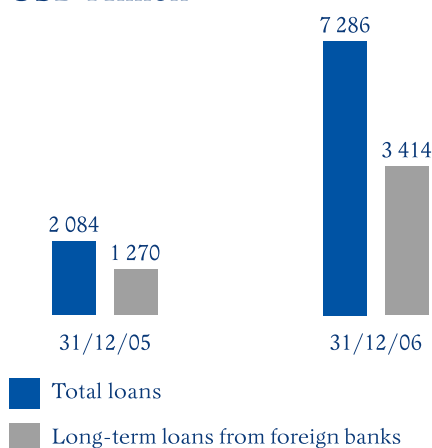
Following a syndicated loan in 2005, recognised by the “Global Trade Review” magazine as the “Deal of the Year”, Vnesheconombank, breaking a new record for Russian financial institutions, raised in July 2006 USD 800 million worth of a 3-year term syndicated loan on exceptionally competitive price terms for a Russian bank. Deutsche Bank, Dresdner Kleinwort Wasserstein, the Bank of Tokyo Mitsubishi UFJ and Raiffeisen Zentralbank Oesterreich acted as the loan lead managers.

Despite a record low margin (0.35 percent above LIBOR), the deal inspired foreign investors' interest. It is worth noting the deal is reflective of the fact that the Bank commands their confidence and trust, since it was done against the backdrop of a downward trend on the market of the Russian debt obligations. Actually, 27 foreign banks participated in the syndication, with the total sum of participants' applications by far exceeding the target figure. Once again, the deal was recognised as the best one on the given market sector, now, for the year 2006.

Apart from this, the task of ensuring funding required to address the Bank's ever-growing financing volumes was successfully resolved through entering into bilateral loan agreements. In the period under review, Vnesheconombank raised USD 2.4 billion worth of resources from foreign financial institutions, with the maturities ranging from 1.5 to 10 years.

As of December 31, 2006, the aggregate volume of loans raised from foreign banks with the final maturities of principal

Loans raised from banks, USD Million



amounts that fall in 2008-2016 reached USD 3.4 billion (at the start of the period under review, the volume of similar loans, with the longest maturities falling in 2012, made USD 1.3 billion).

Remarkably, targeted credit resources raised by the Bank from foreign investors without state guarantees of the Russian Federation, inclusive of resources obtained under 'tied' credit lines, obviously served as an important source of borrowing to ensure enhanced volumes of the loan portfolio. As of the year-end 2006, the aggregate volume of resources obtained by Vnesheconombank from foreign partners for lending to designated borrowers reached USD 1.6 billion. Among the Bank's major creditors were major foreign financial institutions: the China Development Bank (China), WestLB (Germany), HSBC (Great Britain), Mediobanka (Italy), ING Bank (the Netherlands), Sumitomo Mitsui Banking Corporation (Japan). The targeted credit resources were utilised for financing Russian enterprises' and companies' projects in such areas as machine-engineering, the energy sector, communications and telecommunications, the chemical industry.

Short-term operations related to the Bank's raising funds on the interbank money market were primarily effected to regulate the ongoing liquidity needs. It is worth noting that, with a view of enhancing opportunities

to effect operations on the interbank money market, 11 new general agreements with the Russian banks, including subsidiaries of foreign credit institutions, were signed.

Financing investment projects and day-to day activities of corporate customers

In 2005, to ensure successful launching and functioning of Vnesheconombank as a national bank for development, Management carried out serious preparatory work to form a package of potentially worthwhile investment projects. Actually, the respective package embraced 20 projects for the total sum of USD 1 billion.

Remarkably enough, within the year 2006, decisions on Vnesheconombank's participation in financing more than 40 investment projects for the total sum of USD 3.5 billion were taken. Among the major projects, whose main aim is facilitating infrastructure development or creating/modernising industrial facilities are the following ones: constructing the terminals on the territory of the Sheremetyevo-3 airport, reconstructing and expanding the passenger terminal at the Khrabrovo airport in the city of Kaliningrad, construction of liquid cargo and mini oil-refinery works in Ust Luga, reconstruction and turn-key equipment of operating and intensive care rooms of the Murmansk regional clinic, reconstruction and modernising of poultry-producing farming complexes, as well as ensuring production of motor-compressors for refrigeration equipment on the territory of the Uralsk federal region, construction of a warehouse logistics complex on the territory of the Moscow region.

Largely as a consequence of the Bank's stepped-up activities to finance investment projects and ensure the day-to-day activities

Commercial Loans, net USD Million



of the Russian enterprises and organisations (first and foremost, high-tech production exporters), the aggregate volume of loans extended, within the period under review, to legal entities of the non-banking sector reached USD 5.9 billion witnessing a more than 3-time rise on 2005.

As of December 31, 2006, the volume of the Bank's loan portfolio reached USD 6.6 billion demonstrating a 5-time rise on the year 2005.

Prospective projects

Management acknowledges that special efforts devoted in 2006 to creating an adequate 'launching pad' for the future development bank, enabled it to lay solid foundations for further intensive lending and investment banking activities in areas related to financing investment projects. The portfolio of potentially worthwhile projects being considered by the Bank with a view of possible participation in their implementation in 2007 includes about 90 projects for the total amount of USD 8.0 billion. Among them are the projects that envisage:

- developing energy sector infrastructure (construction of gas-turbine power stations, thermoelectric power stations, transforming stations), communications and telecommunications infrastructure, transportation infrastructure (construction and modernising automobile highways);
- creating/modernising facilities (inclusive of those related to missile-space systems production, aircraft building, motor car construction, motor car engine con-

struction, woodworking industry), including facilities created on the territories of the special economic zones (in particular, in the Lipetsk region);

- engaging the Russian enterprises and organisations in the projects implemented abroad (inclusive of those in the area of nuclear power, hydro power, space communications, oil refining, air transportation).

Guarantee support

In 2006, the total sum of guarantees issued by Vnesheconombank under its corporate customers liabilities witnessed a more than 3.9-time increase, as compared to the similar figure of the year 2005, with the number of guarantees growing by 2.3 times.

In our judgement, it is solid proof that, with respect to guarantee business development, we were moving in the right direction. The particular policy envisages Vnesheconombank's continued cooperation with such long-standing partners as the "Rosoboronexport" federal state unitary enterprise, the "Zarubezhvodstroï" OJSC, "Atomstroïexport" CJSC, "TVEL" and VTF "Termoexport" open joint stock companies, as well as establishing partnership relations with new customers that would be interested in obtaining guarantees by one of the major financial institutions in Russia. Among them are: the "Instrument-engineering Design Buro" federal unitary enterprise, the "Sukhoi" "Aviation Holding Company", "Stroitransgas" and "Special Economic Zones" OJSCs.

Looking to the future, in the context of guarantee business development, Vnesheconombank aims to switch over emphasis in favour of guarantee support for major customers. The Bank's activities in pursuit of this goal include:

- extending customers a 'package' of guarantees, envisaged by the contract (by way

of example, tender guarantees, performance bonds, the advance payment guarantees);

- extending syndicated guarantees within the frames of one and the same project, with several banks acting as guarantors of honouring obligations by the principal;
- enhancing the range of beneficiaries that accept “direct” guarantees of Vnesheconombank (without guarantees by third banks);
- creating an opportunity designed to ensure a combination of various forms of security provided by the principals under the respective obligations, including pledge of property (real estate, equipment, securities) and rights of claim that, in its turn, would enable the Bank to increase the volumes of guarantees issued.

Participating in the capital and securities markets development

Admittedly, overall assisting and facilitating the Russian capital market formation and securities market development is a strategic priority for the Bank.

Given the prospects of Vnesheconombank's acting as a national development institution and recognising the role syndicated loans could clearly play not only as a source of raising considerable financial resources by banks, but also as an instrument to deliver funds to economic entities representing the non-banking sector, Vnesheconombank focused on gaining experience as a participant in loan syndications.

Enhanced interest in the area is directly attributable to active growth of the Russian market of syndicated loans for financial institutions, its total volume within 2004–2006 posting a more than 3-time increase.

The emergence of a big number of new participants on the Russian syndication mar-

ket (both creditors and borrowers), as well as raising Russia's credit ratings by the leading rating agencies considerably bolstered interest of both Russian and foreign investors in the given instrument designed to reduce risks and diversify the loan portfolio, while ensuring a high enough yield.

In 2006, the Bank became a participant in 5 syndicated loans extended to Russian banks, namely to: “Uralsib” (as a lead manager), the “International Bank of St. Petersburg”, “Tsentrinvest” bank, “Slavinvest” bank and “Tatfondbank” (as a participant in the syndication).

To implement the Concept of State Financial (Guarantee) Support for Industrial Exports in the Russian Federation, Vnesheconombank participated in a syndicated loan extended for financing deliveries of the “IL-96-300” and “TU-204” passenger aircraft to Cuba. The total amount of the facility exceeded USD 200 million, with the Bank's share accounting for 43 percent.

A distinctive feature of the year under review was a continued upturn (from 2005) on the Russian residents' equity market. Over 2006, the RTS Index grew by 71 percent to run at 1921.92 points (in 2005 – by 83 percent, 2002–2004 – by 35 percent on average). A rise in the prices of shares of the Russian enterprises and companies was followed by a sharp increase in the volume of initial public offerings (IPOs) that reached USD 16.7 billion (16 IPOs) versus USD 4.7 billion (11 IPOs) in 2005.

A favourable market environment that obviously prompted Russian residents' stepped-up activities in securities originations also contributed to Vnesheconombank's enhanced participation in the procedures related to placing on the domestic market the bonds of credit institutions and corporate customers. In the year under review, the Bank acted as an arranger or co-arranger of originations of bonds issued by such organisations as “Rosselkhoz” OJSC, the bank “Novaya Moskva” CJSC, “Petrocommerz Bank” CJSC, as well as the

“Ufimsk motor-building industrial amalgamation” OJSC.

Financial evaluation, analysis and consulting

Another component of Vnesheconombank's lending and investment banking business is offering customers highly professional financial advisory services, the underlying aim being to ensure raising funds for their projects. In 2006, the Bank's professionals were providing financial advisory services under all the projects that were submitted for the Bank's consideration.

In accordance with arrangements defined by the Agreement between Vnesheconombank and the Ministry of Transport of the Russian Federation on general principles of organising investment projects' financing, the Bank was engaged in providing financial consulting on structuring and implementing the projects to be financed out of the Russian Federation Investment Fund. Thus, throughout the period under review, seeking to accomplish the goals set Vnesheconombank:

- acted as a financial consultant under projects for the development of the Volga-Baltic water route infrastructure, the construction of the Moscow-St. Petersburg highway at the section of 15 – 58 km and

the construction of a new section connecting the Moscow circular automobile highway (MCAH) with the M1 “Belarus” federal automobile highway;

- participated in developing mechanisms of infrastructure projects financing and, among other things, submitted proposals under the project on the Methodology to apply to assigning ratings to investment projects of national importance, presented its conclusions and opinions related to the mechanism of financing investment projects that are implemented by way of utilising the Russian Federation Investment Fund's money in line with the legislation on concessions, as well as complex projects that envisage creating several infrastructure facilities owned by different bodies and agencies.

To add a new dimension to a cooperation agreement between Vnesheconombank and the Federal Agency for Management of Special Economic Zones, in 2006, arrangements were achieved that ensured Vnesheconombank's prerogative to consider applications for arranging financing of projects implemented on the territory of special economic zones, inclusive of the projects to be financed out of the Russian Federation Investment Fund. These agreements also provide for Vnesheconombank's participation in ensuring expertise of applications for the creation of new special economic zones.



V N E S H E C O N O M B A N K

6

Depository

Vnesheconombank has been carrying out custody activities on the basis of a licence of a professional securities market participant since 1999. Being one of Russia's leading depository-settlements centres Vnesheconombank's Depository opens up immense opportunities for investors and financial intermediaries and provides its customers with a whole spectrum of custody services in all securities traded both on the Russian and foreign markets.

Servicing the Russian Federation sovereign debt instruments is a major component of the Bank's custody activities. Vnesheconombank's Depository is an authorised Depository and the main payment agent of the Ministry of Finance of the Russian Federation to service MinFin bonds. Besides, Vnesheconombank's Depository is the main depository for the 1999 MinFin bonds, servicing the Global Certificate of the given bonds. In 2006, Vnesheconombank's Depository took part in the redemption of the VI tranche MinFins, as well as in the

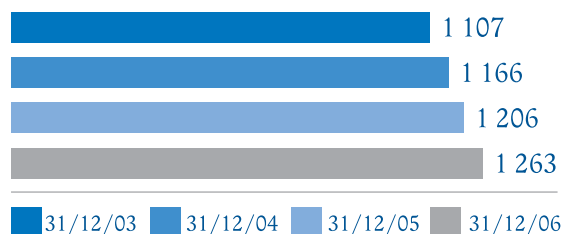
redemption of 50 percent of the 1999 MinFins principal amount, with the above bonds' coupon payments effected simultaneously. The overall amount of payments exceeded USD 2.37 billion.

The benefits derived by Vnesheconombank from its impeccable record and in-depth expertise gained in depository activities enable the Bank to directly participate in resolving issues related to improving and upgrading the infrastructure of Russia's foreign currency-denominated sovereign debt instruments market.

The past few years witnessed a persistent upward trend in the growth of Vnesheconombank's Depository customer base. As of December 31, 2006, the total number of the Bank's Depository customer accounts was standing at 1263 (1206 – as of the start of the period under review). Among the customers of the Depository are the Ministry of Finance of the Russian Federation, the Bank of Russia, the Pension Fund of the Russian Federation. The Depository services about



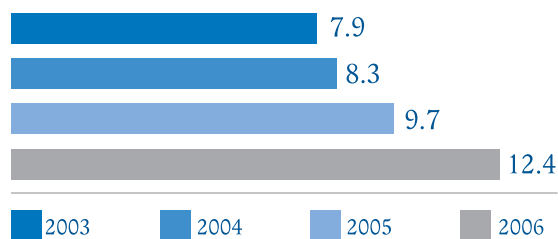
Number of Depository Accounts



200 Russian banks and 145 depo accounts of the Russian correspondent-depositories are maintained. Besides, the Bank's Depository provides services to non-banking organisations and individuals.

The yearly average volume of securities held in safe-keeping by the Bank's Depository throughout 2006 reached USD 12.4 billion (at face value), having increased on the year 2005 by almost 30 percent (+USD 2.7 billion). The Russian Federation foreign currency- and rouble- denominated government bonds accounted for more than 80 percent of the above volume.

Yearly Average Volume of Securities at Face Value, USD Billion



According to the rating elaborated by the Financial Research Development Fund "The Infrastructure Institute" on a collective basis with the Professional Association of Registrars, Transfer-Agents and Depositories, Vnesheconombank's Depository ranked 6th among the top 30 Russian depositories in terms of the value of assets held in safe-keeping.

Apart from traditional custody services, the Bank's Depository offers its clients services in support of securities pledge and swap operations, as well as services related

to short-term securities lending to ensure settlements under the deals and securities conversion transactions (inclusive of those when servicing ADRs and GDRs).

In 2006, seeking to broaden and widen customer opportunities in foreign securities operations, Vnesheconombank concluded an agreement for depository servicing with the Bank of New York, the largest bank-global custodian. Under the agreement the foreign partner will provide Vnesheconombank with services in maintaining depo and multi-currency correspondent accounts for record-keeping of foreign securities. This, as our calculations suggest, will enable the Bank's clients to access national securities markets in more than 100 countries around the world.

The Bank's professionals pressed ahead with their effort to ensure information and analytical support for the Depository's clients who are actual and potential investors on foreign countries' securities markets. With this aim in view, a new expanded and more comprehensive version of a reference book on the most actively traded foreign government securities was published. It comprises detailed data on government bonds, circulating on more than 20 foreign markets. Apart from it, the information-analytical surveys of markets of government securities of Turkey, Argentina and the Philippines, as well as surveys of securities income taxation systems in Canada and Switzerland were issued.

In 2006, the independent auditing company Ernst & Young analysed the operational efficiency of Vnesheconombank Depository's internal control systems on the basis of the Statement on Auditing Standards SAS-70 by the American Institute of Certified Public Accountants. According to the results of the inspection made, Ernst & Young expressed an opinion that the control procedures in place at Vnesheconombank's Depository fully comply with the SAS-70 international standards.



V N E S H E C O N O M B A N K

7

Agent for the Government of the Russian Federation

Vnesheconombank pays special attention to performing the function of an agent for the Government of the Russian Federation in servicing Russia's sovereign foreign debt and centralised foreign economic operations of the Russian Federation, managing state external financial assets, as well as settling Russian borrowers' bad debts towards the federal budget.

Priority was given to tasks, whose settling would enable to reduce the volume of the sovereign foreign debt of the Russian Federation and the respective servicing costs. Also, in pursuit of the goals set, the Bank was seeking to ensure timely redeeming by debtor-countries of their indebtedness, taking into account their actual creditworthiness, as well as duly redeeming by the Russian borrowers of loans extended to them out of the federal budget.

The main tasks of the above activities were the following:

- participating, together with the Russian Ministry of Finance, in developing and agreeing with foreign creditors/debtors the terms and procedures to apply to the settlement/redemption of Russia's sovereign foreign liabilities/claims;
- settling the indebtedness of legal entities, the subjects of the Russian Federation, and municipal entities under loans extended out of federal budget, as well as the indebtedness under targeted financing provided for legal entities in exchange for the equities transferred into the Russian Federation ownership;
- participating in the preparation of the respective regulatory framework, information-analytical and methodological documentation.

A meaningful event for the Russian economy in 2006 was an early and final



redemption of the former USSR indebtedness towards the Paris Club member-countries for the sum equivalent to USD 21.6 billion. Effecting this unprecedented in scale operation enabled the country to reduce the federal budget expenditures in the form of future interest payments, the sum being estimated as USD 7.7 billion.

Prior to this event, the Ministry of Finance of Russia (with a comprehensive information-analytical support provided by Vnesheconombank) performed considerable time- and effort-consuming work to prepare a respective offer for the Paris Club. The Bank's representatives directly participated in the negotiations aimed at agreeing the parameters of the transaction.

Based on the results of the negotiations with the Paris Club, a multilateral protocol was signed. In the course of the implementation of the protocol the Bank, acting on the instructions of the Ministry of Finance of the Russian Federation, effected reconciliation and analysis of the data related to the amounts and categories of debt that were obtained from the creditor-countries. Also, the Bank's representatives agreed with the creditors the volumes of sums eligible for redemption and the routes of the respective payments, as well as took part in the preparation of individual bilateral agreements with the Club member-countries.

Another meaningful outcome of the Bank's activities in an agency capacity was its participation in preparing and effecting the second stage of the exchange of the former USSR commercial indebtedness. To this end, Vnesheconombank's professionals continued work on reconciliation and recognition of the given debt category, participated in developing the respective legal framework. As a Sub-Agent, the Bank directly ensured effecting the relevant exchange opera-

tion. As a result of completing the second stage of the exchange of commercial indebtedness of the former USSR, the sum of the liabilities settled reached USD 1.7 billion.

In 2006, with Vnesheconombank's participation, a set of measures was introduced to settle the former USSR indebtedness toward Kuwait (a major creditor that is not a member of the Paris Club). Also, the indebtedness toward Turkey and Greece was completely redeemed.

It should be noted, the year under review witnessed an actual "breakthrough" in relations with Afghanistan that obtained the status of a client of the Paris Club of creditors. In the course of the regular session of the Club with the representatives of the Ministry of Finance of Afghanistan, a reconciliation protocol, in which mutual financial claims of the parties were stated, was signed. Afghanistan acknowledged in full volume the indebtedness toward the Russian Federation, which it had not acknowledged before (under the credits extended by the former USSR).

The Bank's professionals participated in the preparation of the respective calculations and the draft documents, as well as in the negotiations on the settlement of indebtedness of Algeria and Cuba. The negotiations resulted in signing intergovernmental agreements.

A major component of Vnesheconombank's function as an agent for the Government of the Russian Federation is its information-analytical activities. Over the reported period, more than 60 reports and analytical surveys on various aspects of settlement/management of the sovereign debt obligations and state external financial assets were developed. The documents present specific judgements and opinions, based on the relevant calculations.

Vnesheconombank actively participated in the preparation for and arrangement

of the summit of leaders of the 7 industrialised nations and Russia, known as G8 and held under the chairmanship of the Russian Federation. Vnesheconombank's professionals actively participated in the events devoted to enhancing the interaction of institutions, members of the global financial community. The Bank's position on the ways to overcome the problems that most heavily indebted poor countries are faced up with, in particular, by way of alleviating the debt pressures, was expressly stated.

Work to update information on the debt burden and macroeconomic indicators inherent to debtor-countries, viewed as potential beneficiaries under the extended initiative of the IMF and the World Bank designed to ease debt pressures for heavily indebted poor countries (HIPC initiative), was continued.

Being an active participant in the negotiations within the frames of the Paris Club of creditors, Vnesheconombank developed a number of opinions in relation to the methodological documentation of the Paris Club Secretariat. The most important documents were the following:

- “Possible Treatment of Angola's Debt”;
- “Sharing of Debt between Serbia and Montenegro”;
- “Short-Term Debt and the Paris Club”;
- “Moldova – Request for Financing Assurances”;
- “HIPC'S Litigating Creditors – What Can We Do About It?”.

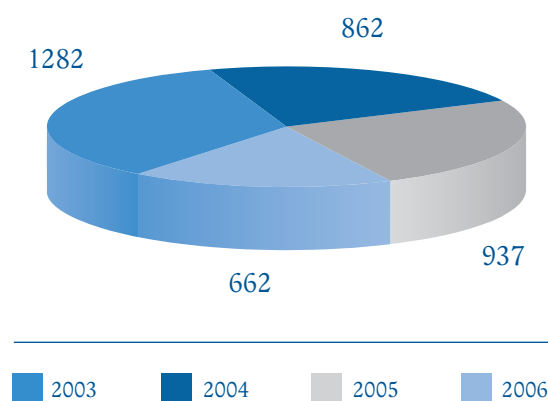
The reports, analytical surveys and proposals presented were taken into account when shaping up Russia's stance in the negotiations with the debtor-countries, as well as in the course of discussions during the Club meetings.

Acting on the instructions of the Russian Ministry of Finance, Vnesheconombank on the occasion of the 50th anniversary of the Paris Club of creditors, prepared an analytical survey containing generalised data on Russia's key achievements in the area of servicing and managing foreign debt and financial assets starting from the time of Russia's accession to the Paris Club.

In an agency capacity, Vnesheconombank also places a tight focus on resolving issues related to the settlement of the Russian borrowers' indebtedness towards the federal budget. A specially created department of the Bank staffed with highly qualified lawyers and economists meticulously executes the activities in the debt recovery context.

Within the period from 2003 to 2006 alone, the volume of indebtedness towards the Russian budget settled with the participation of Vnesheconombank's professionals exceeded USD 3.7 billion, inclusive of USD 662 million – in 2006.

Volume of Indebtedness Settled, USD Million



Within the period under review, Vnesheconombank's professionals participated in 337 court hearings. Largely as a consequence, the sum of USD 160 million worth of indebtedness towards the federal budget was acknowledged under the court rulings. As of December 2006, claims for the

sum of USD 870 million were subject to arbitration courts consideration.

Within the in-court and out-of-court settlement of indebtedness, USD 204 million worth of funds were transferred

to the federal budget. In accordance with the federal law 'On the Federal Budget for the Year 2006' the sum totaling USD 394 million was settled through amicable agreements.



V N E S H E C O N O M B A N K

8

Trust management of pension savings funds

Since 2003, in accordance with the decision of the Government of the Russian Federation, Vnesheconombank has been acting as the State Trust Management Company to manage the pension savings funds of the insured citizens of the Russian Federation. It is important to note that all the operations related to the pension savings funds investment are effected in strict compliance with the legislation in force, the principle of independence and segregation of the above operations from the Bank's other activities being invariably observed.

To efficiently embrace the functions of the State Trust Management Company, the Bank was intent on meeting the following major tasks and goals:

- elaborating an adequate strategy of investment of the pension savings funds in strict compliance with the ongoing legislation and the provisions of Vnesheconombank's Investment Declaration;
- making up and managing the State Trust Management Company's investment portfolio;

- devising and initiating proposals designed to upgrade the legislative framework that regulates pension savings funds trust management and to ensure enhanced return on investment.

At the start of the period under review, the overall volume of the pension savings funds managed by the State Trust Management Company totaled RUB 176.5 billion. Over 2006, the Pension Fund of the Russian Federation transferred to Vnesheconombank for trust management RUB 83.5 billion worth of pension savings funds, which were invested into eligible types of assets specified in the Investment Declaration.

The bulk of the new funds transferred to the Bank in 2006 were invested into state savings bonds (GSOs) and state federal loan bonds (OFZs). Actually, these securities were issued by the Government of the Russian Federation to specifically accommodate institutional investors. As of December 31, 2006, the State Trust Management Company's investments into



the Russian government rouble-denominated debt securities accounted for more than 78 percent of the investment portfolio market value (excluding accrued coupon interest), as compared to 74 percent, as of December 31, 2005.

Practically, the share of investment into the Russian eurobonds remained unchanged and stood at 10 percent of the investment portfolio market value (excluding accrued coupon interest).

As of the year-end 2006, the market value of the assets portfolio under management totaled RUB 267.3 billion, inclusive of RUB 241.0 billion – the market value of the securities portfolio (including accrued coupon interest). About 10 percent of the assets portfolio market value was the cash on the trust manager's accounts (as compared to 16 percent at the year-end 2005).

At the year-end 2006, the aggregate investment income ran at RUB 12.35 billion,

with the yield on the investment portfolio standing at 5.67 percent per annum. In 2005, the aggregate investment income stood at RUB 14.46 billion, while the yield on the investment portfolio was 12.18 percent per annum³.

In our judgement, lower yield, as compared to 2005, was directly attributable to a negative price dynamics both of the OFZs and the Russian eurobonds in the absence of the possibility to diversify the State Trust Management Company's portfolio.

The Bank's proposals to upgrade the legislative framework, that regulates the trust management of the pension savings funds, were aimed at expanding the list of instruments eligible for investment with the view of ensuring the yield level on the State Trust Management Company's investment that would be comparable with the current level of inflation.

³The calculation of the values of the yield on the investment portfolio for 2005 and 2006 was based upon the value of net assets as of the closing business day of the year.



V N E S H E C O N O M B A N K

9

Participation in the activities of non-commercial organisations

Vnesheconombank is a member of almost 40 non-commercial organisations. The benefits derived by the Bank from its membership in these organisations ensure its better and more streamlined integration into the business community, contribute to efficient cooperation with partners, as well as are most instrumental in devising rules and regulations, customs and standards of banking practices.

The Bank's participation in the work of such well-established and representative organisations as the International Securities Market Association (ISMA), Emerging Markets Association, ACI – The Financial Market Association opens up a new window of opportunity for the Bank in effecting operations on the securities, money and FX markets, as well as contributes to improving the Bank's image among its foreign counterparties.

A tight focus is placed on the work in national associations/unions of financial market participants: the Association of

Russian Banks (ARB), the Stock Exchange of the Russian Trading System (RTS), the National Foreign Currency Association (NFCA), the National Association of Stock Market Participants, the National Securities Association, the Association of Bill Market Participants, the Professional Association of Registrars, Transfer Agents and Depositories (PARTAD). The Bank's participation in these organisations enables it to take an active position in debating various issues related to functioning and regulating the Russian financial market, as well as increases awareness and understanding of the professional community of Vnesheconombank's stance and attitudes to most pressing issues.

The activities within the working bodies of the International Chamber of Commerce (ICC) were continued. The Bank's representatives took an active part in the work of the Committee on Banking Technique and Practice (CBTP), which in practice resulted in the adoption of new Uniform Customs



and Practice for Documentary Credits (UCP 600).

Vnesheconombank's professionals maintained business contacts with such organisations as the Russian Union of Industrialists and Entrepreneurs, the World Economic Forum, the Moscow Trade

and Commerce Chamber, 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, the Russian-Japanese Business Council, etc.



V N E S H E C O N O M B A N K

10

IT activities

Tecnological support for Vnesheconombank's activities embraces both upgrading IT model elements that are already in operation and creating new ones. Also important is further developing the Bank's hard- and software platform and general-purpose telecommunication systems. In this context, management recognizes that the Bank's ongoing and long-term priority tasks and objectives, opportunities offered by modern and most sophisticated IT approaches and products, as well as the Bank's resource capabilities should fully be taken into account.

The above activities are carried out in strict conformity with the principles and recommendations of standards of the quality management system and on the basis of the IT services management methodology.

Over the past few years, Vnesheconombank, guided by the principle of prudent conservatism placed an increased focus on IT infrastructure development. Simultaneously, the Bank's professionals devoted

further energies to meeting the strategic challenge of giving a new quality touch to the IT activities management system.

The existing IT infrastructure of the Bank is created on the basis of leading-edge banking technologies and overall meets the current needs of Vnesheconombank. The ongoing priority tasks of IT improvement and upgrading, set by the Bank for the reported period, embraced creating/developing a specific software package in the area of planning and monitoring of the Bank's operations, risk management, devising and introducing the 'Customer's Passport' internal banking information system, ensuring automated record-keeping of a number of operations effected by the Bank as an agent for the Government of the Russian Federation and as a State Trust Management Company to trust manage the pension savings funds.

The year under review witnessed further development of IT management system. The respective work was carried out in



compliance with the Program of implementing policies designed to improve Vnesheconombank's IT activities. All the processes of IT activities management, planned for the year 2006, were properly designed, inclusive of developing internal documents in the area of incident management, as well as managing accessibility, level and security of IT services.

The provisions related to the processes were devised on the basis of IT services management (ITSM) methodology outlined in IT Infrastructure Library (ITIL), in standards ISO/IEC 20000-1-2005, ISO/IEC 20000-2-2005, Cobit-4. Such an approach is

widely used in the global community to create a sustainable and transparent IT activities management system that would ensure the top management's confidence that the Bank's IT activities are efficient.

In 2006, Vnesheconombank pressed ahead with its effort to improve the professional level of its staff in the area of the efficiently arranged IT activity. By the end of the reported period, the total number of Vnesheconombank's staff who had studied the course 'The Basics of ITIL' reached 38, with 2 employees being awarded the highest qualification (IT Service Manager in IT Service Management).



V N E S H E C O N O M B A N K

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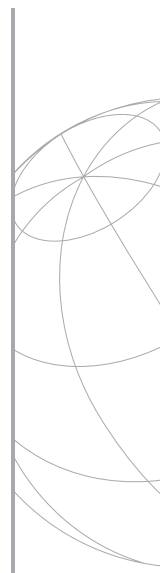
Corporate governance

Vnesheconombank views efficient corporate governance as an essential condition for its successful activities in all the areas. It is exactly for this reason that the Bank pays special attention to meeting the objectives of corporate governance development. Actually, the resources (financial, human and time) allocated to accomplish the objectives mentioned are employed to fund our investments in such significant “intangible assets” as the system of the Bank's interaction with the external world and the internal system of managing the Bank's activities. In its turn, successful operation of the above systems ensures the Bank's sustainable development and strengthens its standing as a highly professional financial institution of international dimension with an immaculate business reputation.

Primarily, underlying Vnesheconombank's corporate governance policy are the following principles universally recognised by the business community:

- following the code of business ethics in its activities that includes utmost protection of its partners' interests when agreeing the terms and conditions of the agreements to be concluded and specific transactions to be carried out; unconditional fulfillment of the obligations assumed by the Bank, as well as ensuring confidential information security;
- recognising third parties' rights granted by the legislative and external regulatory acts, as well as by the Bank's internal documents;
- socially responsible attitude towards conducting business;
- information openness and transparency.

Vnesheconombank's corporate governance system was established drawing on the modern approaches to designing



such systems (including those set forth in the Code of Corporate Conduct recommended by a designated state authority⁴) and is reflective of its legal status specifics.

The Bank is headed by the Chairman of Vnesheconombank appointed to the office by the President of the Russian Federation on the nomination of the Russian Government. The Bank is managed by the Board of Directors, a collegial body, whose members are appointed by the Government of the Russian Federation on the nomination of the Chairman of Vnesheconombank.

The main objective of the Board of Directors is to make management decisions that ensure the Bank's sustainable development and control over its financial and economic activities, as well as appropriate execution by the Bank of its function of an agent for the Government of the Russian Federation to service sovereign foreign debt and manage the Russian Government external financial assets.

Created under the auspices of the Board of Directors, there are the following standing working bodies accountable to it: the Finance, the Credit and the Technology Committees. Within the limits of powers delegated by the Board of Directors, these working bodies ensure that the most critically important decisions on the current and prospective issues relating to the Bank's specific activities are taken collectively. The tasks and objectives facing each of the Committees, the procedures to apply to their formation and performance regulation are defined by Vnesheconombank's internal documents that are approved by the Board of Directors.

Central to the corporate governance system is the system of planning the

Bank's activities and control over execution of the respective plans, the risk management system, organisational structure and human resources management system.

Securing uniform principles and approaches in accomplishing the objectives of developing a methodological and technological base within each of the systems mentioned, as well as ensuring streamlined information flows and coordination of the units' activities, is mainly achieved through delegating powers to the Bank's respective units.

Increased lending and investment banking activities called for implementing in 2006 of a set of measures designed to further enhance the corporate governance system components.

Thus, the need to upgrade the system of planning and control over the Bank's activities to a higher quality technological level has acquired a new urgency. To ensure an adequate methodological support, Provisions on Current Planning were elaborated and approved, the main aim of the document being that of streamlining and formalising all the actions undertaken by the Bank's units within the procedures of current planning and controlling financial indicators of the Bank's activities. Also, the Provisions are designed to ensure enhanced quality and speed of information flows formation within the procedures mentioned. Specification of user requirements to a software product, that ensures information and technological support for the budget planning process, was also drawn up.

Alongside that, the year under review witnessed further development of the risk management system. In particular, a conceptual document – Provisions on Risk Management – was approved. It defines the map of the risks that may impact the Bank's activities, the respective risk management procedure, the risk evaluation methods, the risk management mecha-

⁴ Directive of the Federal Securities Market Commission № 421-p dated 04.04.2002 "On Recommendations to the Application of the Code of Corporate Conduct".

nisms, the requirements to the risk management system, as well as the powers of the Bank's collegial bodies and the Bank's units within the procedure mentioned. Moreover, a number of methodological and regulatory documents related to risk management were devised and adopted. In particular, these documents embrace the issues of market and credit risks assessment, expert evaluation of the projects submitted for the Bank's consideration, as well as application of internal ranking system for rating the Bank's counterparties from non-financial institutions. Specification of user requirements to a software product that ensures information and technological support for the process of monitoring credit risks assumed by the Bank and controlling the respective limits was prepared.

A concept of the system ensuring the Bank's continuous operation was adopted. It introduces, in particular, certain measures that would ensure resuming the Bank's financial and economic activities in case of force majeure: anthropogenic catastrophes, natural disasters and acts of terrorism.

Within the frames of enhancing the Bank's organisational structure, in 2006, special emphasis was placed on developing such strategically important for the Bank areas as lending and investment banking activities, customer servicing, legal, as well as financial and economic support for the Bank's operations. A set of appropriate measures aimed at streamlining organisational structure within each of these areas was taken.

Risk management and internal control

Vnesheconombank's current risk management system enables it to timely and efficiently identify, assess and limit the risks

assumed. Risk management methods and procedures measure up to the scale and complexity of the Bank's operations and conform to the internationally accepted norms and regulations. Thus, the market risk assessment is carried out on the basis of Value-at-Risk (VaR) methodology for particular financial instruments and portfolios of instruments. VaR methodology is augmented with regular stress testing and worst-case scenario analysis that includes possible changes in financial market indicators and in the Bank's assets and liabilities structure.

The Board of Directors makes decisions on the strategic issues of organising the Bank's risk management system and ensuring its functioning. Also, it assesses the efficiency of the current risk management system as a whole.

Some of the risk management powers were delegated by the Board of Directors to the Finance and Credit Committees. Risk Management Department, being independent of the Bank's other business units, is responsible for organising the risk management system. In particular, it provides methodological support for the stages of identification, assessment, management and control over banking risks.

The system of Vnesheconombank's internal control is organised in full compliance with the legislation of the Russian Federation and the regulatory documents of the state authorised bodies and the Bank of Russia, its major underlying principles being continuity, autonomy, impartiality and professional competence. Actually, the system of internal controls runs through the Bank's whole management structure starting from the Board of Directors down to units and professionals engaged in internal controls procedures, as well as control over the Bank's activities as a professional participant operating on the securities market. To enhance the operational efficiency of the system, Vnesheconombank established the Commission on Internal Control

Coordination and the Group of Controller over the Bank's professional activity on the securities market, both bodies operating on a continuous basis. The Bank ensures a whole set of measures to counteract money laundering of illicit gains and financing terrorism, including interaction with the financial institutions within the frames of the USA PATRIOT Act Certification and "Know Your Customer" programs.

On the level of the Bank's units, internal control is being carried through certain control procedures in-built into business processes and in particular operations. Monitoring the way the internal control system functions, identifying problems that arise and analysing the underlying reasons, as well as making suggestions for improving the system with a view to enhance its efficiency and reliability, is carried out by a specialised unit performing the functions of an internal control. Daily monitoring of the most critical business processes, as well as conducting thorough checks of the units' activities remained the principal forms of internal control. Over 2006, 6 new business process control procedures were put into place, 20 checks of the units' activity were conducted including a complex audit of all the Bank's operational units. Information on the measures taken by the units to fulfill the respective recommendations and remove the breaches spotted was made duly available for the Bank's management.

Personnel management

For the Bank, building relationships with employees on a new level, capitalising on the best global personnel management practices, is a strategic priority. Consequently, personnel management strategy is viewed as an essential part of the Bank's development strategy, while fos-

tering human resources development is viewed as a profitable investment in the future.

Over the period under review, in compliance with the regulatory document 'Major Guidelines of Vnesheconombank's Personnel Management Policy' and within the framework of targeted multi-module training and professional development program, 551 employees of the Bank took part in various training courses and programs held both in Russia and abroad.

The Bank continued 'Employee Career Management' program, its aim being that of creating a personnel reserve. The program provides for a set of measures designed to help identify, further develop and make the best use of the employees' managerial and professional potential. In addition, the Bank proactively applies other incentive instruments, such as "Book of Honorary Employees of Vnesheconombank" and "Board of Honorary Employees of Vnesheconombank".

The practice of inviting senior students from Moscow higher education institutions for pre-diploma training at Vnesheconombank was also continued.

A keynote event of the year 2006, that attracted close attention of the business community and the public, was the First Russian Interbank Conference "Human Capital: a New Stage in Managing Human Resources". The Conference increased awareness and understanding of a person's role in contributing to the development of both of the organisation he works for and the Russian economy. Memorandum drawn up by the Conference participants only confirmed that Vnesheconombank was following the right personnel management policy.

According to the results of the All-Russia Competition 2006, in appreciation of successful development and implementation of an efficient personnel management policy, Vnesheconombank's Administrative Department was recognised as the "Best

Russian Personnel Management Service”, having thus retained the honorary title awarded to it in 2005.

Close attention was paid to social support for the Bank's employees and veterans. Primarily, it offers the employees, their families, as well as the Bank's veterans optional medical insurance. The Bank's employees are also offered sanatorium treatment. Vnesheconombank implements a program that ensures an additional (non-government) pension scheme for its staff, as well as for the pensioners, veterans of the Bank. The Program operates on the basis of two non-governmental pension funds (NGPF): the “Support” NGPF, of which Vnesheconombank is a participant, and “Vnesheconomfund” NGPF established by the Bank.

Over many years, the Bank has been seeking to develop its own corporate culture. To preserve the traditional values, social standards and patterns of behavior, as well as to introduce new elements of corporate culture, which would contribute to a congenial business atmosphere and the affinity of the staff, the Bank was arranging various corporate events with the participation of employees and their children.

Information policy

Vnesheconombank's information policy is predetermined by the large-scale and significant tasks it is called to accomplish at present and in future. The main objectives of the information policy are to provide the Bank's partners and the public with detailed information on the Bank's activities, information transparency and availability being its fundamental principles. The volume and regularity of publishing information related to the Bank's acting as the State Trust Management Company

fully meet the Standards of the disclosure of information on the investment of pension savings funds approved by the Russian Ministry of Finance.

To better highlight Vnesheconombank's activities, the Bank draws on the resources and capabilities offered by the leading Russian news agencies, both Russian and foreign periodicals, as well as TV and radio. To speedily deliver credible information, the best use is made of modern telecommunication technologies.

Vnesheconombank's website⁵ makes information on the Bank's activities, current tariffs for the services rendered, as well as various analytical surveys readily available for the site users. An updated website version introduced at the year-end 2006, is distinguished for its modern design and a more user-friendly navigation system.

The Bank's profile in the information area is also maintained through meetings with the representatives of business circles and mass media during the visits of the Bank's top executives abroad, including those made as members of the official delegations accompanying the President of the Russian Federation in his visits to foreign states.

Alongside that, to keep the public well informed of our activity, presentations on Vnesheconombank's activities were arranged at various international and inter-bank forums. Thus, such presentations were made during the International Fair in Kharbin, within the framework of the Russian-Slovenian business forum, for heads of diplomatic missions from African states accredited in Russia, for the representatives of banks and business circles in Chile and Argentina.

Adhering to the principles of information transparency and availability, the Bank's top executives and specialists actively cooperate with mass media at press conferences,

⁵ Internet address (www.veb.ru).

round tables, briefings and seminars held in Russia, as well as abroad. They make their comments on all the Bank's socially important decisions, specific aspects of its activities, events occurring on the financial mar-

kets and in the banking sector. In 2006, the number of articles published about Vnesheconombank made 7 700, which demonstrated a 1.4-time increase on the year 2005.



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Vnesheconombank's social responsibility

At all times, people's aspiration to engage in charitable activities rendering support for those in extreme need has been a key indicator of spiritual maturity of the society. Russia has always been famous for a great number of philanthropists and patrons from among prominent industrialists, entrepreneurs and financiers. Encouragingly, these traditions still persist. For Vnesheconombank, charity and patronage is a natural aspiration to manifest its social responsibility towards the society. The Bank's sponsorship and charitable activities are aimed at assisting the implementation of national health-care and educational projects designed to raise a well-educated and physically fit generation, and at preserving Russia's spiritual heritage. Largely as a consequence, they are oriented towards ensuring financial support to health-care, educational, cultural and sports institutions.

Traditionally, the Bank devotes special attention to participating in the national health-care programs. In this context, finan-

cial support for the critically ill children is a major priority for the Bank. Just as before, the Bank made donations for the First Hospice for children with cancer diseases. Also, the Bank financed the purchase of a special universal operating table for the Children's Oncology and Hematology Research Institute of the Russian Science Centre named after N.N. Blokhin, as well as organised a traditional festive event 'Sunny Day' for recovering children. Besides, funds were transferred to the Moscow region psycho-neurological clinic for children with the central nervous system disorders for purchasing and installing an electric generator and other equipment required for the day-to-day work of the clinic. Another example is further financing the construction of a Rehabilitation Oncology and Hematology Centre for Child Patients in the town of Vladivostok. Also, Vnesheconombank continued making donations for the purchase of medical equipment for the Central Military Clinical Hospital named after N.N. Burdenko.



Recognising the urgency of resolving problems of socially unprotected groups of population to ensure stability in the society, the Bank continues implementing a program of providing financial support to orphanages, as well as organisations for war and labour veterans.

One of the socially important areas of the Bank's sponsorship activities in preserving Russia's intrinsic spiritual and historical values is ensuring aid to the Russian Orthodox Church. In 2006, the Bank continued financing the construction and restoration of the Russian New Martyrs and Confessors Church in the town of Zheleznodorozhny, the Presvyataya Bogoroditsa Pokrov Church in the village of Tyunezh, the Tula region, the Bozhiya Mater Pokrov Church in the village of Zimnyatski, the Volgograd region, the Spaso-Preobrazhenskiy Solovetskiy Stavropigialny Monastery, the Patriarchy Centre for Spiritual Development of Children and Youth at the Danilov Stavropigialny Male Monastery.

The Bank continued to support educational and research institutions, inclusive of the Support Fund of the Financial Academy under the Government of the Russian Federation, the Guild of Investment and Financial Analysts, as well as the "Center of Strategic Research" Fund.

In 2006, one of Vnesheconombank's major projects in the area of culture was its participation in the state program 'The Year of Russia' launched in China.

Within the framework of the program the Bank organised a number of events, which were supported by China Development Bank acting as Vnesheconombank's financial partner.

In May 2006, "The Days of Russian Literature" took place in China. The Union of Writers of Russia held panel discussions in the Russian Philology Centres in Beijing, Shanghai and Nanjing, as well as arranged the 'Chinese and Russian Literature as a Spiritual Bridge between the Nations' Forum. For this occasion, a collection

of works by modern Russian writers translated into Chinese was published.

In June, an exhibition of the Water-Color Painting School of S.Andrijaka timed to coincide with the Summit of the Shanghai Organisation for Cooperation was arranged at the Fine Arts Museum in Shanghai.

Another example is an exhibition 'Golden Russia. Treasures of the Moscow Kremlin Museums Collection' held at the Emperor's Palace in Beijing in September, which included exhibits of the Moscow Armoury Museum collection. Chief of the Russian President's Administration S.S. Sobianin, Vice Premier of the State Council of China Wy Yi and the Chinese Minister of Culture Sun Jiazheng took part in the opening ceremony.

Also, the year witnessed sponsorship by the Bank of such major cultural projects as the first festival in Moscow of symphony orchestras of the world, the International Moscow Film Festival, an exhibition "Rembrandt, his Predecessors and Followers" at the Pushkin State Fine Arts Museum, as well as the ceremony of awarding the prize 'Golden Eagle' by the National Academy of Cinema.

Throughout the year, the Bank continued providing financial support for the two Moscow theatres: the Pyotr Fomenko Studio and the Moscow Drama Theatre headed by Armen Dzigarkhanjan. Ensuring, on a regular basis, financial support for the Mariinskiy theatre, the Bank transferred funds for the construction of a new stage of the Mariinskiy theatre in St. Petersburg.

Besides, Vnesheconombank participated in sponsoring the festival "Early Music" and concerts of the orchestra "Musica Viva".

Recognising the need to further develop the Russian culture, the Bank considers that one of the major tasks in this area is to encourage young talented creative people and to offer them assistance so that they could win proper recognition. Throughout the year, the Bank continued rendering financial support to the Academy of young opera singers of the Mariinskiy theatre.

The most distinguished and talented performers were awarded prizes of Vnesheconombank for taking part in the premiere performances on the stage of the famous theatre. Traditionally, the Bank participated in arranging an international contest of young vocalists organised by the Cultural Centre of Elena Obraztsova. To encourage young talented artists, exhibitions of N. Grigoreva at the Russian Museum in S. Petersburg and Munich within the framework of the visit of V. Putin, the President of the Russian Federation, to Germany were held.

Furthermore, the Bank sponsored the publication of a special edition "A Big Book of Russia" in the Russian and English languages. Part of the edition was included into the Gifts Fund of the President of the Russian Federation and was awarded on behalf of the head of state at the G8 Summit held in July in S. Petersburg. Remarkably, the edition "A Big Book of Russia" got an award "The Book of the Year 2006" by the Organisational Committee of the XXI International Moscow Book Fair and the Federal Agency for Press and Mass Communications.

Also, in the focus of the Bank's charitable activities is ensuring favorable conditions for promotion and encouragement of the Russian sports, which, among other factors, contribute to harmonious development of an individual. The Bank actively supports the development of such kinds of sports as handball, hockey, tennis, some combat sports, golf, fencing, swimming, chess and volleyball. Vnesheconombank acts as a general sponsor of the Russian National Women's Volleyball Team. In 2006, for the first time in the post-USSR history, the team won the world championship. Furthermore, the Bank ensured support for the two ice hockey teams, which play in a super league: the Hockey Club of the Ministry of Internal Affairs and the Lada Hockey Club. With the financial aid of the Bank, a major annual skiing event "The Ski Track of Russia" and a competition "The National Cross-Country Race" were held.

Recognising the importance of fostering business relationship and arranging, in this connection, different forums and conferences, both domestic and international, the Bank acted as a sponsor of the Xth St. Petersburg Economic Forum, "The Petersburg Dialogue" Forum, the "Kuban-2006" International Economic Forum, the "Development of the East of Russia" III Krasnoyarsk Economic Forum, the "Moscow Business-Dialogue" IV Annual Investment Forum, the "Public-Private Partnership in Russia: Financing Projects in a Competitive International Environment" Conference, the "Prospects of Russian Companies Participation in the Projects related to the Research and Utilisation of Mineral and Raw Materials Base of the South-African Countries" Conference, the "German Railways and Industry Experience in Implementing Projects on Construction of Highways" Panel Discussion, the ARB Congress, the "Russia & the CIS Investment Forum: between Public and Private" Conference, the V Session of the Annual Russian Economic Forum in Switzerland.

In 2006, the Bank rendered financial assistance for organising, both in Russia and abroad, of a number of major exhibitions promoting economic cooperation, inclusive of the "Special Economic Zones in the Russian Federation: Problems, Opportunities and Prospects" Forum-Exhibition, the "FIT-2006" International Exhibition (the Republic of Cuba, Havana), the SIMA-2006 International Industrial Exhibition (Syria, Damask), as well as the ILA-2006 International Aerospace Exhibition (Germany, Berlin).

Seeking to constantly increase the range of charitable and sponsorship aid recipients, Vnesheconombank hopes that its activity will make a tangible contribution to raising a smart and gifted younger generation and ensuring a worthy life for veterans and disabled people, who shall be confident about their future, and, in general, to harmonious development of the society and to Russia's prosperity and strength.

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Auditors' conclusion and financial reporting



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Bank
for Foreign Economic Affairs of the USSR

We have audited the accompanying financial statements of Bank for Foreign Economic Affairs of the USSR ("Vnesheconombank" or the "Bank"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vnesheconombank as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

May 7, 2007



Consolidated Balance Sheet

(in millions of US dollars)

	Notes	December 31	
		2006	2005
Assets			
Cash and cash equivalents	7	\$ 1,524	\$ 900
Trading securities	8	1,742	1,362
Due from other banks	9	1,095	1,660
Available-for-sale securities	11	1,114	970
Commercial loans	12	6,561	1,308
Due from the Russian Government	14	47	29
Receivable from the Russian Government under London Club arrangements	5	37	37
Current income tax assets		20	23
Investments in associates	16	94	3
Property and equipment	17	106	88
Other assets	18	89	30
Total assets		\$ 12,429	\$ 6,410
Liabilities and equity			
Due to other banks	19	\$ 7,596	\$ 2,508
Financial trade liabilities	20	1	356
Due to the Russian Government and the Bank of Russia	5	2,198	2,068
Due to London Club creditors	5	37	37
Amounts due to customers	21	1,004	407
Debt securities issued	22	206	14
Deferred income tax liabilities	15	155	110
Provisions	13	1	2
Other liabilities	18	55	46
Total liabilities		\$ 11,253	\$ 5,548
Russian Government charter capital and retained earnings		\$ 1,135	\$ 835
Unrealized revaluation of available-for-sale securities		29	22
Translation differences		8	2
Russian Government equity	23	1,172	859
Minority interest		4	3
Total equity		\$ 1,176	\$ 862
Total liabilities and equity		\$ 12,429	\$ 6,410

Signed and authorized for release on behalf of Board Directors of the Bank

Vladimir A. Dmitriev

Chairman of the Bank

Vladimir D. Shaprinsky

Chief Accountant

May 7, 2007

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

Consolidated Statement of Income

(in millions of US dollars)

		Year ended	December 31
	Notes	2006	2005
Interest income:			
Commercial loans		\$ 297	\$ 107
Placements with other banks		101	108
Securities		76	75
		474	290
Interest expense:			
Due to other banks		(251)	(91)
Amounts due to customers		(13)	(13)
Debt securities issued		(2)	(0)
		(266)	(104)
Net interest income		208	186
Reversal of (provision for) impairment of interest earning assets	13	(28)	32
Net interest income after reversal of (provision for) impairment of interest earning assets		180	218
Fee and commission income	24	48	39
Fee and commission expense		(15)	(2)
Net fee and commission income		33	37
Gains less losses from securities		271	247
Gains less losses from foreign currencies:			
– Dealing		(14)	58
– Translation differences		106	(83)
Share in net income of associates	16	5	0
Dividend income		11	7
Other operating income		2	3
Total other income		381	232
Payroll and other staff costs		(83)	(71)
Occupancy and equipment		(23)	(20)
Depreciation	17	(7)	(7)
Taxes other than income taxes		(10)	(3)
Reversal of (provision for) other impairment and provisions	13	(2)	2
Other operating expenses	25	(70)	(51)
Total operating expenses		(195)	(150)
Income before income tax		399	337
Income tax expense	15	(98)	(98)
Net income		\$ 301	\$ 239
Attributable to:			
– Equity holder of the parent		300	239
– Minority interests		1	0
		\$ 301	\$ 239

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

Consolidated Statements of Changes in Equity

(in millions of US dollars)

	Attribute to the Russian Government					
	Russian Government charter capital and retained earnings	Unrealized revaluation of available-for-sale securities	Translation effect	Russian Government equity	Minority interest	Total equity
December 31, 2004	\$ 596	\$ 17	\$ 4	\$ 617	\$ 3	\$ 620
Net change in fair value of available-for-sale securities, net of tax		5		5	0	5
Currency translation differences			(2)	(2)	0	(2)
Total income and expense recognized directly in equity		5	(2)	3	0	3
Net income	239	–	–	239	0	239
Total income for the year	239	5	(2)	242	0	242
December 31, 2005	\$ 835	\$ 22	\$ 2	\$ 859	\$ 3	\$ 862
Net change in fair value of available-for-sale securities, net of tax		7		7	0	7
Currency translation differences			6	6	0	6
Total income and expense recognized directly in equity		7	6	13	0	13
Net income	300	–	–	300	1	301
Total income for the year	300	7	6	313	1	314
December 31, 2006	\$ 1,135	\$ 29	\$ 8	\$ 1,172	\$ 4	\$ 1,176

Consolidated Statements of Cash Flows

(in millions of US dollars)

	Year ended	December 31
	2006	2005
Cash flows from operating activities		
Net income	\$ 301	\$ 239
Adjustments for:		
Depreciation and amortization	8	8
Deferred income taxes	42	75
Impairment and provisions (reversal)	30	(34)
Changes in unrealized appreciation of securities and derivatives	(473)	(331)
Other changes	(26)	(7)
Operating income before changes in net operating assets	(118)	(50)
(Increase) decrease in operating assets:		
Due from other banks	598	6
Trading securities	(107)	477
Available-for-sale securities	(176)	(188)
Commercial loans	(5,189)	(273)
Due from the Russian Government	(18)	(12)
Other assets	(19)	(11)
Increase (decrease) in operating liabilities:		
Due to other banks	4,967	874
Financial trade liabilities	(154)	173
Due to the Russian Government and the Bank of Russia	130	(634)
Amounts due to customers	598	144
Other liabilities	23	(12)
Net cash used in operating activities	535	494
Cash flows from investing activities		
Purchases of premises and equipment	(20)	(9)
Investments in associates	(81)	(3)
Net cash flows from investing activities	(101)	(12)
Cash flows from financing activities		
Debt securities issued	190	4
Net cash flows from financing activities	190	4
Net change in cash and cash equivalents	624	486
Cash and cash equivalents at beginning of period	900	414
Cash and cash equivalents at end of period (Note 7)	\$ 1,524	\$ 900
Supplemental information:		
Income taxes paid	\$ 84	\$ 35
Interest paid	\$ 147	\$ 86
Interest received	\$ 340	\$ 258
Dividends received	\$ 11	\$ 7

Notes to Consolidated Financial Statements

December 31, 2006 (In millions of US dollars, unless otherwise stated)

1. Principal Activities

The Bank for Foreign Economic Affairs of the USSR ("Vnesheconombank" or the "Bank") is a specialized state bank of the Russian Federation servicing, in an agency capacity, the foreign debt and assets of the former Union of Soviet Socialist Republics (the "USSR") and the Government of the Russian Federation and its authorized institutions (the "Russian Government") under its charter approved by Decree No. 745 of the Council of Ministers of the USSR dated June 14, 1988, Decree of the Presidium of the Supreme Soviet of the Russian Federation No. 2172-1 dated January 13, 1992, Decree of the Supreme Soviet of the Russian Federation No. 3875-1 dated November 12, 1992, and Decree No. 2261 of the President of the Russian Federation dated December 22, 1993. Furthermore, the Bank conducts its own banking operations.

The power to conduct banking operations and transactions is granted by the Decision of the Board of Directors of the Central Bank of the Russian Federation (the "CBR" or the "Bank of Russia") dated October 1, 1997. Currently the Bank of Russia supervises the operations of Vnesheconombank in accordance with the Agreement dated March 24, 2004. The Bank's Chairman is appointed by a Decree of the President of the Russian Federation, and his service term is also defined in this Decree.

At December 31, 2006, the Bank was party to three separate agency agreements (collectively, the "Agency Agreements"), as follows:

- An agreement dated July 30, 1992 (amended March 17, 1993) with the Russian Government requires the Bank to carry out banking operations necessary to service the centralized foreign economic activities of the Russian Federation. The agreement has an indefinite term, and provides for certain commissions and fees to be paid to the Bank based upon the volume of transactions serviced. Additionally, the amendment stipulates that the Russian Government will provide such resources in rubles and foreign currencies as necessary for servicing the external debt of the former USSR, and managing and using the assets of the former USSR;
- An agreement dated September 30, 1993 with the Ministry of Finance requires the Bank to service bonds issued to replace funds on frozen accounts with Vnesheconombank held by Russian legal entities. The agreement has an indefinite term, and provides for certain servicing fees to be paid to the Bank based upon the nominal value of bonds issued;
- An agreement dated January 31, 2000 with the Ministry of Finance requires the Bank to act as the general agent in restructuring the MinFin Bonds Tranche III and service the Global certificate of MinFin Bonds Tranche VIII issued in 1999 and process all payments there under on behalf and at expense of the Ministry of Finance. The agreement has an indefinite term (it will be terminated automatically when MinFin Bonds Tranche VIII are redeemed by the Ministry of Finance in 2007), and provides for certain servicing fees to be paid to the Bank based upon the nominal value of Global certificate deposited with the Bank.

As more fully described in Note 5, at December 31, 2006 and 2005, the Russian Government owed the Bank \$ 37 million relating to the London Club debt obligation of the Bank. These amounts have been presented in the Bank's balance sheet and are not subject to offset. No allowance has been provided with respect to the Russian Government receivable under the London Club debt.

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. As the State Trust Management Company, the Bank is entitled to invest accumulated pension savings funds in accordance with the Investment Declaration approved by the Resolution of the Government of the Russian Federation No. 540 dated September 1, 2003. During 2005 and 2006 the Bank mainly invested in Federal Loan Bonds (OFZs) and Eurobonds issued by the Russian Federation nominated in Russian Rubles and \$, respectively. During 2006 the Bank also invested funds in State Saving Bonds nominated in Russian Rubles. At December 31, 2006 total trust assets managed by the Bank were \$ 10.1 billion (2005 – \$6.1 billion).

The Bank makes loans to its customers and different institutions within the framework of major state programs and projects implemented under various intergovernmental agreements. The Bank receives deposits from legal entities, and is one of the leading operators on the Russian Eurobonds market. During 2006 and 2005 the Bank obtained new customers in many regions of the Russian Federation and is cooperating with international development banks and foreign institutions with export credit and loan guarantee functions to locate funds for direct investment purposes.

The Bank's head office is located in Moscow, Russia, the Bank has representative offices in St. Petersburg, Russia, the United States of America, India, Hungary, Italy, China, Republic of South Africa, France and Great Britain. At December 31, 2006 and 2005, the Bank had 1,507 and 1,538 employees, respectively. The Bank's principal office is located at prospect Akademika Sakharova 9, Moscow.

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank maintains its records and prepares its financial statements for regulatory purposes in Russian Rubles in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between RAL and IFRS is presented later in this note.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments have been measured at fair value.

Functional Currency and Foreign Currency Translation

The consolidated financial statements have been presented in millions of United States Dollars ("\$") as the majority of the Bank's transactions are denominated, measured, or funded in this currency and the \$ is the primary currency in which the Bank generates and expends cash.

2. Basis of Preparation (continued)

Transactions denominated in RUR are recorded at the official exchange rate on the date of the transaction or by using a monthly average of the daily official exchange rates. The RUR is not a fully convertible currency outside the Russian Federation, and the official exchange rates are determined daily by the Bank of Russia. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the Bank of Russia.

London Club debt amounts denominated in currencies other than the \$ are recorded at the official rates of the Bank of Russia at December 31, 2006 and 2005.

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 \$ at the official rates of the Bank of Russia at December 31, 2006 and 2005.

Transactions denominated in other currencies are recorded at the market exchange rates prevailing on the date of the transaction or by using a monthly average of the daily market exchange rates.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendment to IAS 39 "Financial Instruments: Recognition and Measurement": Financial Guarantees, effective for annual periods beginning on or after 1 January 2006. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under the amended IAS 39, financial guarantee contracts are recognized initially at fair value and subsequently remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

The adoption of the above pronouncement did not have a significant impact on the Bank's consolidated financial statements.

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- IFRS 7 "Financial Instruments: Disclosures";
- IFRS 8 "Operating segments";
- Amendment to IAS 1 "Presentation of financial Statements" - "Capital Disclosures";
- Amendment to IAS 23 "Borrowing costs";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment"
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"
- IFRIC 12 "Service Concession Arrangements"

2. Basis of Preparation (continued)

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7 to enable users of the consolidated financial statements to evaluate the significance of the Bank's financial instruments, the nature and extent of risks arising from those financial instruments, and disclosures in accordance with the amended IAS 1 regarding the Bank's objectives, policies and processes for managing capital.

Segregation of Operations

In its agency capacity, the Bank maintains and services certain assets and liabilities on behalf of the Russian Government. Such balances have been excluded from the accompanying balance sheets given the agency nature of the relationship and in accordance with the underlying Agency Agreements and specific guidelines (the "Guidelines") approved by the Bank's Board of Directors and the Ministry of Finance in 1997.

The Guidelines stipulated the following assets and liabilities are the responsibility of the Ministry of Finance and have, therefore, been excluded from the accompanying balance sheets:

1. Liabilities to foreign creditors including all accrued interest which are serviced and redeemed at the expense of the Russian Government, except some remaining London Club obligations (Note 5);
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

On January 5, 2003, the Bank contributed RUR 1,582 million (\$50 million) in payment for 90,000 shares of CJSC State Specialized Russian Export-Import Bank (ROSEXIMBANK). This second issue of ROSEXIMBANK 90,000 shares, 10,000 RUR par value was registered by the Central Bank of the Russian Federation on February 10, 2003. As the result of the contribution, the Bank has become the owner of 94.64% shares of ROSEXIMBANK share capital. ROSEXIMBANK was created in 1994 to support and promote Russian machinery exporters, import-substituting production and attraction of investments in the Russian economy. ROSEXIMBANK holds a license for banking operations of the Central Bank of the Russian Federation and all licenses of the professional participant of the Russian securities market.

Other subsidiaries of the Bank included in consolidated financial statements at December 31, 2006, included Russian Leasing Company (100%), A.F.C. s.r.l. (100%) and LLC, Bumofin KFT (98.8%).

2. Basis of Preparation (continued)

Associates

The following associates are accounted for under the equity method:

2006

Associates	Ownership / Voting, %	Country	Industry	Date of acquisition
OJSC "Ilyushin Finance Co."	20,5	Russia	Leasing	August 2006
LLC "Interbank Trading House"	50	Russia	Trade and investment	June 2006
LLC "Interfax – Center of Economic Analysis"	49	Russia	Media	August 2005
OJSC "Krasnoyarsk Region Development Corporation"	25	Russia	Finance intermediary	December 2006
CJSC "Konsultbankir"	29	Russia	Publishing	October 1996
LLC "OboronImpeks"	25	Russia	Foreign trade	November 2001

2005

Associates	Ownership / Voting, %	Country	Industry	Date of acquisition
A.F.C. s.r.l.	37,5	Italy	Consulting	June 1994
LLC "Interfax – Center of Economic Analysis"	49	Russia	Media	August 2005
CJSC "Konsultbankir"	29	Russia	Publishing	October 1996
LLC "OboronImpeks"	25	Russia	Foreign trade	November 2001

Reconciliation of RAL and IFRS equity and profit for the year

Equity and profit/(loss) for the year are reconciled between RAL and IFRS as follows:

	2006		2005	
	Russian Government equity	Net income	Russian Government equity	Net income
Russian Accounting Legislation	\$ 939	\$ 253	\$ 635	\$ 197
Translation differences	20	53	36	(13)
Initial recognition of financial instruments	(31)	–	(31)	–
Expenses recorded directly to equity	–	(17)	–	(13)
Impairment and provisions	66	(4)	70	79
Accrued interest income and expense	52	26	26	12
Taxation	(155)	(42)	(110)	(72)
Effect of consolidation	15	0	9	0
Derivatives	7	192	(185)	(175)
Fair value re-measurement of trading securities	248	(129)	377	235
Fair value re-measurement of available-for-sale securities	33	(4)	27	
Other income and expense	(22)	(27)	5	(11)
International Financial Reporting Standards	\$ 1,172	\$ 301	\$ 859	\$ 239

2. Basis of Preparation (continued)

Reclassifications

Certain reclassifications were made to 2005 balances to conform to the 2006 presentation. Such reclassifications had no impact on net income or Russian Government equity.

3. Summary of Significant Accounting Policies

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights or participation shares, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, financial statements for subsidiaries are adjusted to ensure consistency with the accounting policies adopted by the Bank.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognized directly in the consolidated statement of income.

Minority interest is the interest in subsidiaries not held by the Bank. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

In addition, the Bank discloses on the face of the consolidated income statement, the allocation of the result for the year between net income for the year attributable to the Russian Government and net income for the year attributable to minority interest.

Investments in associates

Associates are entities in which the Bank 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 Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognized in the consolidated statement of income, and its share of movements in reserves is recognized in equity. However,

3. Summary of Significant Accounting Policies (continued)

when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognize further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Recognition and Presentation of Financial Instruments

The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank 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.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

When financial assets and liabilities are initially recognized, they are measured at fair value plus, in case of financial assets or liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Bank of Russia and amounts due from other banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

Trading Securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial assets and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income within gains less losses from securities. Interest earned on trading securities is reported as interest income in the statement of income.

In determining fair value, marketable securities are valued at closing bid prices on stock exchange. Securities traded over-the-counter are valued at last bid prices. When prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded in different markets or using discounted cash flow models.

3. Summary of Significant Accounting Policies (continued)

Due from Other Banks

In the normal course of business, the Bank maintains current accounts or places deposits for various periods of time with other banks. Amounts due from other banks with fixed maturity are subsequently measured at amortized cost using the effective interest method. Amounts due from other banks are carried net of any allowance for impairment.

Repurchase and Reverse Repurchase Agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading or available-for-sale securities. The corresponding liability is presented within amounts due to other banks or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents, amounts due from other banks or commercial loans as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities received under reverse repurchase agreements are not recorded in the consolidated financial statements, unless these are sold to third parties. The obligation to return them is recorded at fair value as a financial trade liability.

Derivative Financial Instruments

In the normal course of business, the Bank enters into various derivative financial instruments in the foreign exchange and securities markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices, official foreign exchange rates or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from securities or dealing gains less losses from foreign currencies.

Available-for-sale securities

Securities not classified as trading are designated as investment securities available-for-sale. Investment securities available-for-sale are initially recognized in accordance with the policy stated above and subsequently measured at fair value, which is equal to the estimated fair value at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on the market value of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Unrealized gains and losses arising from changes in the fair value of available-for-sale securities are recognized in equity, net of income taxes, in the period that the change occurs. Realized gains and losses on available-for-sale securities are computed on a specific security basis and included in the statement of income within gains less losses from securities.

3. Summary of Significant Accounting Policies (continued)

In determining fair value, marketable securities are valued at last deal prices on stock exchange. Securities traded over-the-counter are valued at last bid prices. When market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions.

Promissory Notes

Promissory notes purchased are included in commercial loans or in amounts due from other banks, depending on their substance and are recorded and subsequently re-measured and accounted in accordance with the accounting policies for these categories of assets.

Commercial Loans

Loans granted by the Bank by providing funds directly to the borrower are categorized as loans originated by the Bank and are initially recorded in accordance with the policy for initial recognition of financial instruments. The difference between the nominal amount of the consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as gain/loss from initial recognition of loans to customers in the statement of income. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those loans that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for impairment.

Allowance for Impairment of Financial Assets

The Bank establishes allowances for impairment of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of the related loans issued and other financial assets, which are carried at cost or amortized cost. The allowances for impairment of financial assets are defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument.

The Bank assesses whether objective evidence of impairment exists individually for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The allowances for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of current economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets.

Changes in allowances are reported in the statement of income of the related period. When an asset is not collectable, it is written off against the related allowance for impairment; if the

3. Summary of Significant Accounting Policies (continued)

amount of impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the statement of income.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Russian Federation and the city of Moscow.

Deferred income taxes are calculated under the balance sheet liability method. Deferred taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply when the asset is realized or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

Russia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of income.

London Club Receivable and Debt

The London Club receivable and debt represent the Bank's receivable from the Russian Government and payable to London Club creditors (primarily international banks) for outstanding debts relating to the former USSR.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	25-40
Computers and equipment	2-8
Furniture and fixtures	2-8
Motor vehicles	2-5

Leasehold improvements are amortized over the life of the related leased asset. Costs related to repairs and renewals are charged when incurred and included in operating expenses, unless they qualify for capitalization.

Amounts Due to Other Banks and to Customers

Amounts due to other banks and to customers are initially recognized in accordance with the policy for recognition of financial instruments. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

3. Summary of Significant Accounting Policies (continued)

Debt Securities Issued

Debt securities issued represent promissory notes issued by the Bank to its customers. They are accounted for according to the same principles used for amounts due to other banks and to customers. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognized in the statement of income.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Retirement and Other Benefit Obligations

The Bank participates in the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the statement of income in the period the related contributions are paid to the State Pension Fund and included into payroll and other staff costs in the statement of income.

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.

There are no other post-retirement benefits or significant other employee benefits requiring accrual.

Contingencies

Contingent liabilities are not recognised in the balance sheet but are disclosed unless the possibility of any outflow in settlement is probable. A contingent asset is not recognised in the balance sheet but disclosed when an inflow of economic benefits is probable.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees are recorded over the period the service is provided.

Gains and losses arising from the translation of other than \$-denominated assets and liabilities are included in the accompanying statement of income within translation gains less losses from foreign currencies.

4. Significant accounting estimates

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

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

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank 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 historical data relating to similar borrowers. Similarly, the Bank 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 Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its 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 assessed.

As at 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

5. Operations with the Russian Government and its Authorized Institutions

	2006	2005
Settlements related to redemption of Russian Government loans	\$ 1,091	\$ 1,107
Special purpose funds	967	849
External debt payment funds	97	38
Interest bearing deposits from the Bank of Russia	42	66
Current accounts of the Russian Government	1	3
Other	–	5
	\$ 2,198	\$ 2,068

Amounts due to the Russian Government and its agencies were predominantly non-interest bearing and consisted of the following:

Settlements related to redemption of Russian Government loans represent amounts deposited by the Ministry of Finance with the Bank to facilitate the servicing and redemption of the external debt obligations of the Russian Government and the former USSR. These deposits and the processing of payments are managed and conducted by the Bank in accordance with the Agency Agreements. The balance also includes funds received from borrowers as repayment for loans granted by the Russian Government. At December 31, 2006, these amounts are regarded as due to the Russian Government.

During the first quarter of 2006, the Bank conducted a review of old balances on settlement and other accounts. At December 31, 2005, such balances included proceeds from export sale and other funds, which were regarded as subject to further negotiation between the Ministry of Finance and Vnesheconombank and were included in the amounts due to the Russian Government. As a result, at December 31, 2006, certain balances were reclassified and consolidated on Special purpose funds' accounts. To conform with 2006 presentation the Bank also reclassified accordingly such balances outstanding at December 31, 2005. At December 31, 2006 and December 31, 2005, Special purpose funds amounted to \$967 million and \$849 million accordingly.

Interest bearing deposits from the Bank of Russia are used by the Bank to provide lending to certain targeted industries. Such deposits are \$-denominated and carry interest at approximately 5% per annum.

London Club

The Bank is a party to certain rescheduling agreements with various foreign commercial bank creditors (the "London Club"). The London Club represents liabilities of the former USSR due to foreign banks and financial institutions. These liabilities were primarily reconciled and restructured under a series of agreements and other legal documentation between the Bank and foreign creditors dated October 6, 1997, which became effective on December 2, 1997. These agreements required the original debts and the accrued interest thereon, denominated in various currencies, to be converted into Restructured Loans ("PRINs") and Interest Arrears Notes ("LANs") in base currencies (Swiss Francs, Japanese Yen, Deutsche Mark, European Currency Units, and \$).

The London Club debt was issued as a legal obligation of the Bank. Based on Russian Government resolution No. 1167 "Concerning the Settlement of the Indebtedness of the

5. Operations with the Russian Government and its Authorized Institutions (continued)

Former USSR to Foreign Commercial Banks and Financial Institutions (the London Club)" dated September 15, 1997 and the Declaration of Support dated November 28, 1997, the Russian Government expressed its willingness, without right of legal recourse from creditors or specific commitment, to provide financial resources to enable the Bank 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 February 11, 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 \$31.7 billion (at March 31, 2000) was exchanged for a new issue of Eurobonds issued by the Government of the Russian Federation and maturing in 2010 and 2030. As the exchange process substitutes obligations of the Bank with obligations of the Russian Government, receivables from the Russian Government under London Club and amounts due to London Club have been excluded from the Bank's balance sheet to the extent that the bondholders have presented their PRINs and IANs for exchange.

At December 31, 2005 and 2006, most holders of PRINs and IANs have participated in the exchange, with 99.8% of the face value of PRINs and IANs being submitted for exchange to Eurobonds. The remaining 0.2% of the face value of the PRINs and IANs continues to be carried as a liability of the Bank, along with the corresponding receivable from the Russian Government.

The London Club debt was comprised of the following amounts at December 31:

	2006	2005
IANs	\$ 33	\$ 33
PRINs	1	1
Accrued interest on the PRINs and IANs, including overdue and default interest	3	3
	\$ 37	\$ 37

Premises

The Bank's headquarters building is owned by the Federal Agency for Federal Property Management (the "Federal Agency") and is provided to the Bank for its use under an agreement dated October 24, 1996 (the "Premises Agreement"). The Premises Agreement stipulates that the Bank can use the building until the Bank's liquidation, reorganization, or privatization and is not required to make rental payments. The Bank cannot dispose of, sell, or lease out these premises without the express permission of the Federal Agency.

6. Agency Operations

Paris Club

The Bank served as the debt manager and maintained the applicable records related to the Paris Club debt of the former Soviet Union. Paris Club debt represented the obligations contracted or guaranteed on behalf of the Government of the former Soviet Union which were due to foreign official creditors including the governments of most European countries, Australia,

6. Agency Operations (continued)

Canada, Japan and the United States of America, among others (the "Participating Creditor Countries") which were recognized in a Memorandum of Understanding dated October 28, 1991 on the Debt to Foreign Creditors of the USSR and Its Successors and a subsequent Agreement on the Deferral of the Debt of the USSR and Its Successors to Foreign Official Creditors dated January 4, 1992 (the "Paris Club Agreement").

The Russian Government agreed to be responsible for these debts as evidenced by a declaration acknowledging the foreign debts of the former USSR signed by the Russian Government on April 2, 1993.

The Bank acted as the debt manager and kept records of the indebtedness. The Bank was not, however, a legal obligor under the Paris Club Agreement; therefore, the related amounts outstanding were excluded from the accompanying balance sheet.

In August 2006, pursuant to a Multilateral protocol with the Participating Creditor Countries of the Paris Club of June 16, 2006, the Bank acting as an agent transferred \$22.7 billion to the Paris Club creditors for the early repayment of the amount of the Russian Government's debt under the Paris Club Agreement.

Other Agency Operations

At December 31, 2006, 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, which were excluded by the Bank from the accompanying balance sheet since the Bank is not the legal obligor.

Commercial Indebtedness

The Russian Government has announced its intention to assume the legal responsibility for certain commercial indebtedness (also referred to as the "trade indebtedness") of the former USSR, identified as obligations of the Government of the former USSR and other bodies and entities acting on its behalf, within the Declaration of the Government of the Russian Federation dated October 1, 1994 "On the Restructuring of Commercial Indebtedness of the former USSR to Foreign Creditors" (the "Declaration"). This commercial indebtedness of the former USSR includes contracts requiring installment payments, short-term or medium-term suppliers credits evidenced by bills of exchange and promissory notes, bills of exchange and promissory notes payable at sight, revocable and irrevocable letters of credit including installment letters of credit, collection of payments, and other trade liabilities that can be referred to by the Russian Government as settlement in conformity with the Declaration.

The Bank is not a legal obligor under the Declaration and has excluded commercial indebtedness from the accompanying balance sheets.

The Government of the Russian Federation has authorized the exchange of Russian Federation Eurobonds for eligible uninsured trade debt of the former USSR in accordance with the Resolution No. 931 dated December 29, 2001 "On the Settlement of the Trade Indebtedness of the Former USSR to Foreign Trade Creditors".

6. Agency Operations (continued)

The Ministry of Finance terminated the second stage of the exchange of Russian Federation Eurobonds for eligible uninsured trade debt of the former USSR at November 28, 2006; the Bank was acting as sub-agent under the exchange. The amount of re-issued liabilities is \$1.1 billion.

7. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2006	2005
Cash on hand	\$ 13	\$ 14
Due from the Bank of Russia	98	73
Correspondent nostro accounts with Russian banks	69	60
Correspondent nostro accounts with OECD based banks	105	107
Correspondent nostro accounts with other banks	9	20
Interest-bearing loans and deposits with Russian banks	126	73
Interest bearing loans and deposits with OECD based banks	984	271
Interest bearing deposits with a non-OECD based bank	40	232
Reverse repurchase agreements	80	50
	\$ 1,524	\$ 900

Interest-bearing loans and deposits with Russian banks, at December 31, 2006, are represented predominantly by short-term RUR and \$ placements that bear annual interest rates from 1% to 6.5% for RUR deposits (2005 – from 3.5% to 7%) and 5.9% for \$ deposits (2005 – from 3.5% to 5.5%).

Interest-bearing loans and deposits with OECD based banks, at December 31, 2006, are represented by short-term \$, EURO and GBP deposits that bear annual interest rates from 2.4% to 5.3% for \$ deposits (2005 – from 3.3% to 4.4%), from 3.5% to 3.6% for EURO deposits (2005 – 2.3%), from 5.1% to 5.2% for GBP deposits.

At December 31, 2006, interest-bearing deposits with a non-OECD based bank include \$-denominated short-term placement that bears annual interest of 5.7%. At December 31, 2005, interest-bearing deposits with a non-OECD based bank include \$-denominated short-term placements that bear annual interest from 4.7% to 4.9%.

At December 31, 2006, reverse repurchase agreements include a loan of \$40 million granted to a Russian bank, which is collateralized by equity securities of Russian company with a fair value of \$58 million, and a loan of \$40 million granted to a Russian bank, which is collateralized by promissory notes of Russian company with a fair value of \$40 million. At December 31, 2005, reverse repurchase agreements include a loan of \$39 million granted to an OECD based bank, which is collateralized by ADRs of a Russian company with a fair value of \$33 million, and a loan of \$11 million granted to a Russian bank, which is collateralized by equity securities with total fair value of \$12 million.

8. Trading Securities

Tradine securities owned comprise:

	2006	2005
Debt Securities:		
Russian Government securities:		
Federal Loan Bonds (OFZs)	\$ 13	\$ 8
Russian Ministry of Finance bonds:		
Tranche V, maturing in May 2008	114	107
Tranche VII, maturing in May 2011	–	0
Russian corporate bonds and bonds of regional and municipal authorities	41	20
Other debt securities	–	1
	168	136
Eurobonds issued by the Russian Federation	454	359
	622	495
Equity Securities:		
OJSC "Gazprom"	716	436
OJSC "Novatek"	–	405
OJSC "OGK-5"	258	–
Other marketable equity securities	146	26
	\$ 1,742	\$ 1,362

Federal Loan Bonds (OFZs) are Russian Ruble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value, and have a medium to long-term maturity period with a coupon rate at December 31, 2006 up to 10% (2005 - up to 10%).

Russian Ministry of Finance bonds are \$-denominated bearer securities, which are guaranteed by the Ministry of Finance of the Russian Federation. The bonds were purchased at a discount to nominal value and carry an annual coupon of 3% (2005 – 3%).

At December 31, 2006 and 2005, Russian corporate bonds and bonds of regional and municipal authorities are RUR-denominated securities with interest rates from 6.7% to 11% (at December 31, 2005 – from 7.6% to 11.5%) and with maturity from March 2007 to June 2015 (at December 31, 2005 – from April 2006 to June 2010).

Eurobonds issued by the Russian Federation are \$-denominated securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. The Bank's portfolio of Eurobonds at December 31, 2006 and 2005 consists of four tranches of securities with maturity dates from 2010 to 2030. The annual coupon rates on these bonds are from 5% to 12.8% and interest is payable semi-annually.

At December 31, 2006 other marketable equity securities consist of shares, Global and American depositary receipts of leading Russian companies and banks, including OJSC Lukoil, OJSC MTS, OJSC Surgutneftegaz and others. At December 31, 2006 and 2005, equity securities of the Bank are stated at fair value.

9. Due from Other Banks

Amounts due from other banks comprise:

	2006	2005
Non-interest bearing deposits with other banks	\$ 9	\$ 8
Non-interest-bearing deposits in clearing currencies	998	1,045
Interest-bearing deposits with Russian banks	54	70
Interest-bearing deposits with OECD based banks	1	–
Interest-bearing deposits with non-OECD banks	35	574
	1,097	1,697
Less allowance for impairment	(2)	(37)
	\$ 1,095	\$ 1,660

Use of non-interest-bearing deposits in clearing currencies (gross \$998 million and \$1,045 million at December 31, 2006 and 2005, respectively) is subject to certain restrictions as stipulated in the agreements between governments of the respective countries. The funds can be used for purchase of goods and services by Russian importers who purchase clearing currencies in tenders organized by the Bank under the supervision of the Ministry of Finance.

At December 31, 2006 interest-bearing deposits with Russian banks are \$, RUR and EURO-denominated and carry annual interest ranging from 7.3% to 9.5% for RUR denominated deposits, from six-months LIBOR plus 0.7% to 10% for \$ denominated deposits and three-months LIBOR plus 3.3% for EURO denominated deposits. At December 31, 2005, interest-bearing deposits with Russian banks are \$ and RUR-denominated and carry annual interest ranging from 5.5% to 8.8% for RUR deposits and 8% for \$ deposits.

At December 31, 2006 interest bearing deposits with OECD banks are denominated in EURO and bear interest of three-months LIBOR plus 4%.

At December 31, 2006 interest bearing deposits with non-OECD banks are denominated in \$ and bear interest from 5.5% to 9.8%. At December 31, 2005 interest-bearing deposits with non-OECD banks are \$ and EURO-denominated and bear interest from 8% to three-months LIBOR plus 6.9% for \$ deposits and 4% for EURO deposits.

10. Derivative Financial Instruments

The Bank enters into derivative financial instruments for trading purposes. The outstanding deals with derivative financial instruments are as follows:

	2006			2005		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Swaps – foreign	\$ 550	\$ 5	\$ 0	\$ 12	\$ 0	\$ –
Swaps – domestic	15	–	0	50	0	0
Securities contracts Forwards						
US Treasury Bonds	198	2	–	54	0	0
Russian Eurobonds	96	0	0	126	0	1
Equity securities	–	–	–	405	–	183
Minfin bonds	–	–	–	0	0	–
Other	–	–	–	1	0	–
Credit default swap	10	0	–			
Options						
Equity securities	48	–	1	–	–	
		\$ 7	\$ 1		\$ 0	\$ 184

11. Available-for-sale securities

Available-for-sale securities comprise:

	2006	2005
Debt Securities:		
Russian Ministry of Finance bonds:		
Tranche VIII, maturing in November 2007	\$ 37	\$ 69
Eurobonds issued by governments of OECD countries	22	34
Debt obligations issued by governments of non-OECD countries	68	65
Eurobonds and other debt obligations issued by OECD based financial institutions	90	73
Eurobonds issued by the Russian entities	181	169
Municipal and Russian corporate bonds	125	105
Credit linked notes	386	320
	909	835
Equity Securities:		
Corporate equities	205	135
	\$ 1,114	\$ 970

Russian Ministry of Finance bonds are \$-denominated bearer securities, which are guaranteed by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%.

11. Available-for-sale securities (continued)

At December 31, 2006, Eurobonds issued by governments of OECD countries are \$ and EURO-denominated securities. Interest rates for \$-denominated Eurobonds issued by governments of OECD countries range from 3.3% to 4.3% and have maturity dates from August 2008 to August 2015. EURO-denominated securities earn annual interest of 3.8% and have maturity in January 2015. At December 31, 2005, Eurobonds issued by governments of OECD countries are \$ and EURO-denominated with interest rates from 4% to 4.3% with maturity dates from February 2015 to August 2015 for \$-denominated Eurobonds. EURO-denominated securities earn annual interest of 3.8% and have maturity in January 2015.

At December 31, 2006 debt obligations issued by governments of non-OECD countries are denominated in Indian Rupees for clearing settlements and mature in January 2007 (at December 31, 2005 – in January 2006). These securities are purchased at a discount to nominal value and carry no interest.

At December 31, 2006 Eurobonds and other debt obligations issued by OECD based financial institutions are denominated in \$ with annual interest from three-months LIBOR plus 1.4% to 9.6% and maturity dates from June 2009 to October 2014. At December 31, 2005 Eurobonds and other debt obligations issued by OECD based financial institutions were \$-denominated securities with annual interest of 9.6% and maturity in October 2014. These securities were linked to Russia's performance under the Paris Club debt restructuring agreements.

Eurobonds issued by Russian entities are denominated in \$ and EURO with interest rates at December 31, 2006 from 5.6% to 10.5% for \$-denominated securities (2005 – from 5.6% to 10.5%) and 7.8% for EURO-denominated securities (2005 – 7.8%), and with maturity for \$-denominated Eurobonds from February 2007 to July 2035 (2005 – from June 2006 to July 2035) and September 2010 for EURO-denominated Eurobonds (2005 – September 2010).

Municipal and Russian corporate bonds consist of RUR-denominated bonds of Russian banks and companies with interest rates from 6.2% to 9.5% (2005 – from 6.2% to 15%) and with maturity from January 2007 to July 2014 (2005 – from April 2006 to July 2014).

At December 31, 2006, credit linked notes are issued by OECD based financial institutions and are linked to debt obligations of Russian Federation, OJSC Gazprom, OJSC Eurofinance Mosnarbank, OJSC Vneshtorgbank and OJSC Rosselhozbank, Dresdner Bank AG, OJSC AHML and CJSC Gazprombank. These notes are denominated in \$ and RUR with interest rates from twelve-months LIBOR plus 1.4% to six-months LIBOR plus 7.3% for \$-denominated notes (2005 – from six-months LIBOR plus 1.5% to six-months LIBOR plus 7.3%) and from 6.5% to 13.6% for RUR-denominated notes, and with maturity for \$-denominated notes from March 2007 to March 2030 (2005 – from July 2006 to March 2030) and from December 2007 to February 2011 for RUR-denominated notes.

At December 31, 2006, corporate equities are mainly represented by shares of OJSC "Avtovaz", OJSC "Evraziysky" and OJSC "Aeroflot" (at December 31, 2005 – OJSC "Avtovaz" and OJSC "Ilyushin Finance Co.").

12. Commercial Loans

Commercial loans comprise:

	2006	2005
Loans to customers	\$ 6,310	\$ 1,302
Reverse repurchase agreements	298	66
Promissory notes	57	32
Letters of credit	11	–
	6,676	1,400
Allowance for loan impairment	(115)	(92)
	\$ 6,561	\$ 1,308

At December 31, 2006 the Bank has entered into reverse repurchase agreements with two Russian companies and one non-OECD based company. The subjects of these agreements are marketable equity securities with total fair value of \$1,203 million. At December 31, 2005 reverse repurchase agreements were entered into with a Russian company for \$54 million on marketable equity securities with total fair value of \$135 million, and a non-OECD based company for \$12 million on non-marketable equity securities with approximate fair value of \$38 million.

At December 31, 2006, the annual contractual interest rates charged by the Bank on commercial loans are from 8% to 17% for RUR loans (2005 – from 5.5% to 16%), from 6.8% to 12% for EURO loans (2005 – from 8% to 10%), from 5% to 15% for loans in \$ (2005 – from 5% to 22.7%) and 10.8% for loans in GBP.

Loans are made principally within Russia in the following industry sectors:

	2006	%	2005	%
Finance	\$ 3,566	53	\$ 543	39
Manufacturing and production of heavy machinery and military related goods	1,564	23	278	20
Oil and gas	597	9	55	4
Construction and development	311	5	58	4
Agriculture	233	3	–	–
Telecommunication	173	3	152	11
Trade	56	1	52	4
Mass media	50	1	113	8
Energy	34	1	123	9
Regional authorities	21	0	2	0
Mining	18	0	18	1
Foreign state	5	0	–	–
Other	48	1	6	0
	\$ 6,676	100	\$ 1,400	100

12. Commercial Loans (continued)

At December 31, 2006, loans to finance companies included loans issued in July 2006 to the three major borrowers of the Bank for a total outstanding amount of \$2,666 million, equivalent to 40% of the total loan portfolio. These loans are funded by two large Russian banks, which are also related parties of the Bank and one non-OECD based bank. No allowances for impairment were made against these loans.

Apart from these three largest borrowers of the Bank at December 31, 2006 and December 31, 2005, loans issued to the next ten largest borrowers / group of related borrowers amounted to \$2,329 million and \$1,004 million, respectively, which represent 35% and 72% of the Bank's gross loan portfolio, respectively. An allowance of \$44 million and \$21 million was made against these loans, respectively.

Loans have been extended to the following groups of customers:

	2006	2005
State controlled companies	\$ 4,541	\$ 632
Private companies	2,027	753
Companies under foreign state control	51	13
Individual entrepreneurs	31	–
Regional authorities	21	2
Foreign state	5	–
Individuals	0	0
	\$ 6,676	\$ 1,400

13. Allowance for Impairment and Provisions

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

	Due from other banks	Commercial Loans	Total
December 31, 2004	\$ 58	\$ 107	165
Reversal	(17)	(15)	(32)
Write-off	(4)	–	(4)
December 31, 2005	\$ 37	\$ 92	\$ 129
Charge (reversal)	(35)	63	28
Write-off	–	(40)	(40)
December 31, 2006	\$ 2	\$ 115	\$ 117

13. Allowance for Impairment and Provisions (continued)

The movements in other impairment and provisions were as follows:

	Other assets	Investments in associates	Guarantees	Total
December 31, 2004	\$ 2	\$ –	\$ 4	\$ 6
Charge (reversal)	0	\$ –	(2)	(2)
December 31, 2005	\$ 2	\$	\$ 2	\$ 4
Charge (reversal)	(1)	4	(1)	2
December 31, 2006	\$ 1	\$ 4	\$ 1	\$ 6

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

14. Due from the Russian Government

At December 31, 2006, amounts due from the Russian Government include claims to the Russian Government of \$ 46 million (2005 – \$18 million) purchased under four assignment contracts. The nominal values of these claims are denominated in \$ and CHF and total \$64 million including claims of \$47 million and of CHF 22 million, respectively.

At December 31, 2006, other amounts due from the Russian Government of \$ 1 million (2005 – \$11 million) represent settlements with the Ministry of Finance primarily related to operations performed by the Bank before 1991.

15. Taxation

The components of income taxes charged to the statements of income comprise:

	2006	2005
Current income tax expense	\$ 56	\$ 23
Deferred income tax expense	42	75
	\$ 98	\$ 98

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 24% for 2006 and 2005. The tax rate for companies other than banks was also 24% for 2006 and 2005. The tax rate for interest income on state securities was 15% for Federal taxes.

15. Taxation (continued)

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

	2006	2005
Income before tax	\$ 399	\$ 337
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	96	81
State securities non-taxable income	(1)	(2)
Income taxed at different rate	(3)	(2)
Non-deductible expenses:		
– contributions	4	2
– charity	4	2
– legal and consulting services	2	3
– maintenance	2	0
– representative expenses	2	1
– business trip costs	1	1
– depreciation	1	1
– other	2	2
Currency translation effect	(12)	7
Other permanent differences	8	6
Change in unrecognized deferred tax assets	(8)	(4)
Income tax expense	\$ 98	\$ 98

15. Taxation (continued)

Deferred tax assets and liabilities at December 31 and their movements for the respective years comprise:

	2004	Origination and reversal of temporary differences		2005	Origination and reversal of temporary differences		2006
		In the statement of income	Directly in equity		In the statement of income	Directly in equity	
Deferred tax asset:							
Allowances for losses	\$ 17	\$ (17)	\$ –	\$ –	\$ –	\$ –	\$ –
Initial recognition of loans at fair value	7	0		7			7
Currency translation differences	3	(2)		1	16		17
Derivatives	2	42	–	44	(44)	–	–
Other	1	(1)	–	–		–	–
	30	22	–	52	(28)		24
Unrecognized deferred tax asset	(12)	4		(8)	8		
	18	26	–	44	(20)	–	24
Deferred tax liabilities:							
Unrealized gains on trading securities	(36)	(93)		(129)	(17)		(146)
Premises and equipment	(10)	(1)	–	(11)	2	–	(9)
Allowances for losses	–	(7)	–	(7)	(1)	–	(8)
Changes in fair value of available-for-sale securities	(10)		3	(7)		(3)	(10)
Derivatives	–	–	–	–	(2)	–	(2)
Other	(0)	0	–	–	(4)	–	(4)
	(56)	(101)	3	(154)	(22)	(3)	(179)
Net deferred tax liabilities	\$ (38)	\$ (75)	\$ 3	\$ (110)	\$ (42)	\$ (3)	\$ (155)

16. Investments in associates

Movement in investments in associates was:

	2006	2005
Balance, beginning of the period	\$ 3	\$ 0
Purchase cost	50	3
Reclassifications	40	–
Share of net income	5	0
Allowances for impairment	(4)	0
Investments in associates, end of the period	\$ 94	\$ 3

16. Investments in associates (continued)

Investments in associates at December 31, 2006 include goodwill of \$15 million (2005 – nil), which primarily relates to OJSC "Ilyushin Finance Co".

The following table illustrates summarized financial information of the associates:

Aggregated assets and liabilities of associates	2006	2005
Current assets	\$ 698	\$ 43
Non-current assets	251	29
Current liabilities	(289)	(43)
Non-current liabilities	(243)	(25)
Net assets	\$ 417	\$ 4
Aggregated revenue and net income of associates	2006	2005
Revenue	168	2
Net income (loss)	17	(1)

17. Property and equipment

Property and equipment comprise:

	2006	2005
Computers and other equipment	\$ 42	\$ 43
Assets under construction	35	10
Buildings	31	33
Motor vehicles	14	13
Furniture and fixtures	10	10
	132	109
Less – Accumulated depreciation	(26)	(21)
	\$ 106	\$ 88

During 2006 and 2005 there were \$26 million and \$14 million of additions and \$3 million and \$3 million of disposals of property and equipment, respectively. The respective depreciation charge for 2006 is \$7 million (2005 – \$7 million). Accumulated depreciation related to disposed property and equipment is \$2 million (2005 – \$2 million).

18. Other Assets and Liabilities

Other assets comprise:

	2006	2005
Settlements with suppliers and other debtors	\$ 35	\$ 9
Prepaid investments	31	–
Accrued commissions	7	7
Derivative financial assets	7	0
Intangible assets	3	5
Pre-paid expenses	2	4
Other	5	7
	90	32
Less – Allowance for impairment of other assets	(1)	(2)
	\$ 89	\$ 30

Included in other assets are intangible assets in the amount of \$3 million (2005 – \$5 million), net of accumulated amortization. The respective amortization charge for 2006 and 2005 is \$1 and \$1 million, respectively, which is included in other operating expense in the accompanying statements of income.

At December 31, 2006 prepaid investments include \$30 million paid by the Bank for shares of OJSC "Terminal".

Other liabilities comprise:

	2006	2005
Settlements with credit institutions	\$ 29	\$ 34
Settlements with clients on export revenues	9	8
Settlements on regular way transactions	0	–
Other	17	4
	\$ 55	\$ 46

19. Due to Other Banks

Balances due to other banks consisted of the following at December 31:

	2006	2005
Correspondent loro accounts from Russian banks	\$ 253	\$ 340
Correspondent loro accounts from other banks	57	85
Loans and other placements from Russian banks	1,825	507
Loans and interest-bearing placements from OECD based financial institutions	3,945	1,354
Loans and other placements from other banks	1,516	222
	\$ 7,596	\$ 2,508

19. Due to Other Banks (continued)

At December 31, 2006, loans and other placements from Russian banks include loans denominated in \$ and RUR with interest rates ranging from 5% to 5.4% for \$, from 6.9% to 7.4% for RUR and collateral under letters of credit. At December 31, 2005, loans and other placements from Russian banks include loans denominated in RUR and \$ with interest rates ranging from 4.1% to 5.5% for RUR loans and from 4.3% to 4.6% for \$, and collateral under letters of credit.

At December 31, 2006 the Bank received loans totaling \$1,121 million (2005 – \$737 million) from OECD based financial institutions, bearing annual interest from 5.2% to six-months LIBOR plus 0.8% for \$ loans (2005 – from 4.3% to 5%), and from 5.6% to 6.5% for RUR-denominated loans, which are collateralized by securities of \$1,419 million (2005 – \$901 million).

Other placements from OECD based financial institutions at December 31, 2006 include:

- Syndicated loan of \$802 million (2005 – nil). The initial amount of the loan was \$800 million. The syndicated loan is denominated in \$ with interest rate of three-month LIBOR plus 0.4% and matures from October 2008 to July 2009. According to the Facility Agreement the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100% and tangible net worth of no less than \$600 million. This loan was used to refinance \$500 million syndicated loan, outstanding at December 31, 2005, and for trade related finance;
- Deposits totaling \$678 million (2005 – nil), denominated in RUR with interest rates from 6.4% to 7% and with maturity from January 2008 to December 2009; these deposits are the part of a foreign currency SWAP agreement. They may be applied towards general corporate purposes of the bank;
- Loan of \$346 million (2005 – nil) denominated in \$ with interest rate 6% maturing in September 2007. According to the Facility Agreement the Bank is required to comply with certain financial covenants, including minimum ratio of allowance for impairment to overdue loans of 100% and tangible net worth of no less than \$600 million. This loan was used to finance Russian military company projects;
- Loans of \$311 million (2005 – nil) denominated in \$ with interest rates ranging from 6.4% to 6.5% and maturing in May 2009. According to Framework Agreement these loans were used to finance a Russian oil and gas company;
- Loan of \$151 million (2005 – nil). The initial amount of the loan was \$150 million. The loan is denominated in \$ with interest rate 6.4% and maturity from May 2007 to May 2009. According to the Term Loan Facility Agreement the Bank is required to comply with certain financial covenants, including minimum ratio of allowance for impairment to overdue loans of 100% and tangible net worth of no less than \$540 million;
- Loan of \$133 million (2005 – nil) denominated in \$ with interest rate of annual LIBOR plus 0.6% and maturing in August 2008. The initial amount of the loan was \$130 million. According to Facility Agreement this loan was used to finance a loan previously issued by the Bank to its non-resident client;
- Loan of \$100 million (2005 – \$99 million) denominated in \$ with interest rate of six-month LIBOR plus 1% and maturity up to December 2012. According to Term Credit Facility Agreement this loan was used to finance a Russian "blue-chip" company;

19. Due to Other Banks (continued)

- Syndicated loan of \$71 million (2005 – nil) denominated in \$ with interest rate of three-month LIBOR plus 0.7% and maturing in December 2010. The initial amount of the loan was \$70 million. According to Credit Agreement this loan is guaranteed by the Government of the Russian Federation and is used for export and import financing;
- Loan of \$60 million (2005 – nil) denominated in USD with interest rate of 6.5% and with maturity in November 2009. This loan was used to finance foreign trade activity of the Bank's clients;
- Loan of \$50 million (2005 – nil) denominated in USD with interest rate three-month LIBOR plus 0.5% and with maturity in March 2008;
- Loan of \$44 million (2005 – nil) denominated in EURO with interest rate of 4.1% and with maturity in May 2007;
- Loans of \$22 million (2005 – \$1 million) bearing interest rates from 3.4% to EURIBOR plus 1.3% and maturing during the period from October 2006 to November 2014. These loans are used for financing investment projects of Russian companies;
- Loans of \$22 million (2005 – \$13 million) denominated in \$ with interest rate of six-month LIBOR plus 1.8% and with maturity in October 2010;
- Loan of \$12 million (2005 – nil) denominated in GBP with interest rate of 7.9% and with maturity up to November 2019;
- Other placements from OECD based financial institutions amounting to \$22 million (2005 – nil).

At December 31, 2006, loans and other placements from other banks, i.e. non-OECD based financial institutions, included:

- A deposit of \$981 million (2005 – nil) denominated in RUR, bearing interest rate 6.9% and maturing in May 2007. This deposit was used to finance a Russian company;
- A loan of \$307 million (2005 – nil), denominated in \$ and bearing interest of six-month LIBOR plus 1.2%. In accordance with the Agreement the Bank uses the attracted credit facilities for the pre-export financing of Russian companies; the loan has maturity from August 2007 to November 2008;
- A loan of \$163 million (2005 – \$212 million), denominated in \$ and bearing annual interest of six-month LIBOR plus 1%. This loan is used for financing of pre-export activities of Russian companies and has maturity from June 2006 to March 2009;
- A short-term loan of \$39 million (2005 – nil), denominated in \$ and bearing interest of 4.5% and maturing in January 2007;
- Loans of \$15 million (2005 – nil) denominated in \$ with interest rate of six-month LIBOR plus 1.8% maturing in October 2010;
- Other placements from other banks amounting to \$11 million (2005 – \$10 million).

20. Financial trade liabilities

At December 31, 2006, financial trade liabilities of \$1 million include securities and foreign exchange forward and swap contracts, as well as call option on shares of a Russian company.

At December 31, 2005, financial trade liabilities included advance payment received under the Forward Security Sale agreement for 170,243 shares of OJSC "Novatek" of \$139 million, a fair value of the derivative contract of \$183 million with the same underlying asset, obligation to return securities (ADR of a Russia based company) purchased under reverse repurchase agreements of \$33 million and a fair value of securities and foreign exchange forward and swap contracts of \$1 million.

21. Amounts Due to Customers

Amounts due to customers include the following at December 31:

	2006	2005
Customer current accounts	\$ 678	\$ 270
Term deposits	326	137
	\$ 1,004	\$ 407

At December 31, 2006, term deposits have annual interest rates from 3.5% to 6.3% for \$-denominated deposits, from 3.5% to 6.3% for EUR-denominated deposits and from 3% to 25% for RUR-denominated deposits. At December 31, 2005, term deposits have annual interest rates from 3.7% to 6.3% for \$-denominated deposits, from 3% to 6.3% for EURO-denominated deposits and from 3.5% to 25% for RUR-denominated deposits.

At December 31, 2006 and 2005, amounts due to the Bank's four largest customers amounted to \$534 million and \$142 million, which represent 53% and 35%, respectively, of the aggregate amount due to customers.

Amounts due to the ten largest customers include accounts with the following types of customers:

	2006	2005
Financial organizations	\$ 285	\$ 54
Infrastructure development	247	–
Manufacturers of heavy machinery and military related goods	153	90
Air transportation	29	–
Military organizations	–	25
Non-commercial organizations	–	10
Trade organizations	–	5
	\$ 714	\$ 184

21. Amounts Due to Customers (continued)

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

	2006	2005
State and state controlled companies	\$ 564	\$ 204
Private companies	283	50
Employees and other individuals	157	153
	\$ 1,004	\$ 407

22. Debt Securities Issued

Debt securities issued at December 31, 2006, represent \$, EURO, GBP and RUR-denominated interest-bearing promissory notes maturing up to 2012. The promissory notes bear annual interest rates from 1.2% to 6.5% for \$-denominated notes, from 1.5% to 2.7% for EURO-denominated notes, 4.5% for GBP-denominated notes, from 3.5% to 5.5% for RUR-denominated notes.

Debt securities issued at December 31, 2005, represent EURO and \$-denominated interest-bearing promissory notes with maturity up to August 2011. The promissory notes bear annual interest rates from 1.5% to 1.9% for EURO-denominated notes and from 0.7% to 6% for \$-denominated notes.

23. Russian Government Equity

The Bank's charter capital, as determined by the Bank's charter, amounts to RUR 1,000 thousand and is wholly owned by the Russian Government. In accordance with the Bank's charter, charter capital may be increased only by a decision of the Russian Government. No shares have been issued with respect to the charter capital of the Bank. The Bank is not required to accrue or pay dividends.

24. Fee and Commission Income

Fee and commission income comprise:

	2006	2005
Guarantee operations	\$ 21	\$ 12
Cash and settlement operations	13	13
Trust management of Pension funds	7	6
Operations with securities	1	2
Other operations	6	6
	\$ 48	\$ 39

25. Other operating expenses

Other operating expenses comprise:

	2006	2005
Charity	\$ 14	\$ 9
Advertising expenses	14	10
Contributions to non-state pension fund	11	4
Maintenance	5	2
Legal services	5	5
Sponsorship	4	5
Audit and consulting	4	2
Administrative expenses	4	8
Marketing and research	4	1
Insurance expenses	1	1
Amortization of intangibles	1	1
Other	3	3
	\$ 70	\$ 51

26. Financial Commitments and Contingencies

Operating Environment

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

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Financial commitments

At December 31, the Bank's financial commitments comprised the following:

	2006	2005
Guarantees	\$ 1,108	\$ 1,031
Undrawn loan commitments	1,198	198
Uncovered letters of credit	163	5
	2,469	1,234
Less – Provisions	(1)	(2)
	\$ 2,468	\$ 1,232

26. Financial Commitments and Contingencies (continued)

Operating Commitments

	2006	2005
Not later than 1 year	\$ 3	\$ 3
Later than 1 year but not later than 5 years	4	4
Later than 5 years	7	7
	\$ 14	\$ 14

Insurance

The Bank's premises are insured for \$16 million. The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

Taxation

As discussed in Note 4, 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 assessed.

27. Financial Risk Management Policies

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main financial risks inherent to the Bank's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates and equity prices. A summary description of the Bank's risk management policies in relation to those risks follows.

Credit Risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank controls the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments and regions. Limits on the level of credit risk by borrower and product are regularly revised and approved by the Credit and Financial committees of the Bank. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

27. Financial Risk Management Policies (continued)

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin, risk level and collateral requirements.

Currency Risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currencies.

The following table presents the \$-equivalent amount in millions of monetary assets and liabilities, excluding amounts related to the London Club, denominated in different currencies at December 31:

	2006					
	\$	EURO	Clearing currencies	RUR	Other	Total
Monetary assets:						
Cash and cash equivalents	\$ 825	\$ 414	\$ –	\$ 195	\$ 90	\$ 1,524
Trading securities	581	–	–	1,161	–	1,742
Due from other banks	61	4	997	33	0	1,095
Available-for-sale securities	611	27	68	406	2	1,114
Commercial loans	3,157	153	–	3,249	2	6,561
Due from the Russian Government	46		1			47
Current income tax assets	–	–	–	20	–	20
Investments in associates	–	0	–	94	0	94
Other assets	5	8	–	69	4	86
	5,286	606	1,066	5,227	98	12,283
Monetary liabilities:						
Due to other banks	3,817	127	23	3,609	20	7,596
Financial trade liabilities	0	–	–	1	–	1
Due to the Russian Government and the Bank of Russia	1,077	95	1,005	21	0	2,198
Amounts due to customers	184	250	37	526	7	1,004
Debt securities issued	196	3	–	6	1	206
Deferred income tax liabilities	–	–	–	155	–	155
Other liabilities	36	8	1	5	5	55
	5,310	483	1,066	4,323	33	11,215
Net balance sheet position	\$ (24)	\$ 123	\$ –	\$ 904	\$ 65	\$ 1,068
Net off balance sheet position – derivatives	\$ 222	\$ (12)	\$ –	\$ (19)	\$ (191)	

27. Financial Risk Management Policies (continued)

	2005					
	\$	EURO	Clearing currencies	RUR	Other	Total
Monetary assets:						
Cash and cash equivalents	\$ 598	\$ 124	\$ 0	\$ 146	\$ 32	\$ 900
Trading securities	471	–	–	891	–	1,362
Due from other banks	572	5	1,022	61	0	1,660
Available-for-sale securities	647	17	65	239	2	970
Commercial loans	1,092	2	–	214	–	1,308
Due from the Russian Government	26		1	2		29
Current income tax assets	–	–	–	23	–	23
Investments in associates	–	0	–	3	0	3
Other assets	3	1	–	20	1	25
	3,409	149	1,088	1,599	35	6,280
Monetary liabilities:						
Due to other banks	2,179	10	18	299	2	2,508
Financial trade liabilities	173	–	–	183	–	356
Due to the Russian Government and the Bank of Russia	838	61	1,062	25	82	2,068
Amounts due to customers	214	27	30	129	7	407
Debt securities issued	12	2	–	–	–	14
Deferred income tax liabilities	–	–	–	110	–	110
Other liabilities	35	3	1	2	5	46
	3,451	103	1,111	748	96	5,509
Net balance sheet position	\$ (42)	\$ 46	\$ (23)	\$ 851	\$ (61)	\$ 771
Net off balance sheet position – derivatives	\$ 179	\$ 8	\$ –	\$ (222)	\$ 35	\$ –

27. Financial Risk Management Policies (continued)

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Bank's interest rate policy is reviewed and approved by the Financial committee of the Bank.

The table below summarizes the Bank's exposure to interest rate risk as at December 31, 2006. Included in the table are the Bank's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or contractual maturity dates.

	2006					Total
	Up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	No stated maturity	
Monetary assets:						
Cash and cash equivalents	\$ 1,524	\$ –	\$ –	\$ –	\$ –	\$ 1,524
Trading securities	1,124	3	5	610	–	1,742
Due from other banks	997	67	23	–	8	1,095
Available-for-sale securities	88	240	168	413	205	1,114
Commercial loans	426	3,107	1,842	1,186	0	6,561
Due from the Russian Government					47	47
Current income tax assets	–	20	–	–	–	20
Investments in associates	–	–	–	–	94	94
Other assets	47	24	10	2	3	86
	4,206	3,461	2,048	2,211	357	12,283
Monetary liabilities:						
Due to other banks	1,807	2,647	2,089	1,051	2	7,596
Financial trade liabilities	1	–	–	–	–	1
Due to the Russian Government and the Bank of Russia	2,197		1			2,198
Amounts due to customers	695	249	53	3	4	1,004
Debt securities issued	2	4	5	195	–	206
Deferred income tax liabilities	–	–	–	–	155	155
Other liabilities	13	2	1	–	39	55
	4,715	2,902	2,149	1,249	200	11,215
Net position	\$ (509)	\$ 559	\$ (101)	\$ 962	\$ 157	\$ 1,068

27. Financial Risk Management Policies (continued)

	2005					
	Up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	No stated maturity	Total
Monetary assets:						
Cash and cash equivalents	\$ 900	\$ –	\$ –	\$ –	\$ –	\$ 900
Trading securities	462	2	406	491	1	1,362
Due from other banks	1,026	597	30	–	7	1,660
Available-for-sale securities	71	218	130	416	135	970
Commercial loans	375	227	442	264	–	1,308
Due from the Russian Government					29	29
Current income tax assets	–	3	–	–	–	23
Investments in associates	–	–	–	–	3	3
Other assets	1	12	7	–	5	25
	2,835	1,079	1,015	1,171	180	6,280
Monetary liabilities:						
Due to other banks	1,391	1,040	76	0	1	2,508
Financial trade liabilities	34	–	322	–	–	356
Due to the Russian Government and the Bank of Russia	2,004	10	12	42		2,068
Amounts due to customers	286	58	56	3	4	407
Debt securities issued	5	3	1	5	–	14
Deferred income tax liabilities	–	–	–	–	110	110
Other liabilities	16	–	1	–	29	46
	3,736	1,111	468	50	144	5,509
Net position	\$ (901)	\$ (32)	\$ 547	\$ 1,121	\$ 36	\$ 771

Marketable equity securities are stated as "Up to 1 month" in case a liquid market exists.

At December 31, 2006 the effective average interest rates by currencies for interest generating/bearing monetary financial instruments were as follows:

	2006			
	Rubles	USD	EURO	Other
Cash and cash equivalents	5,3%	5,5%	3,6%	5,1%
Trading securities	6,4%	4,7%	–	–
Due from other banks	8,1%	7,0%	7,3%	–
Available-for-sale securities	7,2%	7,0%	5,8%	–
Commercial loans	8,9%	8,9%	9,9%	12,0%
Due to other banks	6,8%	6,1%	4,4%	6,8%
Amounts due to customers	4,6%	6,1%	6,1%	–
Debt securities issued	5,1%	6,1%	1,8%	4,5%

27. Financial Risk Management Policies (continued)

At December 31, 2005 the effective average interest rates by currencies for interest generating/bearing monetary financial instruments were as follows:

	2005			
	Rubles	USD	EURO	Other
Cash and cash equivalents	5,6%	4,3%	2,4%	0,7%
Trading securities	8,6%	4,7%	–	–
Due from other banks	6,9%	11,9%	4,0%	–
Available-for-sale securities	7,3%	6,3%	6,6%	–
Commercial loans	8,9%	8,7%	9,8%	–
Due to other banks	5,0%	5,1%	2,5%	–
Amounts due to customers	9,9%	5,8%	5,8%	–
Debt securities issued	–	3,0%	1,8%	–

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Financial Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

27. Financial Risk Management Policies (continued)

At December 31, 2006 and 2005, monetary assets and liabilities, excluding receivables from the Russian Government under London Club arrangements and amounts due to London Club creditors, had the following maturities:

	2006					
	Up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	No stated maturity	Total
Monetary assets:						
Cash and cash equivalents	\$ 1,524	\$ –	\$ –	\$ –	\$ –	\$ 1,524
Trading securities	1,742	–	–	–	–	1,742
Due from other banks	997	51	29	10	8	1,095
Available-for-sale securities	909	–	–	–	205	1,114
Commercial loans	206	2,461	2,024	1,870	0	6,561
Due from the Russian Government					47	47
Current income tax assets	–	20	–	–	–	20
Investments in associates	–	–	–	–	94	94
Other assets	47	24	10	2	3	86
	5,425	2,556	2,063	1,882	357	12,283
Monetary liabilities:						
Due to other banks	711	2,240	1,353	3,290	2	7,596
Financial trade liabilities	1	–	–	–	–	1
Due to the Russian Government and the Bank of Russia	2,197		1			2,198
Amounts due to customers	695	249	53	3	4	1,004
Debt securities issued	2	4	5	195	–	206
Deferred income tax liabilities		–	–	–	155	155
Other liabilities	13	2	1	–	39	55
	3,619	2,495	1,413	3,488	200	11,215
Net position	\$ 1,806	\$ 61	\$ 650	\$ (1,606)	\$ 157	\$ 1,068
Accumulated gap	\$ 1,806	\$ 1,867	\$ 2,517	\$ 911	\$ 1,068	

27. Financial Risk Management Policies (continued)

	2005					Total
	Up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	No stated maturity	
Monetary assets:						
Cash and cash equivalents	\$ 900	\$ –	\$ –	\$ –	\$ –	\$ 900
Trading securities	957		405			1,362
Due from other banks	1,026	353	30	244	7	1,660
Available-for-sale securities	835	–	–	–	135	970
Commercial loans	92	141	510	565	–	1,308
Due from the Russian Government	–	–	–	–	29	29
Current income tax assets	–	23	–	–	–	23
Investments in associates	–	–	–	–	3	3
Other assets	1	12	7	–	5	25
	3,811	529	952	809	179	6,280
Monetary liabilities:						
Due to other banks	941	245	101	1,220	1	2,508
Financial trade liabilities	34	–	322	–	–	356
Due to the Russian Government and the Bank of Russia	2,004	10	12	42	–	2,068
Amounts due to customers	286	58	56	3	4	407
Debt securities issued	5	3	1	5	–	14
Deferred income tax liabilities	–	–	–	–	110	110
Other liabilities	16	–	1	–	29	46
	3,286	316	493	1,270	144	5,509
Net position	\$ 525	\$ 213	\$ 459	\$ (461)	\$ 35	\$ 771
Accumulated gap	\$ 525	\$ 738	\$ 1,197	\$ 736	\$ 771	

Maturities represent remaining terms until repayment in accordance with underlying contractual arrangements at the balance sheet date.

While majority of available-for-sale securities is shown as up to one month, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

Actual maturities on loans may differ as loan agreements are sometimes extended or rolled over to update interest rates and facilitate longer term financing for the borrowers.

Amounts due to the Russian Government, other than deposits from the Bank of Russia, generally do not carry a specified maturity and are shown as having a maturity of up to one month. In practice, these amounts are maintained for longer periods.

Amounts due to customers are primarily shown as having a remaining maturity of less than one month. In practice, these amounts are often maintained for longer periods.

28. Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument.

Management believes, based upon its best estimate, that as of December 31, 2006 and 2005, substantially all the Bank's monetary assets and liabilities are carried at values, which approximates their estimated fair values.

In determining fair values the following methods and assumptions were used:

- For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates;
- For debt securities issued the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

29. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties include state, Bank's key management and affiliated companies. Since the Bank is a state-owned entity, all state-controlled entities are considered to be related parties of the Bank and all transactions and outstanding balances with such entities should be disclosed.

29. Related party transactions (continued)

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

	2006			
	State	State controlled entities	Associates	Key management personnel
Cash and cash equivalents at December 31	\$ 98	\$ 114	\$ –	\$ –
Trading securities at December 31	587	1,022		–
Due from banks at January 1, gross	1	582		
Amounts placed during the year	1	41	–	–
Amounts repaid during the year	(1)	(580)	–	–
Accruals and translation differences, net	0	0	–	
Due from banks at December 31, gross	1	43	–	–
Less allowance for impairment at December 31	–	–	–	–
Due from banks at December 31, net	1	43		
Interest income on placements with banks	7	51	–	–
Available-for-sale securities at December 31	148	383	–	–
Interest income on securities	32	24	–	
Commercial loans at January 1, gross	2	628	4	
Loans granted during the year	30	4,456	42	–
Loans repaid during the year	(11)	(801)	(0)	–
Reclassification to associate	–	(61)	61	–
Accruals and translation differences, net	0	209	3	
Commercial loans at December 31, gross	21	4,431	110	–
Less allowance for impairment at 31 December	(2)	(35)	(31)	–
Commercial loans at 31 December, net	19	4,396	79	
Interest income on loans	1	176	4	–
Receivable from the Russian Government under London Club arrangements at 31 December	37			
Due from the Russian Government at 31 December	47			
Other assets at 31 December	7	33	–	–
Correspondent loro accounts at 31 December	–	293	–	–
Loans and deposits received at January 1		324		
Loans and deposits received during the year	–	14,845		
Loans and deposits repaid during the year	–	(12,517)	–	–
Accruals and translation differences, net	–	170	–	–
Loans and deposits received at 31 December	–	2,822	–	–
Interest expense on interbank placements	–	95	–	–

29. Related party transactions (continued)

	2006			
	State	State controlled entities	Associates	Key management personnel
Financial trade liabilities at 31 December	–	0	–	–
Due to the Russian Government and the Bank of Russia at 31 December	2,198			
Current accounts at 31 December	8	293	54	1
Deposits at January 1	15	6	3	5
Deposits received during the year	19	192	2	5
Deposits repaid during the year	(28)	(5)	(2)	(4)
Accruals and translation differences, net	1	7		0
Deposits at December 31	7	200	3	6
Interest expense on customer accounts	1	3	1	0
Debt securities issued, at January 1		11		
Debt securities issued during the year		836	2	–
Debt securities redeemed during the year	–	(798)	–	–
Accruals and translation differences, net		2	0	
Debt securities issued, as at December 31	–	51	2	–
Interest expense on debt securities issued		1	0	
Guarantees issued and undrawn loan commitments	4	1,275	59	
Fee and commission income, net	7	7	0	
Other operating income	0	8	0	
Other operating expense	0	(1)	0	

29. Related party transactions (continued)

	2005			
	State	State controlled entities	Associates	Key management personnel
Cash and cash equivalents at December 31	\$ 73	\$ 321	\$ –	\$ –
Trading securities at December 31	477	460	–	–
Due from banks at January 1, gross	0	668		
Amounts placed during the year	1	104	–	–
Amounts repaid during the year	0	(192)	–	–
Accruals and translation differences, net	–	2	–	–
Due from banks at December 31, gross	1	582	–	–
Less allowance for impairment at December 31	–	(13)	–	–
Due from banks at December 31, net	1	569	–	–
Interest income on placements with banks	8	75	–	–
Available-for-sale securities at December 31	179	391		
Interest income on securities	39	20	–	–
Commercial loans at January 1, gross	2	453	3	–
Loans granted during the year	–	1,255	1	–
Loans repaid during the year	–	(1,078)	–	–
Accruals and translation differences, net	–	(2)	–	–
Commercial loans at December 31, gross	2	628	4	–
Less allowance for impairment at 31 December	(2)	(8)	(4)	–
Commercial loans at 31 December, net	–	620	–	–
Interest income on loans		46		
Receivable from the Russian Government under London Club arrangements at 31 December	37			
Due from the Russian Government at 31 December	29			
Other assets at 31 December	6	3	–	–
Correspondent loro accounts at 31 December		271		–
Loans and deposits received at January 1		503		
Amounts received during the year	–	7,724	–	–
Amounts repaid during the year	–	(7,898)	–	–
Accruals and translation differences, net	–	(5)	–	–
Other due to banks amounts at 31 December	–	324		–
Interest expense on interbank placements	–	32	–	–

29. Related party transactions (continued)

	2005			
	State	State controlled entities	Associates	Key management personnel
Due to the Russian Government and the Bank of Russia at 31 December	2,068	–	–	–
Current accounts at 31 December	6	174	2	1
Deposits at January 1	11	6	4	3
Amounts received during the year	24	47	–	2
Amounts repaid during the year	(19)	(47)	(1)	(1)
Accruals and translation differences, net	(1)	–	–	1
Deposits at December 31	15	6	3	5
Interest expense on customer accounts	1	2	1	0
Debt securities issued, at January 1		6		
Debt securities issued during the year	–	16	–	–
Debt securities redeemed during the year	–	(11)	–	–
Accruals and translation differences, net	–	0	–	–
Debt securities issued, as at December 31	–	11	–	–
Interest expense on debt securities issued		0		
Guarantees issued and undrawn loan commitments		749	2	
Fee and commission income, net	6	18	0	
Other operating income	0	2	0	–
Other operating expense	0	0	0	–

Compensations of key management personnel comprise

	2006	2005
Salaries and other short-term benefits	\$ 5	\$ 3
Social security costs	0	0
	\$ 5	\$ 3

In addition, the Bank is servicing, in an agency capacity, the foreign debt and assets of the former USSR and the Government of the Russian Federation and its authorized institutions (Note 5).

At December 31, 2006, the Bank acting as a State Trust Management Company managed funds of the State Pension Fund of the Russian Federation of \$10.1 billion (at December 31, 2005 – \$6.1 billion).

30. Subsequent events

In May 2007 the Council of Federation of Federal Assembly of the Russian Federation passed the law "On Development Bank", and it is subject to further approval by the President of the Russian Federation. This law aims to create on the basis of Vnesheconombank, a state financial development institution for stimulation and maintenance of economic growth in Russian Federation. Activities of the new financial institution will include provision of medium and long-term financing to investment projects in higher-priority industries of the Russian economy, organization, funding and servicing state infrastructure and innovative investment projects, provision of financial support and realization of the export-import policy of the Russian Federation, together with other functions to support and stimulate economic growth in the Russian Federation. Equity of the new entity is planned to be established by the Russian Federation, among others by means of contribution of shares of OJSC Russian bank for development and ROSEXIMBANK CJSC.

In the event that the law and the respective changes to other legislation are approved by the President of the Russian Federation in its current form, the Bank will cease to be subject to income tax.

On January 18, 2007 the purchase of 7,591,998 shares (20% minus 2 shares) of OJSC "Terminal" was registered.

On April 19, 2007 the Bank contributed \$10 million for the purchase of additional emission of shares of OJSC "National Trade Bank", which constitutes 25% of voting shares. The additional share emission report was registered by the Central Bank of the Russian Federation on April 26, 2007.

On April 26, 2007, the Bank made an offer to shareholders of OJSC "Belvnesheconombank" to purchase over 50% of shares at 403 Belorussian Rubles per share.



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