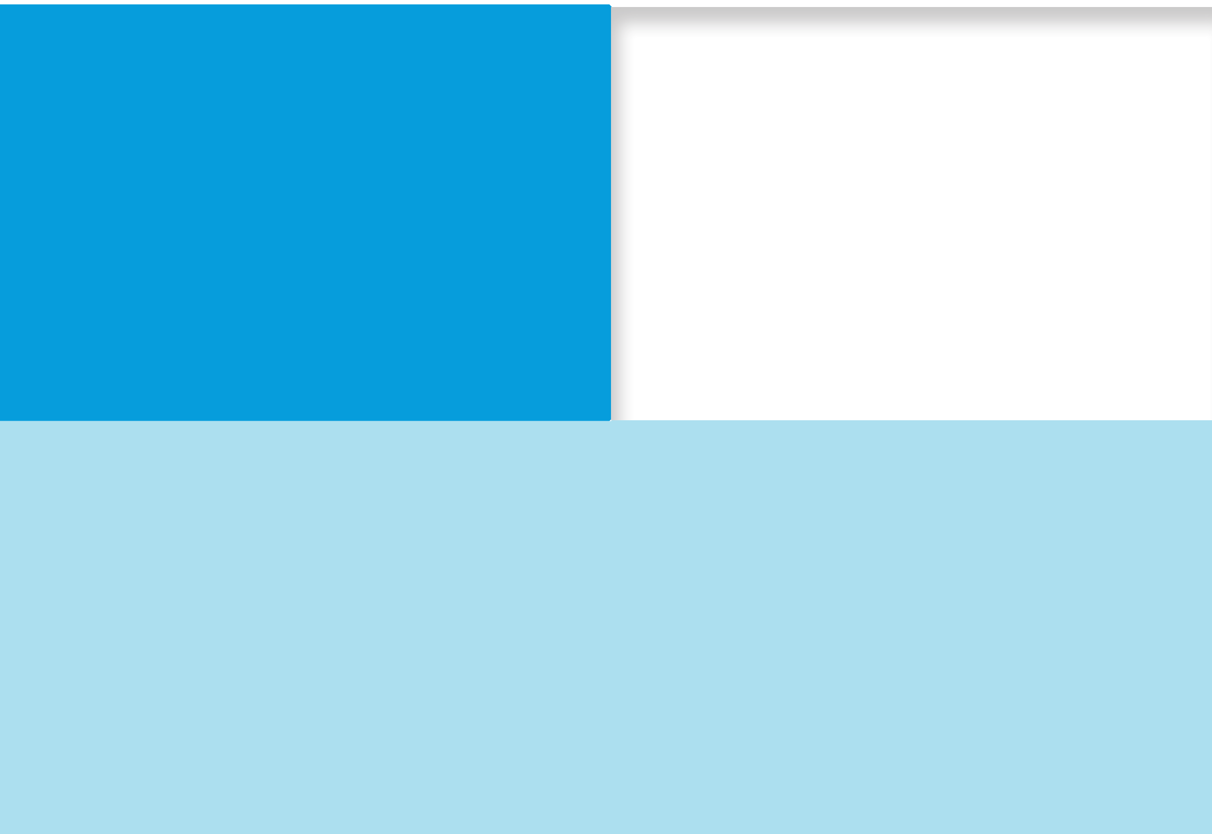
VNESHECONOMBANK

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

Annual Report 2012

Bank for Development



VNESHECONOMBANK

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

2012

Annual Report

THE STRENGTH OF FINANCIERS IS THAT SUCH COMPLICATED AND MULTIFACETED EVENTS AND CONCEPTS AS "GROWTH" AND "DEVELOPMENT" COULD BE CLEARLY AND VIVIDLY DEMONSTRATED THROUGH A STRAIGHTFORWARD LANGUAGE OF NUMBERS. THE FIVE YEARS OF OPERATING IN THE CAPACITY OF A BANK FOR DEVELOPMENT MEAN IMPLEMENTING HUNDREDS OF PROJECTS, CREATING THOUSANDS OF NEW JOBS, GENERATING TENS OF BILLIONS OF TAXES FOR THE BUDGETS OF ALL LEVELS. THE NUMBERS INCLUDED IN THE BANK'S ANNUAL REPORT ARE A GOOD ILLUSTRATION OF THE CURRENT STAGE OF THE RUSSIAN ECONOMIC DEVELOPMENT. WE PRESENTED THE DATA IN RETROSPECTIVE THEREBY PROVIDING READERS WITH AN OPPORTUNITY TO ASSESS THE SCALE AND SCOPE OF THE BANK'S PROJECTS. THESE FIGURES ARE ELOQUENT ENOUGH.

Contents

Chairman's Statement

Honorable Colleagues and Partners!

We are presenting for your consideration an overview of our 2012 performance.

In 2012, Vnesheconombank celebrated the 5th anniversary of operating as a bank for development. Looking back and recalling the heated discussions on expediency of establishing such an institution in Russia, I am fairly confident that that the idea of creating a national development institution proved to be well-timed and urgently needed by the country's economy. Admittedly, the project was a success.

Within 5 years that past since the moment the Russian President signed a Federal Law "On Bank for Development", we adopted important decisions on financing various projects totaling almost RUB 2.6 trillion, with Vnesheconombank's commitment amounting to more than to RUB 1.4 trillion. Actually, these are huge resources. But much more important than any impressive numbers is that the Bank succeeded in asserting itself as a credible vehicle of implementing state investment policies and managed to become a key link in the system securing an influx of "long" money into the economy. Also remarkable was the development of infrastructure stimulating sustainable growth both in the priority sectors and the entire economy. Currently, the infrastructure comprises diversified mechanisms made available for all the participants in the investment process: procuring funding for major investment projects, raising direct foreign investment (FDI), insuring export credits, generating a pipeline of PPP-based projects and ensuring cluster territorial development, etc.

Since the Bank's establishment the amount of the loan portfolio, which was continuously increasing, has been a major indicator of the scale and scope, as well as the efficiency of Vnesheconombank's performance. In 2012, the amount of the loan portfolio grew from RUB 505.4 billion to RUB 720.2 billion (a 42.5% rise). At the same time, the number of projects delivered with Vnesheconombank's financial commitment rose from 112 to 139. That clearly demonstrates that in the past year the amount of the Bank's loan portfolio approximated to RUB 850 billion i.e. the targeted indicator set forth in Vnesheconombank's Development Strategy for the period of up to 2015.

The Bank pays special attention to the growth of not only quantitative, but also of qualitative performance indicators. According to the Bank's Strategy, the share of innovation-based projects should be on a continuous rise.

We were aiming to accomplish the goal and, encouragingly, in 2012 actually 47 out of 139 projects, delivered with Vnesheconombank's engagement, were innovation- and energy efficiency-oriented. We recognize that for the loan portfolio to meet today's challenges continuous work to develop and upgrade the Bank's lending and investment activities is carried on. In 2012, the list of the Bank's main sector priorities for investment was expanded to include heavy machine-engineering. Apart from this, we obtained an option to finance businesses implementing defense orders. Since the past year, implementation of projects designed to facilitate cluster territorial development and promote the development of single-industry municipalities has been on the Bank's investment priorities agenda. Besides, Vnesheconombank as the State Trust Management Company (STMC) was delegated the right to invest pension savings in infrastructure projects. The respective amendments to Vnesheconombank's Memorandum on Financial Policies only evidence and underscore the Bank's high potential enabling it to tangibly contribute to developing the Russian economy.

Dozens of projects, in which Vnesheconombank engages, have been completed, commissioned and are successfully operating.

I would like to highlight some of the most meaningful projects, the financing of which Vnesheconombank commenced in 2012:

- Construction of an Express-AM7 spacecraft the launch of which will contribute to providing the population of Russian regions with state-of the-art communication means.

- Construction of combined navigation (river-sea) tankers for exporting crude oil and petroleum products from river ports located in the European part of the Russian Federation along export routes.

- Construction of a modern steam and gas generator that would significantly enhance energy efficiency of the Izhevsk heat and power plant – HPP-1.

- Development of Talitsky area of Verkhnekamsky abraum salts deposit in Perm Territory aimed at de-monopolization of the Russian market of abraum salts.

- Construction of 3 greenhouse complexes in Tula, Rostov and Chelyabinsk Regions for the year round production of vegetables and greens.

Admittedly, while maintaining focus on huge scale multi-billion projects of national significance, Vnesheconombank would also place emphasis on driving SME development forward. In fact, SME Bank, Vnesheconombank's subsidiary, serves as a major instrument in attaining the goal. For some years, SME Bank has been successfully implementing the SME support programme, while Vnesheconombank is funding the Programme both through additional capitalization of SME Bank (including RUB 2billion allocated in 2012) and extension of long-term credits. Just as other development institutions, Vnesheconombank uses a 2-tier system as a major mechanism of SME support. In doing so, Vnesheconombank would stimulate SME development through various intermediary companies. These include commercial banks, funds, micro finance organizations, etc.

I would like to add that responding to the immediate challenges and concerns the Bank's credit policies witnessed a radical shift in favor of support for innovation-oriented projects and modernization projects delivered by industrial and high-tech SMEs. Apart from increasing direct crediting, expanding and improving the credit product lines and programmes, as well as building up amounts of debt co-financing by partner banks, the Bank's professional worked out guarantee mechanisms to support industrial SMEs.

A dedicated effort to attract foreign investment in pursuit of the goal was another quality change in SME support policies witnessed in 2012.

At the end of 2012, Vnesheconombank and KfW, the German Development Bank, signed a 5-year term loan agreement amounting to USD 110 million to finance SMEs that engage in modernization-, innovation- and energy efficiency-focused projects, including those intended for climate protection and developing renewable energy sources. An international Fund that is being established by Vnesheconombank and KfW, the architecture of which was worked out in the course of negotiations with German partners in the period under review, is designed to become another instrument to support dynamically developing SMEs.

Traditionally special energies are devoted to developing territories and regions. But in the past year the business line acquired a new urgency.

Consolidation of efforts and resources for implementation of projects directly or indirectly related to territorial development was a central theme of 2012. In this context, the Bank was making substantial headway and achieved enhanced performance efficiency mainly through deepening coordination among the VEB Group members and increasing integration between the subsidiaries. Obviously, that resulted in strengthening a synergy effect.

In 2012, the Bank was actively engaged in tackling the problems of the Far East territories, which were put on the state agenda in view of the need to procure an appropriate infrastructure for the region, among other things, in the run up to 2012 APEC Summit on the Russky Island in September 2012. The portfolio of loans extended for implementation of investment projects in the Eastern part of Russia amounts to RUB 29.7 billion. Apart from this, in the past year, the Fund for Development of the Far East and Baikal region established at the end of 2011 launched operations. Drawing on the subsidy appropriated from the federal budget, we provided the Fund with additional capitalization in the amount of RUB 15 billion. Actually, a formidable list of investment projects eligible for financing by the VEB Group in the near term was the first practical deliverable of the Fund's effort.

At the end of the year, the Bank's project portfolio generated specifically for the North Caucasian federal district, which is another priority macro region for us, amounted to RUB 14.74 billion. Vnesheconombank's subsidiary, the Corporation for Development of North Caucasus, established for developing the region, also actively engaged in implementing the relevant projects. I would like to underscore that the project for creating the Kazbek technopark in the Chechen republic is another development highlight of the year. In 2012, we decided to engage in the project that aims to create the 1st innovation technopark in the republic to integrate interrelated facilities for producing state-of-the art construction materials.

I should highlight the fact that the Programme of economic development of single-industry towns has been successfully developing. As at the end of 2012, we were financing 21 projects amounting to RUB 401.6 billion, with the Bank's commitment standing at RUB 217.1 billion, on the territories of single-industry towns. Hopefully, the Programme will see further progress due, among other things, to Vnesheconombank Supervisory Board's decision adopted in 2012 on easing requirements for projects implemented in such towns.

I reckon that our representative offices (presently, 7 VEB's representative offices are operating in all the federal districts, except for the Central one), have been playing an ever-increasing role in pursuing the Bank's regional policies. The tasks of representing and promoting Vnesheconombank's interests in the regions, arranging preliminary investment project selection, providing client consulting, including that on the VEB Group product line, and networking with regional public authorities were central to the representative offices' regional efforts.

We acknowledge that the Bank's support for the Russian economy could not be altogether reduced to just financial aid. For the past few years we have been arranging training courses in the regions for initiators of investment projects in order to upgrade the quality of preparation of project requests and applications forwarded to Vnesheconombank. At the end of 2011, Vnesheconombank in close cooperation with the Finance University under the Government of the Russian Federation established a PPP chair, which in 2012 conducted 2 specialist courses of "PPP Capability and Capacity Building in the Russian Regions" that were attended by 124 course participants representing 40 constituent entities of the Russian Federation. Also the year 2012 witnessed the establishment, with participation of the Finance University, of Vnesheconombank's Youth Club. Working out elegant and original proposals and instruments to address the challenges of the socio-economic development of the entire country and the regions, engaging the best students, post graduate students and young representatives of the academia to resolving the Bank's practical tasks, as well as arranging practical mentoring by VEB's specialists for the younger generation were the key objectives of the Club establishment.

Looking forward and thinking about the Bank's near-term tasks we should emphasize that implementation of Vnesheconombank's Development Strategy for the period of up to 2015 will see further continuation and a tight focus on priority business lines will be maintained. Obviously, in the circumstances of a probable deficit of investment resources and a constrained budget, Vnesheconombank's efforts to consolidate public resources and private capital, identify and apply new mechanisms and instruments of financing on a recoverable basis (also through the use of the NWF's resources and the pension savings) will become a defining factor in ensuring a return to the trajectory of sustainable growth and implementing nationally important projects. We admit that it is not just serious commitments and challenges that we are facing, but also *a world of opportunities*.

I firmly believe that our staff professionalism and dedication to delivering sustainable value will enable us to benefit from the opportunities and successfully accomplish the goals.

V. Dmitriev
Chairman of Vnesheconombank

Vnesheconombank's Supervisory Board

(as at 01.01.2013)

CHAIRMAN OF THE SUPERVISORY BOARD:

D. A. Medvedev	Chairman of the Government of the Russian Federation

MEMBERS OF THE SUPERVISORY BOARD:

I. I. Shuvalov	First Deputy Chairman of the Russian Federation Government
A. V. Dvorkovich	Deputy Chairman of the Russian Federation Government
D. N. Kozak	Deputy Chairman of the Russian Federation Government
D. O. Rogozin	Deputy Chairman of the Russian Federation Government
A. G. Khloponin	Deputy Chairman of the RF Government — Authorized Representative of the Russian President in North-Caucasian Federal District
A. R. Belousov	Minister of Economic Development
A. G. Siluanov	Minister of Finance
V. A. Dmitriev	Chairman of Vnesheconombank

Vnesheconombank's Management Board

(as at 01.01.2013)

V. A. Dmitriev	Chairman of Vnesheconombank
M. I. Poluboyarinov	First Deputy Chairman
A. V. Tikhonov	First Deputy Chairman
S. A. Vasilyev	Deputy Chairman
A. S. Ivanov	Deputy Chairman
M. Yu. Kopeikin	Deputy Chairman
S. P. Lykov	Deputy Chairman
V. D. Shaprinskiy	Chief Accountant

1 Vnesheconombank's 2011–2015 Development Strategy[1]: Progress in 2012

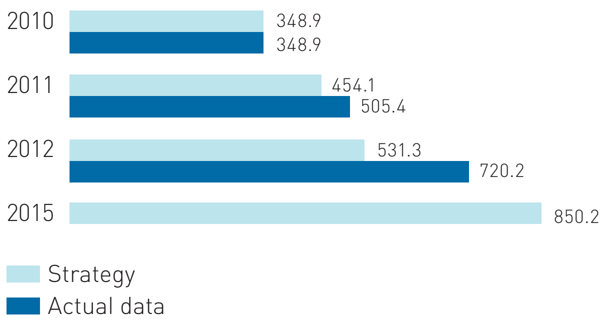
As at 01.01.2013, the Bank's loan portfolio exceeded the targets set in the Development Strategy for 2011–2015 (hereinafter, the Strategy) by 35.6%: targeted RUB 531 bn against actual RUB 720 bn.

The loans extended to deliver investment projects totaled RUB 669 bn, i.e. by 36.6% more than the amount envisaged in the Strategy for the year-end 2012 (RUB 512 bn).

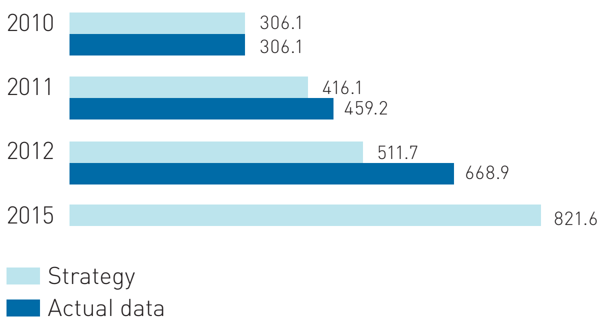
According to the Strategy, the Bank gives priority to financing projects aimed at modernization of Russian enterprises and construction of new manufacturing facilities.

As at 01.01.2013, the portfolio of loans extended to finance projects in priority lines of economy modernization (33 projects) amounted to RUB 159.7 bn. The majority of the projects are designed to increase power efficiency.

Loan portfolio of the Bank for Development, RUB bn

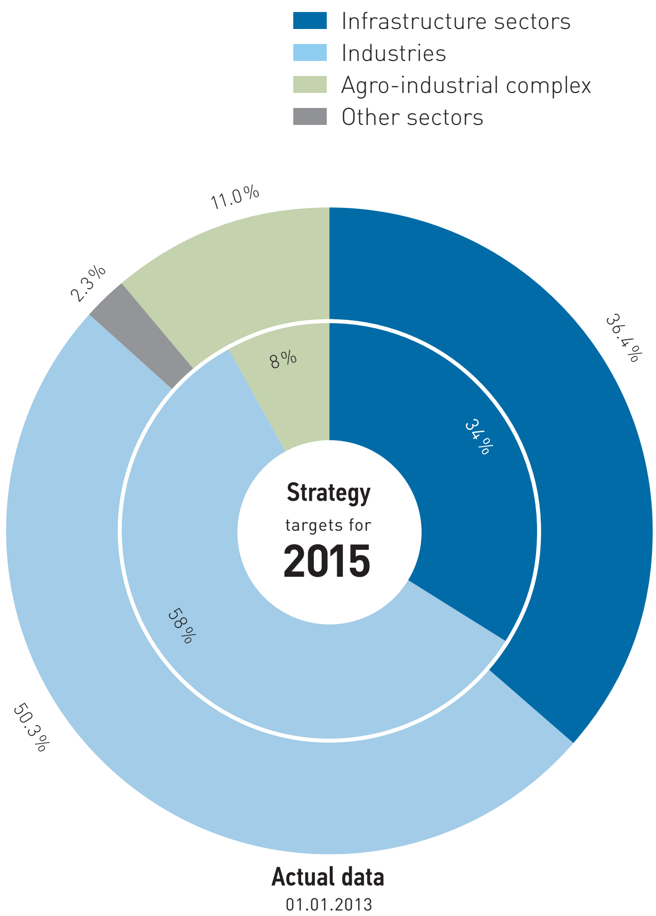


Investment loans, RUB bn



1. Hereinafter, the Strategy

Loan portfolio by industry



Innovation projects accounted for 33.8% of the Bank's loan portfolio as compared to 20% provided for in the Strategy for the year-end 2015.

In general, the sectoral structure of the Bank's loan portfolio as at the end of the reporting period complies with that envisaged by the Strategy for the year-end 2015.

The share of loans earmarked for infrastructure projects made, by the year-end 2012, 36.4%. According to the Strategy, this indicator was expected to stand at a minimum of 34%. The loans extended to industrial enterprises accounted for over 50% of the loan portfolio (in compliance with the Strategy, the share of such loans makes 58%). Actually, 11% of the total loans were extended to support the agro-industrial complex (against 8% in the Strategy).

The portfolio of loans earmarked for export support reached, as at 01.01.2013, RUB 14.5 bn (against RUB 15 bn provided for by the Strategy for the year-end 2012). Guarantees issued in 2012 to support national exports totaled RUB 34.4 bn as compared to RUB 21.8 bn projected in the Strategy.

Guided by the credit and investment priorities determined in the Strategy, in 2012, Vnesheconombank kept boosting innovation project finance. In the period under report, the Bank initiated financing of 7 projects that fall in this category.

All in all, as at 01.01.2013, the Bank's portfolio comprised 47 such projects. Over the year, the portfolio of loans extended to deliver innovation projects grew by RUB 15.2 bn to reach RUB 243.1 bn.

With a view to promoting innovations, the Bank engaged in cooperation with the Agency for Strategic Initiatives (ASI). In particular, the Bank advised ASI on financing of ASI's investment projects.

In 2012, NCO The Fund to Operate the Programme of Financial Support to the Skolkovo Foundation's Investment Projects (VEB-Innovations Fund) established by the Bank late in 2011 started practical work. In the year under review, the Bank transferred RUB 700 mn to the VEB-Innovations Fund as a voluntary asset contribution. These funds are earmarked for financial support to projects delivered by the Skolkovo Innovation Centre participants.

Export Insurance Agency of Russia (EXIAR), Vnesheconombank's insurance subsidiary, continued to expand activities. Late in 2012, Vnesheconombank signed an agreement with EXIAR. The Agreement provides for the Bank to issue a guarantee under EXIAR's obligations for the total maximum amount of USD 10 bn for the term of up to and including 31 December 2032. The guarantee mechanism will help Russian producers to promote hi-tech products in foreign markets.

The year 2011 witnessed the launch of the Russian Direct Investment Fund (RDIF). To manage the Fund, the Bank established RDIF Management Company LLC. The aim of RDIF is to attract foreign capital in order to develop the Russian economy. In 2012, investments by RDIF in hi-tech Russian companies totaled USD 500 mn, whereas investments by foreign partners amounted to USD 1.1 bn.

In pursuit of the regional investment priorities as defined in the Strategy, Vnesheconombank alongside with boosting project finance in North-Caucasian Federal District (NCFD) also increased the authorized capital of its subsidiary regional development corporation — OJSC North Caucasus Development Corporation (NCDC) — by RUB 3.1 bn. NCDC engages in project finance in NCFD and, in particular, invests in equity of project operators.

In 2012, OJSC Far East and Baikal Region Development Fund was gearing up for practical activity, i.e. participation in investment projects delivered in the macro-region.

In accordance with the Strategy, support to SMEs delivering innovation projects, projects designed to upgrade production facilities and increase power efficiency, as well as to socially important projects was one of the priority objectives.

As at 01.01.2013, the portfolio of loans extended to SMEs for such purposes increased over the year by RUB 19.2 bn to reach RUB 58.9 bn.

With a view to ensuring long-term finance for investment projects, in 2012 Vnesheconombank made borrowings in capital markets in the form of bond placements and loans from foreign financial institutions. As at 01.01.2013, the medium- and long-term funds raised by the Bank totaled RUB 527.8 bn (against RUB 402.1 bn as at the beginning of the year), including RUB 400.6 bn worth of funds attracted for a term exceeding 5 years (against RUB 289.8 bn as at the beginning of the year 2012).

Vnesheconombank's Strategy 2011–2015 Implementation Plan: Progress in 2012

The Bank's Supervisory Board approved a plan to implement Vnesheconombank's Development Strategy for 2011–2015 (hereinafter, the Plan). The Plan provides for implementation of 123 projects and other measures by the year-end 2015 to achieve the targets set in the Strategy and accomplish the objectives facing the Bank.

The Plan includes projects and measures that embrace the Bank's key business lines, such as: lending and investment activities, agency functions for the RF Government, raising funds in capital markets, developing Vnesheconombank's organizational structure and upgrading HR management, as well as fostering the CSR activities.

According to the Plan, 51 projects (measures) should have been completed by the year-end 2012, including 15 measures implemented on an annual basis. As at 01.01. 2013, 43 items of the Plan were completed in full and 8 items—in part, with the completion planned for the end of 2013. Extension of delivery terms is attributable to rationalizing Vnesheconombank's organizational structure and, as a result, to changes in the functions of the structural units. All those changes necessitated the revision of the Bank's internal regulatory documents drafted to implement the Plan.

At the same time, it is worth noting that some of the projects and measures envisaged by the Plan for the subsequent reporting periods were delivered ahead of schedule.

Overall, 51 items of the Plan were fulfilled by the year end 2012.

More detailed information about Vnesheconombank's activities in core business lines specified in the Strategy is to be found in the respective sections of the Report.

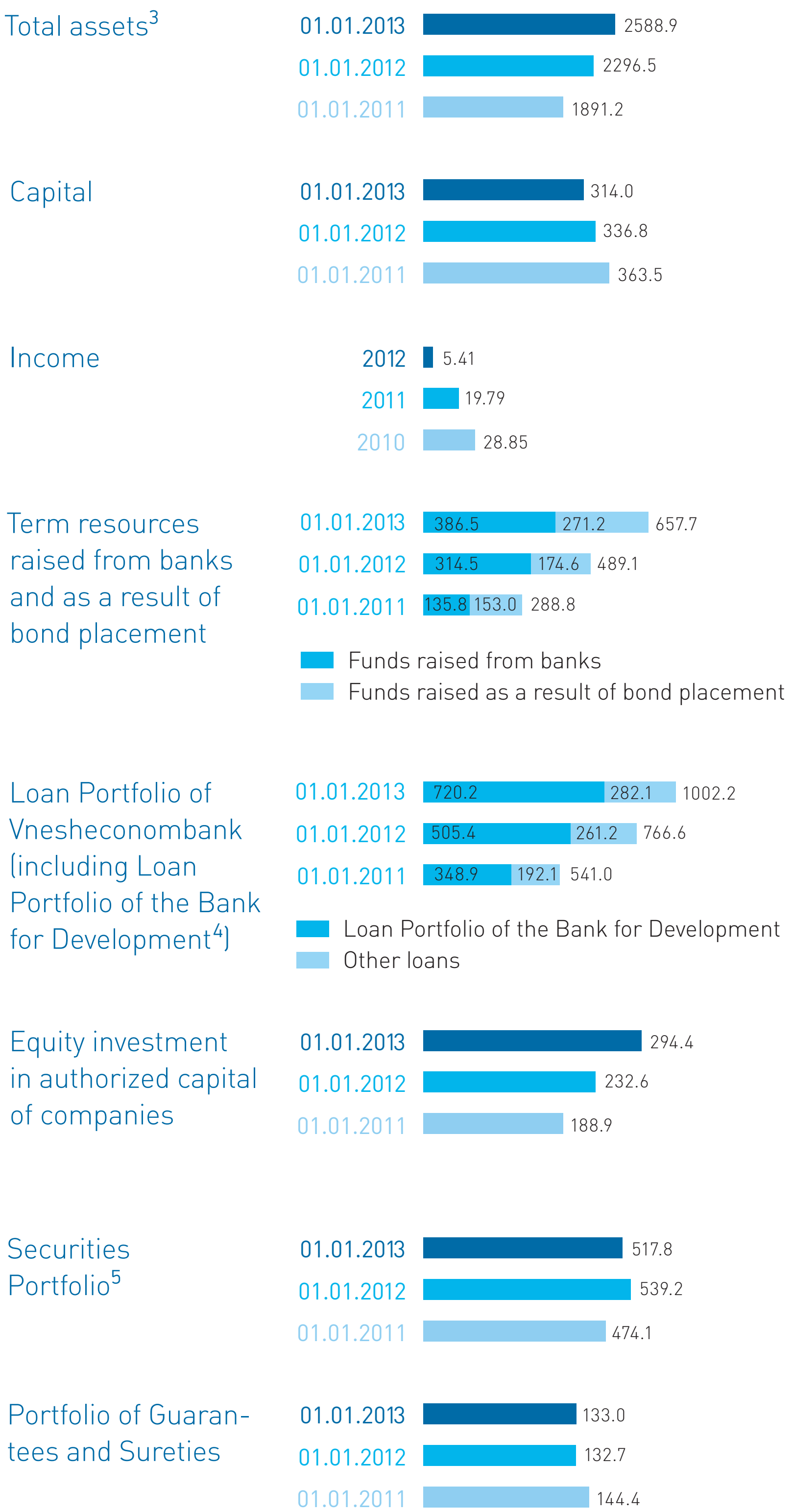
As at 01.01.2013, among 10 top Russian banks (in terms of total assets) Vnesheconombank ranked:

Indicator	Ranking
Total assets	4
Income before income tax	9
Capital	4
Loans to non-financial organizations	4
Loans to credit organizations	2
Loans, deposits and other funds from credit organizations	3
Deposits and other funds from non-credit organizations	4

Vnesheconombank's ratings

		MOODY'S	STANDARD & POORS	FITCH RAITINGS
LONG-TERM	in RUB	Baa1	BBB+	BBB
	in foreign currency	Baa1	BBB	BBB
	outlook	Stable	Stable	Stable
SHORT-TERM	in RUB	P-2	A-2	
	in foreign currency	P-2	A-2	F-3
EUROBONDS RATINGS			BBB	BBB

Development Dynamics: Major Financial Highlights[2], RUB, bn



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

3. Taking full account of net income, as well as positive and negative revaluation of securities available for sale ("analytical" total assets).

4. Portfolio of loans extended by VEB to non-credit institutions, public executive bodies and municipalities for investment projects and export support, excluding loans extended using the funds of the CBR and NWF.

5. Debt and equity securities (including equity participation in investment funds, but excluding equity investment).

Total assets

BACK TO CONTENTS

2 Assisting the Development of the National Economy

The tasks of accelerating economic growth, ensuring diversification of the Russian economy and its stepped up innovative development, moving high-tech industrial goods manufactured by Russian producers to global markets require large-scale investment in the country's economy.

Vnesheconombank acting in the capacity of the national Bank for Development is called to address the challenges of removing infrastructure constraints to economic growth, encouraging investment activities, ensuring diversification and enhanced competitiveness of the Russian economy.

Memorandum on Financial Policies of Vnesheconombank, approved by the RF Government, sets forth major business lines and sectoral priorities of the Bank's investment activities, as well as expressly formulates the terms and conditions and activity procedures to accomplish the fundamental goals underlying the establishment of the Bank for Development.

In 2012, Memorandum on Financial Policies of Vnesheconombank was amended to reflect new aspects of developing the Bank's investment and lending activities. These envisage:

- including heavy machine engineering into the list of major sectoral priorities;
- enhancing the range of major investment activities to include implementation of investment projects intended for development of territorial clusters and single-industry municipalities;
- including into the functions of financial export support an option to finance local costs in the importer's country in the amount that should not exceed 30% of the total value of the Russian exporter's contract;
- ensuring an option for Vnesheconombank to finance companies that engage in implementation of state defense orders and federal targeted programmes (defense and security), as well as to extend guarantees and sureties to secure commitment fulfillment by the respective companies;
- securing an option for Vnesheconombank, acting as the STMC, to invest pension savings in infrastructure projects.

These amendments are solid proof of Vnesheconombank's ever-growing capabilities, the role and place in fostering the Russian economic development.

Vnesheconombank, in pursuit of the tasks set, has been continuously increasing the amounts of financing provided for the real economy. First and foremost, it is the dynamics of the Bank for Development's loan portfolio that clearly demonstrates commitment to stepping up business development. To illustrate, in 2012 alone, the amount of the loan portfolio increased by 42.5% (44.9% in 2011).

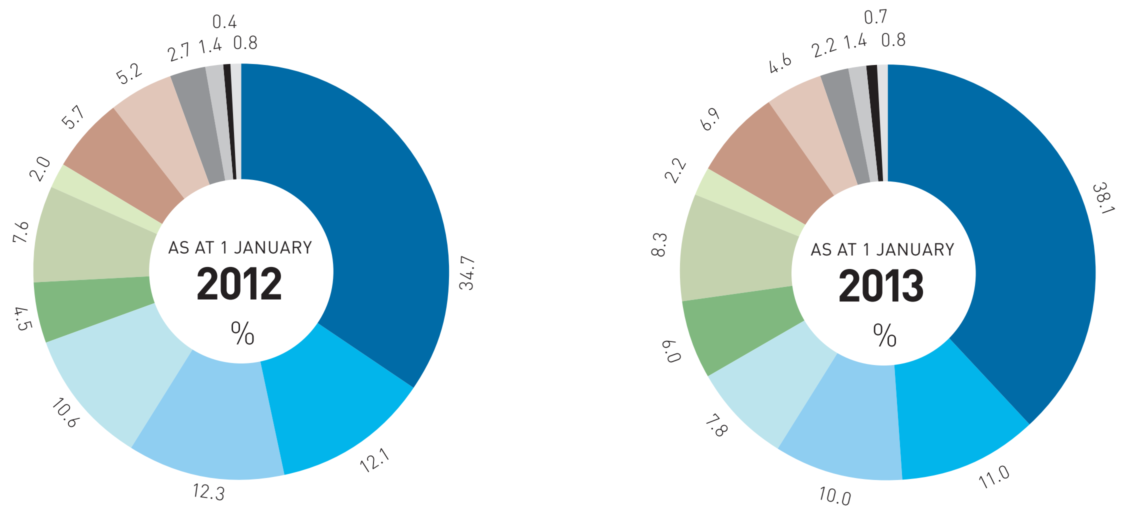
Notably, in 2012, investment in such sectors as infrastructure (56.6%), agro-industrial complex (30.5%), chemical and petro-chemical industry (15.9%) posted by far the biggest increase.

The amount of loans extended to other key economy sectors: aircraft building, metallurgy, timber processing industry and defense industry also witnessed substantial growth.

As at 01.01.2013, the amount of portfolio of loans extended for export support saw a two-fold increase on the respective figure shown at the beginning of 2012.

The structure of the loan portfolio of the Bank for Development as at 01.01.2013 by sector of economy and maturity is given below.

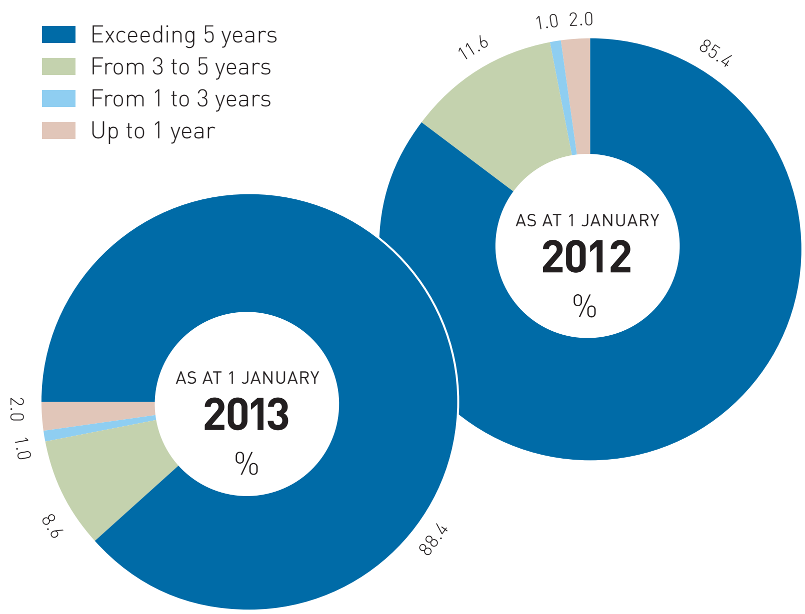
Loans to customers (by industry/sector of economy)



- Infrastructure
- Agro-industrial complex
- Chemical and petrochemical industry
- Machine-engineering (except aircraft building)
- Aircraft building and transportation
- Metallurgy
- Defense industry
- Construction materials industry
- Timber processing industry
- Electronics industry
- Shipbuilding
- Medical equipment and pharmaceuticals
- Other

Loans to customers (by maturity)

- Exceeding 5 years
- From 3 to 5 years
- From 1 to 3 years
- Up to 1 year



2.1. Financing Investment Projects

Financing investment projects that have a high economic multiplying effect, but happen to be underfunded by commercial banks and the private sector in view of high risks and long payback periods is a major function and an imperative for Vnesheconombank explicitly defined by the Federal Law "On Bank for Development".

That primarily concerns infrastructure projects designed to facilitate the modernization of the existing and construction of new industrial facilities, upgrading the country's defense capability, as well as projects with high innovation-oriented component.

Lending accounts for the bulk of the total amount of financing extended by Vnesheconombank for investment projects. Apart from it, the Bank co-finances projects, as well as ensures financial support for projects through the use of guarantee mechanisms that reduce project risks and help raise finance from other project participants.

By the end of 2012, the Bank completed participation in 9 investment projects. The loans extended for project implementation have been fully repaid.

Dozens of facilities were put into operation within the framework of investment projects implemented with the Bank's engagement. These include: a railway carriage-building factory in Tikhvin (Leningrad Region), a new passenger terminal at Vladivostok international airport, Urengoi Hydroelectric Power Plant, Omsk polypropylene plant. Also, 2012 witnessed commissioning of a plant to produce aircrete blocks and elements for low-height construction in Iskitime (Novosibirsk Region) and a housing construction plant in Oktyabrsky District (Rostov Region). Khabarovsk oil refinery started to process natural gas and initiated a phased transition of the plant fuel consumers to natural gas utilization.

Remarkably, within 2012, the number of investment projects implemented with Vnesheconombank's financial commitment grew from 112 to 139.

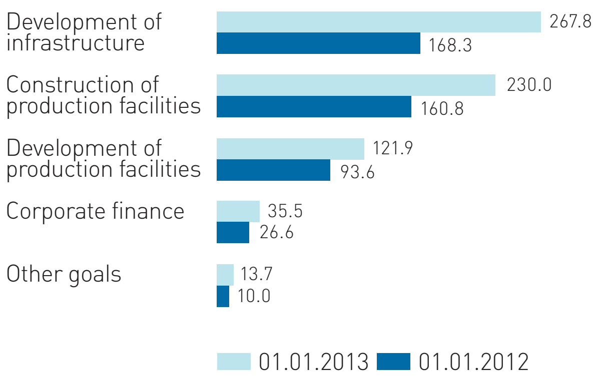
As at 01.01.2013, the portfolio of loans extended for financing investment projects (portfolio of investment loans) amounted to RUB 668.9 bn, while the amount of equity investments for the above purposes (interest in authorized capitals) was running at RUB 33.6 bn and the portfolio of guarantees reached RUB 11.9 bn.

Actually, as at 01.01.2013, loans extended for financing 47 projects that aim to bolster innovations accounted for RUB 243.1 bn in the total amount of investment loans.

In 2012, Vnesheconombank commenced financing 27 investment projects totaling RUB 342.8 bn, Vnesheconombank's commitment — RUB 164.9 bn. The expected socio-economic deliverables will be as follows: receipts for budgets of all levels will approximate to RUB 230 bn and 7700 new jobs will be created.

Over the year, to deliver financial support for investment projects, Vnesheconombank issued 54 guarantees for the total sum equivalent to RUB 1.29 bn.

Portfolio of Investment Loans
(by projects categorized by delivery goals),
RUB bn



In the period under review, increased focus was placed on developing transport, energy and social infrastructure, with the major part of projects in these sectors implemented taking a PPP solution.

Major investment projects launched by Vnesheconombank in 2012 include:

CONSTRUCTION OF EXPRESS-AM7 SPACECRAFT

Total project value — RUB 8.3 bn

Vnesheconombank's commitment — EUR 124.6 mn

The project is part of the Russian Federal Programme for 2006–2015, and the Federal Targeted Programme "Development of TV and Radio Broadcasting in the Russian Federation for 2009–2015"

Construction of a spacecraft designed to meet the national challenges of replacing and developing the Russian orbital group of communication and broadcasting state satellites.

Express-AM7 spacecraft ensures additional satellite capacity to provide population in Russian regions with communication means and create favourable conditions for active development of information and communication technologies, including mobile president/government telecommunication networks.

Delivery of the project will increase tax receipts to budgets of all levels by RUB 4.9 bn.

RECONSTRUCTION OF IZHEVSK HPP-1

Total project value — RUB 11.5 bn

Vnesheconombank's commitment — RUB 8.3 bn

Construction of a modern steam and gas generator at the currently operating Izhevsk heat and power plant — HPP-1 (Republic of Udmurtia) with installed capacity of 230 MV and heating capacity — 157 Gcal/hour.

Modern equipment based on a gas-steam cycle allows for maximized fuel (natural gas) utilization factor in energy production thus resulting in low fuel rates per unit of output.

Social and economic effects: 80 new jobs in Izhevsk, budgetary effect — about RUB 2.5 bn, minimized environmental impacts due to the use of modern technologies.

CONSTRUCTION OF 10 RST27 TANKERS

Total project value — USD 192 mn

Vnesheconombank's commitment — USD 153 mn

Construction of combined navigation (river-sea) tankers with 5380/6980 tons of deadweight for exporting crude oil and petroleum products from river ports located in the European part of the Russian Federation along export routes.

Operation — an integrated deep water system of the European part of the RF; Azov, Caspian, Baltic, Black and Mediterranean Seas.

The RST27 oil tanker has a maximum carrying capacity possible when operated on inland waterways of the European part of Russia. Also, the distinctive features of the new vessel are: increased hull strength; more powerful engines; cutting edge equipment; a wide range of transported cargoes, higher environmental standards exceeding the requirements of MARPOL.

As at 31.12.2012, 9 vessels were delivered to customers and are currently in operation.

Social and economic effects: development of the Russian river and sea transport, upgrade of the vessel fleet, increased oil transportation volumes, creation of new jobs in the shipping company (vessel crews).

DEVELOPMENT OF TALITSKY AREA OF VERKHNEKAMSKY ABRAUM SALTS DEPOSIT IN PERM TERRITORY

Total project value — USD 2.8 bn

Vnesheconombank's commitment — RUB 6.7 bn and USD 1.12 bn

The project involves construction of a mine and a mineral processing plant with the annual ore extraction and processing volumes of up to 7.2 mn tons and the output of potash chloride of up to 2 mn tons. The project is intended for demonopolization of the Russian potassic fertilizer market, introduction of new technologies for extraction and processing of potassic ores, as well as deepened processing of extracted raw materials.

Commissioning of the industrial complex is planned for 2016, operating at the projected capacity — for 2018.

CONSTRUCTION OF 3 GREENHOUSE COMPLEXES IN TULA, ROSTOV AND CHELYABINSK REGIONS WITH TOTAL AREA OF 34.5 HECTARES FOR YEAR ROUND PRODUCTION OF VEGETABLES AND GREENGROCERS.

The project is delivered under the State Programme for Development of Protected Horticulture in the Russian Federation for 2012–2014 to be prolonged till 2020

Total project value — RUB 4.4 bn

Vnesheconombank's commitment — RUB 3.5 bn

Construction of 3 state-of-the-art greenhouse complexes to produce vegetables and greenery with a total area of 34.5 hectares, the production capacity averaging 20 thousand tons per year on the territory of 3 constituent entities of the Russian Federation within Central, Southern and Ural Federal Districts.

The complexes will be constructed using state-of-the-art Dutch technologies, employing the method of low-volume hydroponic with mineral-wool substratum, systems of drip irrigation, carbon dioxide fertilization, photo-culture, curtaining, systems for micro-climate management and hot-gas reciprocating units for combined production of electric and heat energy.

Social and economic effects: 536 new jobs; increase of tax receipts to the budgets of all levels by RUB 450 mn.

2.2. Development of Public-Private Partnership

The Bank views public-private partnership (PPP) as one of the key instruments that helps promptly remove infrastructure constraints to economic growth and ensure effective interaction between the state and business in delivering projects of social and economic significance.

Central to Vnesheconombank's activities is PPP promotion and dissemination.

Performing the functions of a financial consultant to the RF Government for projects eligible for state support out of the RF Investment Fund resources

RF GOVERNMENT DIRECTIVE No. 134 dd. 1 March 2008 "ON SETTING RULES FOR ARRANGING AND USING BUDGETARY ALLOCATIONS FROM THE RF INVESTMENT FUND"

Project Initiator	Project
Government of Tambov Region	Construction of a pig breeding complex producing 90 thousand tons of pork on the live-weight basis per year in Znamensk and Sampur Districts, a slaughtering facility with a capacity of 1 573 thousand heads per year in Tambov Region and a feed mill producing 290 thousand tons of compound feed per year in Zherdevka District of Tambov Region. Project value — RUB 16.17 bn
Government of Tambov Region	Construction of a pig breeding complex with a capacity of 30 thousand tons per year on the live-weight basis and a feed mill producing 120 thousand tons of compound feed per year in Morshansk District of Tambov Region (within Phase III of the Programme for Developing the Agro-Industrial Complex of Tambov Region). Project value — RUB 3.91 bn
Government of Chuvash Republic	Recycle and disposal of solid household waste. Project value — RUB 1.16 bn
Administration of Bryansk Region	Construction of a plant to produce frozen baked potato and potato flakes. Project value — RUB 4.62 bn

In 2012, Vnesheconombank conducted monitoring of investor allocations under 18 investment agreements and prepared reports on compliance of projects eligible for budgetary allocations from the RF Investment Fund with financial, budgetary and economic efficiency indicators.

Investment consulting in procurement of PPP investment projects to respond to the state needs of constituent entities of the Russian Federation

RF GOVERNMENT RESOLUTION No. 1372-r dd. 17 August 2010

In the reporting year, the Bank engaged in PPP activities within the framework of public contracts on provision of investment consulting services to respond to the needs of Nizhny Novgorod, Yaroslavl, Astrakhan and Chelyabinsk Regions.

In 2012, the Bank was also engaged in marketing activities which resulted in generating a database of 64 potential Russian and foreign PPP investors.

Moreover, the Bank analyzed technical and budgetary efficiency of measures initiated by OJSC Russian Railways and aimed at expanding the carrying capacity of Baikal-Amur Mainline within the framework of the agreement signed in Kemerovo in January 2012 by and between cargo shippers, Russian Railways and Vnesheconombank. Also, the following projects of Russian Railways were scrutinized as to their technical and budgetary efficiency, with the respective expert opinions prepared:

- Infrastructure development of Enem — Krivenkovskaya railway;
- Complex reconstruction of Karymskaya – Zabaikalsk railway section;
- Increase of carrying capacity of Volkhovstroi – Belomorsk – Murmansk direction;
- Integrated development of Mezhdurechensk — Taishet section of the Krasnoyarsk railway.

Project	Project value
Construction of a crossover bridge on the Volga River in Podnovie, Nizhny Novgorod Region. Documents required for the investor selection tender are prepared.	RUB 40.0 bn
Construction of kindergartens in Astrakhan Region on PPP terms. Tender and contractual documentation under the project for construction of 31 kindergartens in Astrakhan Region is prepared.	RUB 4.2 bn
Development of water supply and sanitation systems in Yaroslavl Region. Project procurement activities included technical inspection of operating facilities and elaboration of potential legal patterns of project implementation.	RUB 3.0 bn
New construction of water supply and sanitation systems in municipal entities of Chelyabinsk Region. Investment memorandum, tender and contractual documentation are prepared.	RUB 4.8 bn

Programme of Financial Assistance to Regional and Municipal Project Development

Vnesheconombank continued implementation of the Programme of Financial Assistance to Regional and Municipal Project Development for 2011–2015 (hereinafter — FARMPD) approved by Vnesheconombank's Supervisory Board in December 2010. The Programme provides for delivering financial support on a repayable basis to project initiators, including public and/or local authorities, engaged in procuring social infrastructure (including legal documentation, feasibility study, design and estimate documentation).

Project operator is Vnesheconombank's subsidiary — OJSC Federal Center for Project Finance (FCPF).

In 2012, FCPF received 105 applications from 45 constituent entities of the Russian Federation on rendering assistance in preparation of investment projects totaling RUB 418.6 bn. The amount of finance required for procuring and designing PPP projects — RUB 10.02 bn. Analyzing the results of the expert evaluation, the Bank approved financing by FCPF of 4 investment projects amounting to RUB 997.5 mn.

In the reporting period, FCPF won a tender for carrying out pre-procurement activities within the framework of a PPP project on constructing the 4th line of Kiev underground (Vigurivschina — Troeschina residential district), organized by Kievsistemomanagement (Ukraine) public utility company on request of Kiev state municipal administration In August 2012, FCPF and Kievsistemomanagement signed a contract of service.

Participation in Developing PPP Legal and Regulatory Framework in the Russian Federation

Vnesheconombank's extensive knowledge and expertise in PPP projects implementation enables the Bank to efficiently participate in PPP rule-making activities.

Following the instructions of the Russian President and the Chairman of the Russian Government, Vnesheconombank elaborated proposals on designing a model for construction and reconstruction of infrastructure facilities on some territory out of additional budgetary funds derived from the development of the territory, including:

- Draft Directive of the RF Government "On Amendments to Directive of the RF Government No. 123 dated 01 March 2008 "On Setting Rules of Arranging and Using Budgetary Appropiations from the RF Investment Fund"
- Draft Federal Law "On Amendments to the Budget Code of the Russian Federation and Federal Law "On Concession Agreements",
- Draft Federal Laws "On Public-Private Partnership" and "Amendments to the Respective Legal Acts Following the Enactment of Federal Law "On Public-Private Partnership".

At year-end 2012, a revised Draft Federal Law "On Basics of Public-Private Partnership for Constituent and Municipal Entities of the Russian Federation and on Amendments to the Respective Legal Acts of the Russian Federation" was presented to the RF Government.

In the reporting year, representatives of Vnesheconombank participated in the work of the Expert Council for Housing Policies and Housing and Utility Sector under the Committee on Housing Policies and Housing and Utility Sector of the State Duma of the RF Federal Assembly.

Vnesheconombank started to develop proposals for amendments to Federal Laws "On Industrial and Household Waste", "On Environmental Protection", "On Principles of Tariff Management of Public Utility Companies" and a draft of an integrated strategy for treatment of solid household waste in the Russain Federation that aims to identify mechanisms of attracting private investment.

In 2012, to encourage PPP-based investment in the RF constituent entities, the Bank scrutinized the legislation of Orenburg, Amursk and Kostroma Regions as to the legal norms regulating participant roles in procuring PPP projects. Consultations related to adding the PPP component to the legal framework were provided for public and municipal authorities of the RF constituent entities.

Fostering the Development and Dissemination of PPPs

In order to establish Vnesheconombank's reputation as the national PPP competence leader and the main driving force for the development of Russian macroregions, the Bank's representatives participated in 56 domestic and international events.

To bolster informational and methodological support for the PPP market, Vnesheconombank has launched and runs the "PPP in Russia" website (www.pppinrussia.ru) presenting high-profile events and containing weekly mass-media reports on the PPP sector, information about the development of PPPs abroad and PPP tenders, as well as Vnesheconombank's instruments enabling the development of the PPP market in Russia.

Promoting Sustainable Integrated Territorial Development

Vnesheconombank views encouraging economic territorial development through creating new centers of economic growth on the basis of competitive regional advantages as its overriding mission.

In the reporting year, Vnesheconombank continued to apply a targeted and focused approach to territorial development that envisages engagement of the VEB Group's organizations in regional development.

In 2012, the Bank signed joint action plans of the VEB Group on integrated territorial development with the government of Kaluga Region (for the period of 3 years) and with the Board of the Kemerovo Region Administration for the period of 2012–2015.

The Bank selected another 5 constituent entities of the RF eligible for inclusion in the VEB Group's joint action plans on integrated territorial development, including Chechen Republic and Primorsk Territory defined as Vnesheconombank's priorities.

ACTIVITIES IN KALUGA REGION

Kaluga Region which has been actively co-operating with Vnesheconombank for the last 5 years could well be viewed as a starting point for the Bank's plans on territorial development.

At the beginning of 2013, Vnesheconombank co-financed major regional investment projects, such as "Infrastructure Development of Industrial Parks of Kaluga Region: Forming Automobile and Automotive Component Cluster"; construction of a cement plant — new environment-friendly high-performance production of cement using dry method; and construction of a plant producing infusion solutions and parenteral nutrition meeting the GMP Standards on the territory of Vorsino industrial park in Borovsk District of Kaluga Region.

Total amount of the Bank's portfolio of loans extended under 3 investment projects on the territory of Kaluga Region as at 01.01.2013 amounted to RUB 17.71 bn.

In accordance with the Plan, the regional Administration in cooperation with OJSC VEB Capital — Vnesheconombank's subsidiary commenced the establishment of a fund to support enterprises of Kaluga Region facing financial predicaments.

ACTIVITIES IN NORTH-CAUCASIAN FEDERAL DISTRICT (NCFD).

The Bank's overall portfolio of loans extended within the framework of financing investment projects in NCFD amounted to RUB 14.74 bn.

In 2012, Vnesheconombank approved financing of the Kazbek innovation construction technopark in Chechen Republic. The goal of the project is to create the first local resource-based innovation technopark in Chechen Republic that could integrate interrelated plants producing modern constructing materials for residential and public buildings.

The total amount of investment in the project will reach RUB 4.9 bn, the Bank's commitment — RUB 4.3 bn. Projected social and economic benefits: over 250 new jobs; increase of employment in adjoining sectors (by more than 2 thousand people); introduction of innovative resource-saving technologies in the construction sector of the NCFD entities; reduction of costs associated with housing construction by at least 30%, total amount of tax receipts to the budget — more than RUB 4 bn.

The project is on the priority list of Chechen Republic. It is also included in the list of the most ambitious projects delivered in pursuance of the Development Strategy of North-Caucasian Federal District up to 2025.

The project will be co-financed by OJSC North Caucasus Development Corporation (NCDC), Vnesheconombank's subsidiary established to improve the investment environment of North-

Caucasian Federal District. In the reporting year, NCDC became a shareholder of the project operator (investment amount – RUB 56 mn).

Besides, NCDC is an equity participant (investment amount – RUB 94 mn) in a project for constructing Arkhyz year-round mountain resort in Karachaevo-Cherkessk Republic, financed by Vnesheconombank. The project is delivered under the sub-programme of developing a tourism cluster within the framework of the Programme for the Development of North-Caucasian Federal District up to 2025 launched by the RF Government.

Another project of regional importance co-implemented by NCDC is the construction of a multifunctional exhibition complex, which is to become the largest conference and exhibition facility of North-Caucasian Federal District helping enhance its investment attractiveness. Equity investment by NCDC in the authorised capital of the project operator totaled RUB 1.3 bn.

As at the end of 2012, the total value of investment projects in North-Caucasian Federal District financed by NCDC reached RUB 2.7 bn. In 2012, Vnesheconombank increased the authorized capital of its subsidiary by RUB 3.1 bn in order to encourage NCDC's investment activities.

As at 01.01.2013, NCDC approved financing of 10 investment projects with the total value of RUB 80.778 bn and the projected NCDC's commitment amounting to RUB 8.52 bn.

Vnesheconombank's representative office in Pyatigorsk actively assists the Bank and its subsidiaries in selection of projects to be launched in North-Caucasian Federal District.

Vnesheconombank signed cooperation agreements with all the constituent entities of the region.

In the reporting year, Vnesheconombank's Supervisory Board approved new terms of Vnesheconombank's participation in financial support for legal entities registered and carrying out their core business in Chechen Republic, which envisage Vnesheconombank's involvement in republican investment projects. Previous arrangements envisaged financial support for projects in the form of state guarantees of the Russian Federation and those issued by Vnesheconombank. This decision is aimed at increasing the Bank's participation in the regional economy.

ACTIVITIES IN FAR EASTERN FEDERAL DISTRICT AND BAIKAL REGION

As at 01.01.2013, the overall portfolio of loans extended by Vnesheconombank to deliver investment projects in Far Eastern Federal District and Baikal Region (7 projects) reached RUB 29.7 bn.

In the reporting year, Vnesheconombank's participation in financing the project on developing Udokansk copper deposit in Zabaikalsk Territory was approved. The project envisages the development of deposit, construction of an ore mining and processing plant and creation of a high-tech industrial production of cathode copper, copper rolled wire and precious metals (silver and gold) on the basis of Udokansk copper deposit in Kalarsk District of Zabaikalsk Territory (one of the world's five largest copper deposits). The project also involves the construction of infrastructure facilities, including coal heat and power plant with an output capacity of 400 MV, a residential complex, highways and railways. Project value — USD 6.2 bn, Vnesheconombank's commitment — up to but not exceeding USD 5.2 bn.

The project will contribute to social and economic development of Zabaikalsk Territory. Creation of 4000 new jobs is planned; direct budgetary effect will amount to RUB 249.2 bn.

Another project to be co-financed by Vnesheconombank is setting up a manufacturing complex for producing dry carving wood and slabby products in Amursk, Khabarovsk Territory — Stage II of the Concept for Creation of an Integrated Cluster for Wood Processing ("Far Eastern Centre of Deep Wood Processing").

The Concept envisages constructing a complex of complementary wood-processing lines that could secure wasteless use of the wood produced and combine high economic efficiency with the principles of rational forest exploitation and with global environmental standards.

The total amount of investment — USD 120.2 mn, the Bank's commitment — USD 84.2 mn. The projected social and economic effects: 330 new jobs; budgetary effect in the period of project implementation: — RUB 920.0 mn.

In 2012, OJSC "Fund for Development of Far East and Baikal Region" (hereinafter — the Fund) established by Vnesheconombank at the end of 2011 started operating. The Fund aims to procure financing of investment projects in 12 constituent entities of the RF: Republic of Buryatia, Zabaikalsk Territory, Irkutsk Region and all the constituent entities of Far Eastern Federal District (hereinafter — Macroregion).

The list of priority investment projects to be co-implemented by Vnesheconombank and the Fund was prepared at the end of 2012.

The decision adopted in 2012 on allocating to Vnesheconombank the federal budget funds in the form of a subsidy amounting to RUB 15 bn to provide capitalization support to the Fund underscores particular significance of Macroregion's economic growth for the economic development of Russia as a whole. The funds will be channeled in priority projects aimed at the development of industry, transport and energy infrastructure in the Far East and Baikal Region.

Vnesheconombank's Representative Office in Khabarovsk actively participates in identifying and selecting projects in Far-Eastern Federal District, specifically with a view to potential engagement of the Bank's subsidiaries in project implementation.

In 2012, Vnesheconombank signed a Cooperation Agreement with Primorsk Territory, as well as agreements with a number of entities within Far-Eastern Federal District.

2.3. Support for Single-industry Towns

Vnesheconombank actively engages in structural transformation and economic modernization of single-industry towns. As at 01.01.2013, the Bank's governing bodies approved participation in financing of 21 projects to be delivered in single-industry towns and totaling RUB 401.6 bn, with the Bank's commitment standing at RUB 217.1 bn. The Bank has provided RUB 82.0 bn worth of financing, in particular, to include:

- Financing of 12 projects for the total amount of RUB 203.3 bn, with the Bank's commitment standing at RUB 136.8 bn. The funds already extended amounted to RUB 66.2 bn. As at 01.01.2013, these projects account for RUB 62.4 bn of the loan portfolio. The budgetary efficiency of the projects is estimated at RUB 70.7 bn, with some 3.3 thousand new jobs to be created.

- Financing of 6 projects was completed and loans were repaid. The amount of financing: RUB 15.8 bn.

Furthermore, 16 projects are at various stages of assessment. The total value of the projects amounts to RUB 92.2 bn, with the Bank's estimated commitment standing at RUB 72.8 bn.

As for another 14 projects assessed, further amendments and improvements are required by the Bank to continue the appraisal.

In December 2012, Vnesheconombank's Memorandum on Financial Policies was amended to augment the Bank's key business lines with delivery of investment projects that aim to develop single-industry municipalities. Furthermore, the requirements in respect of the total cost of such projects were relaxed from RUB 2 bn to RUB 1 bn, with Vnesheconombank's minimum commitment now standing at RUB 0.5 bn instead of RUB 1 bn.

2.4. Interaction with the Agency for Strategic Initiatives

The year 2011 witnessed the launch of the autonomous NCO Agency for Strategic Initiatives to Promote New Projects (the Agency). The Agency was established on the decision of the Russian Government and with financial support of Vnesheconombank.

As a national development institution, Vnesheconombank sees its mission in assisting the Agency in accomplishing one of its major objectives, i.e. promotion of high-tech and innovative projects delivered by speedily growing medium businesses as part of the "New Business" line.

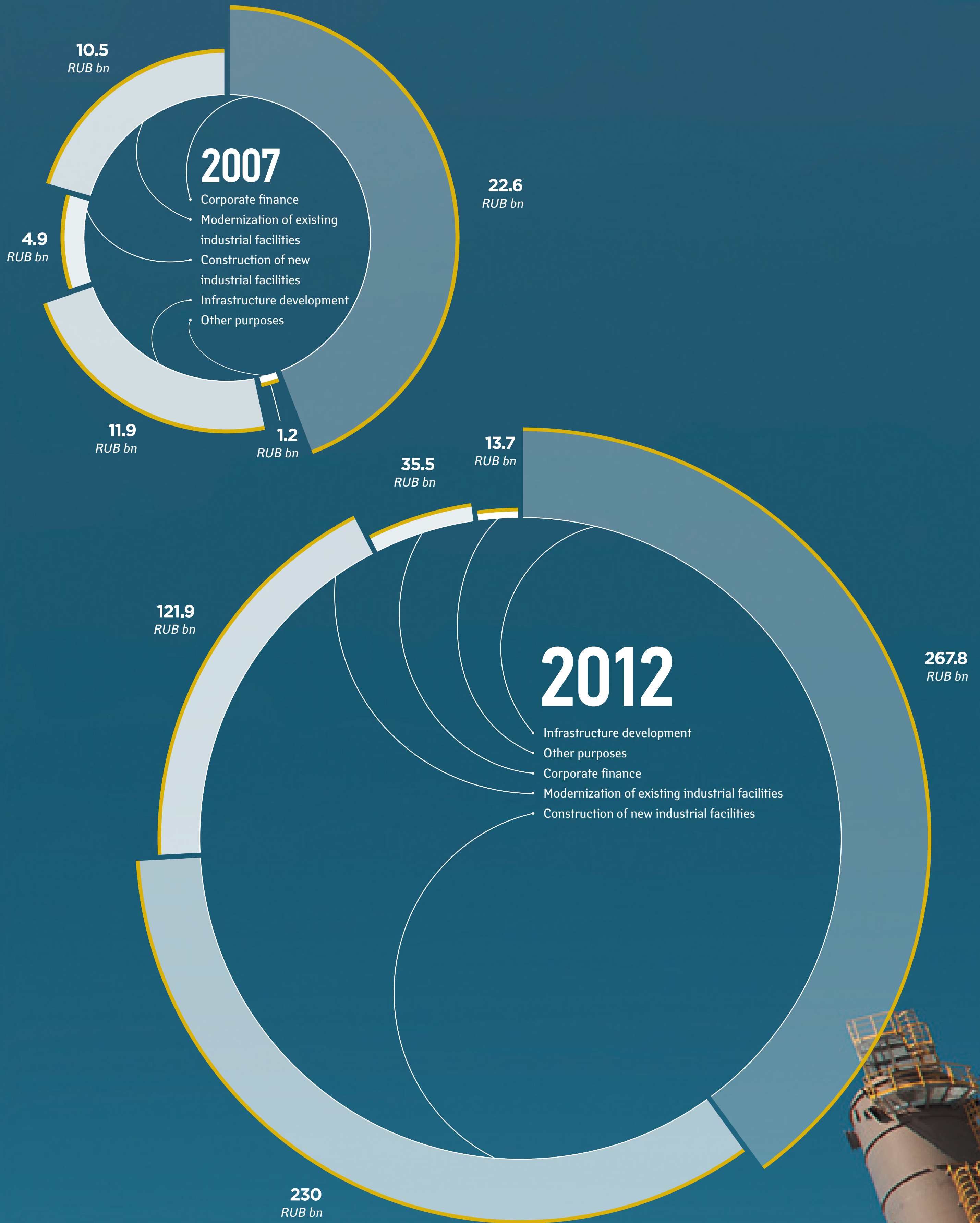
Drawing on its extensive expertise and competence, Vnesheconombank provides the Agency with investment advisory services, reviews projects and initiatives submitted for the Agency's Supervisory Board's consideration and assesses business projects approved by the Agency's Supervisory Board, in terms of fundraising.

Furthermore, Vnesheconombank provides the Agency with expert and financial support for the initiative on establishing the National System of Expertise and Competence.

Within the framework of interaction with the Agency for Strategic Initiatives in 2012

- expert opinions on 25 projects presented for the Agency's Supervisory Board's consideration were prepared;

Portfolio of Investment Loans (by major financing objectives)


2007
10.5 RUB bn
22.6 RUB bn
4.9 RUB bn
11.9 RUB bn
1.2 RUB bn
Corporate finance
Modernization of existing industrial facilities
Construction of new industrial facilities
Infrastructure development
Other purposes
2012
13.7 RUB bn
35.5 RUB bn
121.9 RUB bn
267.8 RUB bn
230 RUB bn
Infrastructure development
Other purposes
Corporate finance
Modernization of existing industrial facilities
Construction of new industrial facilities

investment advisory services in relation to the project on Innovation Technologies for Stopping Leaks under Pressure were rendered. The project is designed to introduce a state-of-the-art repair technology ensuring uninterrupted production cycle in electric power, petrochemical and oil refining industries.

The Agency's Supervisory Board approved 7 projects for the total amount of RUB 15.5 bn, which will be considered with respect to their eligibility for financing with Vnesheconombank's commitment. These include such unique projects as Production of High Quality Rubber Granulate Based on Worn Tyre Recycling, and Production of Next Generation Food Supplement for Poultry and Pig Farms.

Furthermore, Vnesheconombank sponsored the Global Management Challenge — a national business strategy and management competition organized by the Russian Presidential Academy of National Economy and Public Administration together with the Agency.

Cooperation with the Skolkovo Foundation

Given special importance of Russia's innovative economic development, Vnesheconombank could not stay on the sidelines of establishing in Russia an innovation centre designed to promote and commercialize research and innovations.

The Bank is one of the founders of NCO The Foundation to Develop and Commercialize New Technologies (The Skolkovo Foundation) and an autonomous non-commercial professional training organization Skolkovo Institute of Science and Technology.

Vnesheconombank is considering an option for providing finance to construct the Skolkovo Foundation's infrastructure based on the project finance principles. The overall cost of the project is estimated at RUB 135 2 bn and Vnesheconombank's proposed commitment approximates to RUB 55 bn.

At the end of 2011, Vnesheconombank established NCO The Fund to Operate the Programme of Financial Support to the Skolkovo Foundation's Innovation Projects (VEB-Innovations Fund). VEB-Innovations Fund is designed to finance investment projects delivered by Skolkovo Foundation at the stages of R&D and commercialization of R&D results (Vnesheconombank's commitment — RUB 1 bn, the term — 5 years).

Still another major objective of VEB-Innovations Fund is to facilitate the development of innovation programmes of the Russian Government, building innovation infrastructure in the Russian Federation, attracting foreign state-of-the-art technologies to Russia and promoting innovations in the global market.

In the reporting period, basic internal documents required to launch the VEB-Innovations Fund's activities were drawn up, working meetings with the Investment Service and Cluster Management of the Skolkovo Foundation, as well as with project initiators were held, and co-operation with leading international innovation-oriented investors from the USA and Israel was established.

VEB-Innovations Fund reviewed and evaluated 74 innovation projects of the Skolkovo Foundation. Innovation projects approved for financing totaled RUB 229.4 mn. These include projects pertaining to different clusters of the Skolkovo Foundation: Biomedical Technologies, Energy-Efficient Technologies, Information Technologies, and Space Technologies.

2.5. Support for Small- and Medium-sized Enterprises

Vnesheconombank's Memorandum on Financial Policies defines the SME support agenda as one of the Bank's key investment priorities.

SME Support Programme

A special role is given to SME Support Programme (hereinafter referred to as the "Programme") implemented since 2007 through Vnesheconombank's subsidiary — OJSC Russian Bank for Small and Medium Enterprises Support (OJSC SME Bank). Under the Programme, Vnesheconombank provided capitalization support to SME Bank in the total amount of RUB 12 bn, including RUB 2 bn contributed to its authorized capital in 2012. Alongside that, Vnesheconombank granted long-term credits to SME Bank totaling RUB 39 bn (including RUB 30 bn extended for an eight-year term and RUB 9 bn — for 10 years).

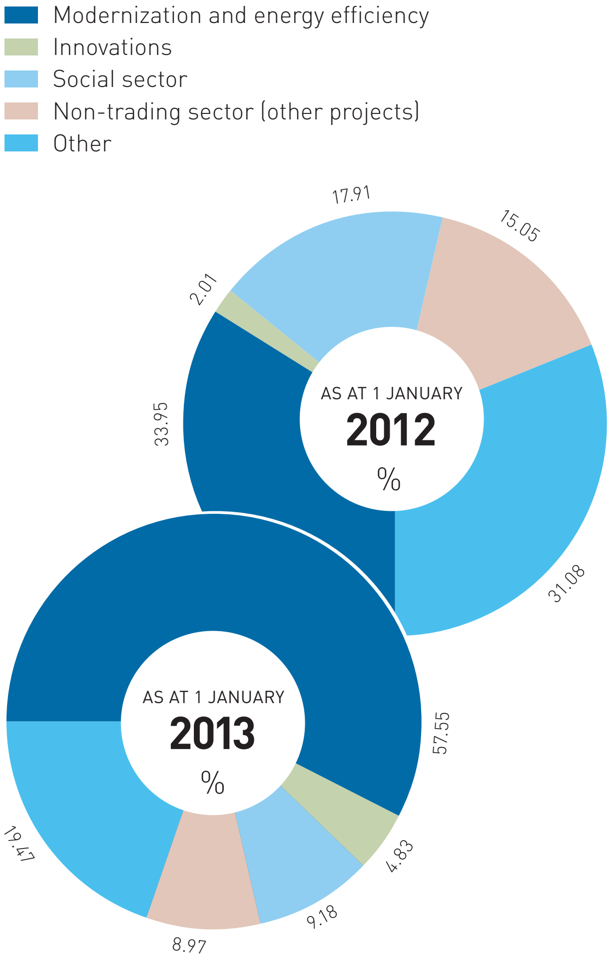
The Programme envisages lending to SMEs through the SME Bank's network of partners — regional banks engaged in SME financing and organizations that form the SME support infrastructure (leasing, factoring and microfinance companies).

The Programme priorities cover support for industrial SMEs, including regions with an unfavourable social and economic climate, as well as SME projects aimed at modernization, innovation, energy efficiency and socially-oriented

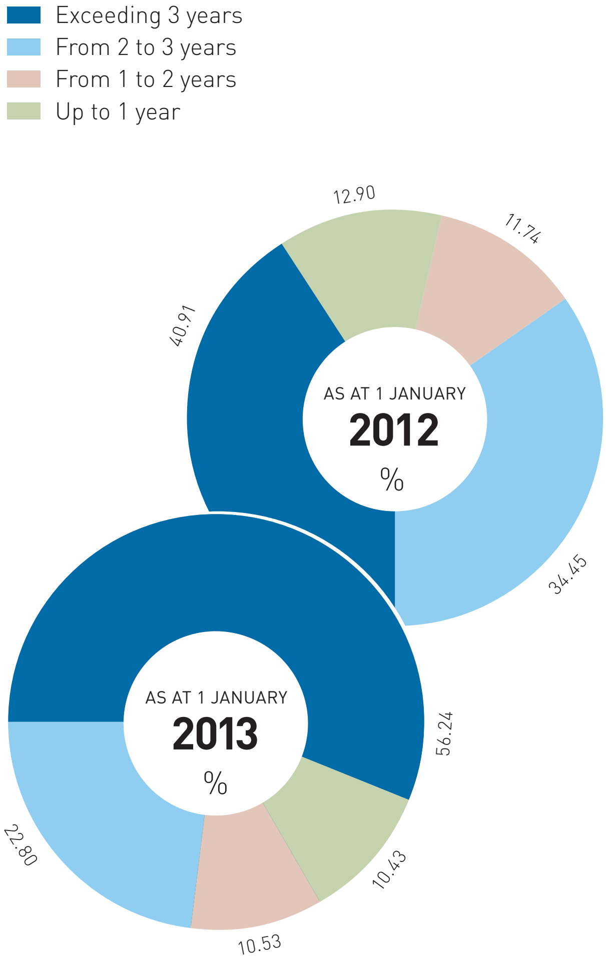
Key Programme Outcomes 2012[6]	as at 01.01.2013, 256 partners of SME Bank participated in the Programme, with 43 participants having signed agreements with SME Bank in 2012;
	as at 01.01.2013, the total SME financing amount stipulated by partner loan agreements was running at RUB 155.3 bn;
	as at 01.01.2013, the SME debt to partners reached RUB 82.3 bn (01.01.2012 — RUB 73.7. bn);
	as at 01.01.2013, the weighted average interest rate on the portfolio of loans extended by partner banks to SMEs reached 12.6% per annum (01.01.2012 — 12.3% per annum);
	over half of SME loans (56.2%) were granted for a term exceeding 3 years (01.01. 2012 — 40.9%);
	the share of the Programme loans in the overall SME loan portfolio accounted for 81% (01.01 2012 — 69%).

6. Based on the SME Bank data.

Loans extended to SMEs by partner-banks (by areas of support)



Loans extended to SMEs by partner-banks (by maturity)



initiatives. The geographical reach of the Programme embraces all the 83 constituent entities of the Russian Federation.

Apart from SME Bank, the SME financial support is rendered through other Vnesheconombank's subsidiaries: OJSC Sviaz-Bank, CJSC GLOBEXBANK and OJSC VEB-Leasing.

As at 01.01.2013, the overall portfolio of loans extended by Sviaz-Bank and GLOBEXBANK to SMEs reached RUB 32.6 bn (1 January 2012 — RUB 26.8 bn), the total amount of leasing agreements by VEB-Leasing totaled RUB 29.4 bn.

Federal Guarantee Mechanism

Decree of the Russian President No. 596 dated 7 May 2012 "On Long-Term State Economic Policies" provides for creating a mechanism of state guarantee support for medium businesses engaged in investment projects in the Russian Federation.

Federal Law No. 247-FZ dated 3 December 2012 "On the Federal Budget for 2013 and the 2014–2015 Budget Plan" stipulates providing a RUB 20 bn state guarantee to Vnesheconombank under Vnesheconombank's guarantee extended to secure obligations of a Russian legal entity, established by Vnesheconombank, under bank guarantees issued to secure obligations of Russian SMEs under investment loans. The procedures for providing the state guarantee are approved by Resolution of the Russian Government No. 1451 dd. 28 December 2012.

These efforts are called to improve access to a supply of credit for dynamic medium businesses.

Baltic Memorandum

May 2012 witnessed signing by Vnesheconombank in Stralsund, Germany, a Trilateral Memorandum of Understanding between Permanent Secretariat of Council of the Baltic Sea States (CBSS), KfW and Vnesheconombank.

The Memorandum is intended for launching a Pilot Financial Initiative in Russia's geographic areas adjacent to the Baltic Sea: Saint Petersburg, Leningrad, Kaliningrad, Pskov and Novgorod Regions.

The Memorandum specifies areas of cooperation that include financing of innovation- and modernization-oriented SMEs, as well as PPP projects.

In November 2012, within the framework of the Memorandum, KfW and Vnesheconombank signed a long-term USD 110 mn loan agreement on SME financing. The financing shall be provided through SME Bank and its partner-banks for a term of up to 5 years and at the minimum SME lending rates.

International Fund for Entrepreneurship Support

Within the framework of Russian-German intergovernmental consultations, Vnesheconombank and KfW signed in November 2012 in Moscow a Memorandum of Understanding (MoU) on the establishment of an International Fund for Entrepreneurship Support.

The Fund will allow for extending the range of SME financing instruments in Russia through long-term foreign investment.

The Fund will be oriented towards providing long-term financial resources to Russian SMEs both through targeted financing of Russian banks and direct financing of dynamic medium businesses involved in investment projects in the non-trading sector.

Vnesheconombank's commitment will amount to USD 150 mn.

Agreement on Interaction between Development Institutions and Stakeholders on Continuous Financing of Innovative Projects at All Phases of Innovation Cycle

Participants in the Agreement signed on 6 April 2010 that is aimed at ensuring effective interaction among development institutions in procuring and delivering innovative projects include: state financial development institutions, infrastructure organizations and non-governmental associations representing the interests of innovation market players, as well as SMEs. To efficiently coordinate the activities of the Agreement participants Vnesheconombank formed a permanent working group comprising representatives of all development institutions.

In 2012, the working group scrutinized a number of infrastructure-related issues, including coordination of development institutions activities in creating and developing information/communication services for innovation market participants and in facilitating access of medium busineses primarily to the resources of development institutions. The group prepared a consolidated action plan for development institutions providing for nonfinancial support for the innovation sector. The plan envisages implementing educational programmes, coordinating efforts to support territorial clusters, promoting innovative and invention activities, and boosting demand for innovative products.

Montreal Group

Vnesheconombank in cooperation with BDC (Canada), BNDES (Brazil), CDB (China), NAFINSA (Mexico), OSEO (France), SIDBI (India) initiated the establishment of the Montreal Group — a non-profit organization bringing together development institutions to encourage an exchange of ideas and best practices with the aim of assisting SMEs in addressing their business challenges.

The Montreal Group was officially registered on 19 September 2012. Vnesheconombank participated in the first session of the General Assembly and the Board of Directors of the Montreal Group in Montreal (Canada) convened at the end of September 2012. The founding members of the Montreal Group agreed on creating online storage to ensure an exchange of best practices in assisting SMEs.

Cooperation with Foreign Financial Institutions in Supporting SME Foreign Economic Activities in 2012

Representatives of Vnesheconombank and its subsidiaries participated in seminars on financial support for Austrian SME exporters organized by Oesterreichische Kontrollbank AG (OeKB), Oesterreichische Entwicklungsbank AG (OeEB), OeKB Versicherung AG, PRISMA Kreditversicherungs AG, Austria Wirtschaftsservice GmbH (AWS), Oesterreichische Exportfonds GmbH and Raiffeisen Bank International AG (RBI).

In the reporting period, in line with the resolutions of the Working Group on SME Entrepreneurship of the Finnish-Russian Intergovernmental Commission on Economic Cooperation, Vnesheconombank continued consultations with Finnvera State Corporation on SME financing. In 2012, Vnesheconombank's employees underwent professional training in Finland on: SME support financial instruments; financial products; risk management; SME support funds.

Within the framework of XXI session of the Russian-Italian Task Force on Industrial Districts and on SME Cooperation, a round table on Financial Instruments of SME Support was held.

The Asia-Pacific Economic Cooperation Forum in Vladivostok (APEC-2012) witnessed the signing of a MoU between Vnesheconombank, OJSC SME Bank and SME Bank Malaysia. The MoU sets forth the following areas of cooperation:

- informational and consultative support for SMEs in Malaysia and Russia drawing on experience of SME Bank Malaysia, Vnesheconombank and OJSC SME Bank;

- encouraging SME export-import cooperation between Malaysia and Russia;

- exchange of information on SME development in Malaysia and Russia.

In 2012, Vnesheconombank signed a MoU with Industrial Bank of Korea stipulating informational and consultative support for Russian and Korean SMEs, as well as promotion of SME foreign trade interaction between the two countries.

2.6. Vnesheconombank's Programme of Investment in Projects on Affordable Housing Construction and Mortgage Services

In the reporting period, Vnesheconombank pressed on with its Programme of investment in projects on affordable housing construction and mortgage services (hereinafter, the Programme). The Programme's objectives include promotion of mortgage lending, increase in the volume of housing construction, making it more affordable for diverse strata of the society. The decisive factor in accomplishing this objective is the reduction in ultimate interest rates on mortgage loans to individuals.

The total amount of funds to be invested in accordance with the Programme in debt instruments and extended in the form of loans is set at RUB 250 bn

- up to RUB 150 bn to be invested in mortgage bonds, including up to RUB 50 bn worth of Vnesheconombank's own funds and up to RUB 100 bn worth of pension savings managed by Vnesheconombank as the STMC;

- up to RUB 60 bn to be invested in bonds issued by the Agency for Housing Mortgage Lending (AHML) and backed by the sovereign guarantee (STMC's funds);

- up to RUB 40 bn earmarked for loans to AHML are the resources allocated by the NWF to Vnesheconombank in accordance with Federal Law No. 173-FZ.

Furthermore, in line with the concept designed to stimulate affordable housing construction (the Concept) as approved by Vnesheconombank's Supervisory Board, the Bank refinances loans extended to those developers of economy class housing who participate in the Programme. To such organizations, Vnesheconombank extends loans at the rate of 3% p.a. for the period of up to 31 December 2013 in the amount not exceeding 1/3 of the resources made available by the credit institution under the Programme at the maximum rate of 10% p.a.

At the end of 2012, investment in debt instruments in accordance with the Programme totaled RUB 47.84 bn

- total investment in mortgage bonds increased from RUB 8.39 bn to RUB 19.16 bn (RUB 12.77bn are pension savings and RUB 6.39 bn — Vnesheconombank's own funds);

- investment in bonds issued by AHML and backed by the sovereign guarantees of the Russian Federation increased from RUB 19.65 bn to RUB 28.68 bn.

In order to refinance the loans extended to housing developers, in the reporting year Vnesheconombank provided 6 credit institutions participating in the Programme with RUB 8.871 bn worth of total resources at the rate of 3% p.a. maturing in 2013 (as at the end of 2011, the amount of loans extended by the Bank in compliance with the Concept amounted to RUB 2.999 bn).

Furthermore, in line with the Programme, Vnesheconombank extended to AHML RUB 40 bn worth of loans using the resources of the NWF.

Vnesheconombank issued RUB 75 bn worth of sureties valid till the end of 2013 in favour of the mortgage-backed bond issuers to secure obligations of VEB-Capital under the service agreements concluded in compliance with the Programme on the placement of bonds.

2.7. Vnesheconombank's Investment-related Educational Projects

Vnesheconombank gave a special focus to the quality professional environment required to promote investment.

With this end in view, Vnesheconombank proceeded with its own Educational Project for Specialists-Participants in Investment Projects Supported by Development Institutions. Furthermore, the Bank facilitated the implementation of various programmes and training events on PPP and SME promotion.

Project on Training Specialists-Participants in Investment Projects Supported by Development Institutions

The project provides for various training formats tailored to accommodate the specific requirements of target groups depending on the skill level of specialists and their involvement in the investment process.

In 2012, within the project framework, Vnesheconombank organized the following events:

- career enhancement training on Investment in Development Projects on the basis of Moscow City Government University of Management;

- practical conferences on the theme "The VEB Group: Development Projects of the Krasnodar Territory and the Republic of Adygeya"; "The VEB Group: Options for Interaction in Development Projects Delivery of Volga Federal District";

- practical workshops on the theme "The VEB Group: Development Projects of Southern Federal District"; "The VEB Group: Development Projects of Far Eastern Federal District"; "Vnesheconombank: Promotion of PPP Projects in Northwestern Federal District";

- business simulation games entitled "How to Efficiently Procure and Manage an Investment Project: Vnesheconombank and its Partners' Successful Experience";

- advisory services, trainings, lectures and master classes during the Innovation and Technical Creativity session of the Seliger-2012 All-Russia Youth Educational Forum, and "The Best Investment Project Contest for Participants";

- educational service entitled "How to Efficiently Procure and Manage an Investment Project: Vnesheconombank and its Partners' Successful Experience" (for technical specialists from leading Russian industrial enterprises) and a contest for accountants from major industrial enterprises participating in the Engineers of the Future 2012 International Forum.

To stimulate scientific and practical, as well as research activities of the youth in Russia's regions and identify new approaches to unlocking the investment potential of the regions, Vnesheconombank:

- held the contest of student and post-graduate papers on The Economic and Investment Potential of Southern Federal District on the basis of the facilities offered by Rostov State Economic University;

- announced a contest of student essays on The Integrated Development of Territories in order to set up working groups for the respective pilot panel of the Youth Club formed under the auspices of Vnesheconombank.

PPP-related educational activities

In 2011, Vnesheconombank took part in establishing the Public-Private Partnership Chair (the PPP Chair) at the Financial University under the Government of the Russian Federation.

The PPP Chair aims to implement educational programmes tailored for public and municipal officials and employees of business entities, as well as for educational, methodological and research work in the field of PPP.

In the year under report, the faculty of the Chair was formed, 2 refresher courses on PPP Development in Russian Regions for the Russian PPP project market participants (125 participants from 40 constituent entities of the Russian Federation), and PPP refresher courses for the faculty of the Financial University and other Russian higher education establishments were run. Furthermore, the Master's Degree Programme on PPP Project Management was drawn up and approved.

Enjoying the expert support from the United Nations Economic Commission for Europe (UNECE), the Bank conducted the workshop "PPP in CIS: Best Practices" for 130 representatives from Russia and the CIS countries.

Personnel training for SMEs

In 2012, in cooperation with the United Nations Conference on Trade and Development

(UNCTAD) under the EMPRETEC Programme, the Bank organized 5 workshops for SME entrepreneurs and 2 trainings for future coaches on the Programme.

The workshops provided for by the Programme are held by certified EMPRETEC mentors using the Harvard University methodology. Participants are selected through special technique, which helps assess the viability of a candidate in a high-intensity environment of the business simulation game. Supervised by experienced mentors, the participants are able to start a Greenfield project quite on their own. Participants with best results are invited to attend a training workshop for coaches in order to develop the programme methodology and promote it to the national level.

2.8. Export Support

The traditional driving forces for economic development are exports of manufactured products to foreign markets, enhanced range of commodities and sales geography.

Underexploited export potential of Russia's economy that primarily concerns non-resource industries seriously impedes its progressive development. In 2012, the structure of exports showed that non-resource goods and machine-engineering products accounted for only 8% and 5% of Russia's exports respectively.

Russian Government's efforts are focused on developing effective mechanisms of support for the Russian industrial exports, specifically by enterprises of aircraft-building, electronic, nuclear and machine-building industries.

One of the major achievements of the reporting period was a decision on creating a mechanism that could secure competitive financial environment for Russian hi-tech exporters. The first practical initiative involved obtaining the approval by the Government of the Russian Federation of the Procedure for Granting a Federal Subsidy in the Form of an Asset Contribution by the Russian Federation to State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" to partially reimburse expenditures relating to the support for hi-tech industries (Resolution of the Russian Government No. 1302 dated 13 December 2012).

At year-end 2012, the Bank received the subsidy amounting to RUB 3 bn. Thus, it was for the first time in the current Russian export support practices that the Bank was provided with a targeted subsidy fully meeting the WTO and OECD standards. The subsidy was allocated to compensate the interest rate on export credits, thus enabling Vnesheconombank to finance export projects in the competitive market environment.

Another practical initiative designed to harmonize Russian laws governing state financial support for exports in line with the OECD standards involved the amendment in December 2012 of Vnesheconombank's Memorandum on Financial Policies to include in the export financial support agenda an option of financing local costs in the importer's country in the amount not exceeding 30% of the total value of the Russian exporter's contract (Resolution of the Russian Government No. 2311-r dated 10 December 2012). This amendment enables Vnesheconombank to finance export projects on delivery of Russian goods, works and services in cases when the terms of a tender arranged by a foreign consumer require that the amount of financing cover not only the cost of Russian production but also local costs associated with export project implementation.

Vnesheconombank's export support activities include: export credits to foreign banks and non-banking institutions, pre-export financing of manufactured products to be delivered to foreign markets, guarantee support for Russian hi-tech exporters. It primarily concerns aircraft engineering and space and rocket complex; electronics; transport, special-purpose and power engineering, defense industry.

In 2012, to optimize its guarantee operations, Vnesheconombank approved and launched a simplified procedure for approving by the Bank's governing bodies of guarantee transactions, including those related to support for Russian industrial exports, thus enabling Vnesheconombank to considerably reduce the term of assessing guarantee applications.

As at 01.01.2013, Vnesheconombank's portfolio of loans extended to support Russian exports reached RUB 14.47 bn demonstrating a two-fold increase on the beginning of the reporting period.

At the end of 2012, the portfolio of guarantees issued to support exports amounted to RUB 47.93 bn (01.01.2012 — RUB 44.57 bn).

Within the reporting period, Vnesheconombank issued 84 guarantees totaling RUB 34.4 bn, including guarantees for the total amount of RUB 726.9 bn issued by the Bank within the framework of the agreement with OJSC EXIAR on extending a bank guarantee with the limit of liability of USD 10 bn to secure obligations of EXIAR towards Russian and foreign insurants, cedants and beneficiaries in case of loss occurrence under the contracts of insurance, reinsurance or coinsurance concluded by EXIAR. Notably, Vnesheconombank's obligations towards beneficiaries are fully secured by a state guarantee of the Russian Federation.

By the end of the reporting period, OJSC EXIAR — Vnesheconombank's subsidiary — provided insurance support under 15 export projects in the amount of RUB 14 bn. Deliveries were made to Spain, Cuba, Vietnam, Columbia, India, China, as well as the post-Soviet countries (Belarus, Ukraine and Turkmenistan).

Active involvement of EXIAR in providing insurance support for Russian exports served as a starting point for developing a comprehensive approach to export support activities within the VEB Group.

In 2012, the Bank prepared and coordinated with the Russian Ministry of Economic Development a draft procedure for providing by Vnesheconombank and its subsidiaries of financial support for Russian hi-tech exports to foreignmarkets. An optimized mechanism of interaction between the VEB Group participants will allow for reduced terms of assessing applications by foreign customers and Russian exporters and a competitive credit interest rate to finance Russian exports, also due to EXIAR's insurance coverage.

Major projects of Russian exporters to be co-delivered by Vnesheconombank's subsidiaries applying, inter alia, credit-leasing schemes, include:

- participation in opening a syndicated credit facility to deliver 20 Sukhoi Superjet 100 aircraft produced by CJSC Sukhoi Civil Aircraft to ABC Aerolineas SA (InterJet), Mexico with participation of a French bank and an Italian bank covered by insurance coverage of COFACE (French Republic), SACE (Italian Republic) и OJSC EXIAR. The preliminary project value approximates to USD 435 mn, Vnesheconombank's commitment — USD 123 mn. Natixis is the Credit Facility Arranger and Agent Bank, Vnesheconombank — the Co-arranger;

- financing deliveries of Russian-manufactured electric locos to Ukraine in the total amount of up to USD 2.2 bn within the framework of a credit-leasing scheme with participation of OJSC VEB-Leasing. The exporters are major Russian manufacturers: LLC Novocherkassk Electric Locomotive Plant and LLC Ural Locomotives. Vnesheconombank acts as a creditor;

- deliveries of 3 Sukhoi Superjet 100 aircraft totaling USD 81 mn to PT Sky Aviation (Indonesia). The project provides for an insurance coverage by EXIAR and involvement of VEB-Leasing as a finance arranger.

The total value of the Bank's export projects, primarily in space exploration, aircraft building and transport engineering, approximates to USD 2.64 bn.

Russia's external economic priorities specified by Major Areas of Foreign Economic Policies of the Russian Federation up to 2020 comprise foreign investment projects aimed at improving the industrial potential of the Russian Federation and expanding its economic presence abroad.

In the reporting year, Vnesheconombank scrutinized the possibilities of engaging in such potentially worthwhile projects as creating transport infrastructure for coal transportation in the Republic of Indonesia (Kalimantan Rail Pte. Ltd, OJSC Russian Railways), water services and land improvement in Africa (OJSC Zarubezhvodstroi), autonomous gasification of Banja Luka, Republika Srpska (LLC Teplogazserviceproject Overseas), power sector project "Smart Grids" (LLC EFESk Group of Companies), development of ERA GLONASS automobile terminals, construction of small-scale hydropower plants in Pakistan (OJSC Southern Centre of Power Engineering).

In 2012, the Bank signed a Memorandum of Cooperation and Interaction with Kalimantan Rail Pte. Ltd and an agreement with the Russian Technologies State Corporation on cooperation in implementing investment and export projects in Sub-Saharan Africa.

2.9. Borrowing in Capital Markets

In the context of increased active operations, primarily the growing amounts of lending required to finance investment projects, Vnesheconombank faced the task to secure an appropriate resource base.

In the reported period, just as before, loans raised from foreign banks and borrowings through placement of debt securities in the domestic and foreign capital markets served as the major sources of building up and replenishing the Bank's resource base.

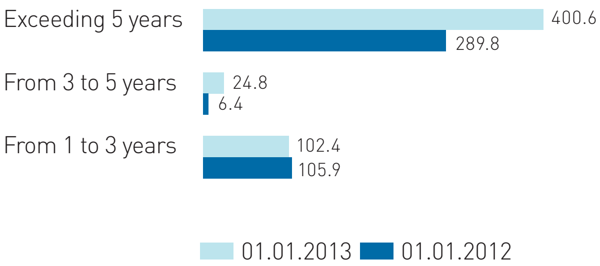
During H1 2012, in view of the debt crisis unfolding in a number of the EU nations and the negative impacts on the economies of other countries, the situation in the capital markets was quite tense. Admittedly, H2 of the year was characterized by a gradual rebound of the major macroeconomic indicators and an improved situation in the real sector of industrialized nations (primarily the USA). In the circumstances of excessive liquidity in the global capital markets in H2 2012, decreased cost of borrowing both in US dollars and euros was witnessed.

Management recognizes that conservative borrowing policies pursued by the Bank with due consideration for the capital markets environment enabled it to raise in 2012 mid- and long-term resources for the total amount equivalent to RUB 169 bn.

As at 01.01.2013, the overall amount of funds raised by Vnesheconombank for a term of not less than 1 year totaled RUB 527.8 bn demonstrating a 31% increase on the similar indicator posted at the start of the year.

Indicators, RUB bn	01.01.2012	01.01.2013
Credits obtained from banks (maturity — over 1 year)	227.5	256.6
Resources raised through placement of Vnesheconombank's debt securities, total,	174.6	271.2
including:		
eurobonds issued	119.6	166.0
domestic ruble-denominated bonds	55.0	90.0
domestic foreign currency-denominated bonds	–	15.2
Total resources raised in capital markets	402.1	527.8

Structure of funds borrowed in capital markets (by maturity), RUB bn



Admittedly, it is the debt securities placement that accounts for a considerable (1.6 time) increase in the overall amount of the Bank's resource base formed through raising funds in the capital markets.

The amount of resources raised for a term exceeding 5 years rose by 1.4 time to run at RUB 400.6 bn as compared to the beginning of 2012.

Raising Resources from Foreign Banks

Obviously, mid- and long-term resources raised from foreign banks serve as one of the major sources to fund Vnesheconombank's operations related to financing investment projects and replenish the resource base required for the particular purposes.

Within the period under review, the amount of funding raised from foreign banks for a term exceeding 1 year grew by 13% to stand at RUB 256.6 bn (RUB 227.5 bn as at 01.01.2012).

The year 2012 saw the signing by Vnesheconombank of 19 individual loan agreements with major banks of China, the USA and a number of European banks on raising funds in the total amount equivalent to USD 2.67 bn to finance investment projects ("tied" resources) implemented in various sectors of the economy.

The hallmark deals of 2012 include agreements with:

- China Development Bank, China (USD 1,43 bn, tenor — 14 years) to finance a project for the construction of Taishet aluminum plant, Irkutsk Region (the biggest in 2012 bilateral deal);
- Sumitomo Mitsui Banking Corporation Europe Ltd., Great Britain (USD 240 mn, tenor — 5 years) to finance a project on modernization of enterprises in the Republika Srpska;
- HSBC Bank Plc., Great Britain (USD 150 mn, tenor — 8 years) to finance a project for construction of a complex to raise a highly productive beef cattle breeds and effect slaughtering operations in Bryansk Region;
- Bank of America N.A.,USA (USD 110.2 mn, tenor — 4 years) to finance the construction of float glass factory in Republic of Dagestan;
- KfW, Germany (the sum in Russian rubles equivalent to USD 65 mn, tenor — 7 years) to finance a project on ensuring commercially viable and ecologically effective processing of mixed solid waste in St. Petersburg (a ruble-denominated "tied credit" with the longest maturity that was extended by a foreign bank on a commercial basis).

In 2012, the aggregate amount of funds obtained by the Bank through bilateral agreements reached the sum equivalent to RUB 65.7 bn.

Management believes that an agreement concluded in December 2012 on raising, at a rate most competitive for the respective Russian market, a syndicated loan (USD 800 mn; Libor (6m) + 1.4% per annum) in the format of a Club Deal became a hallmark event of the year. Remarkably, 13 foreign banks, including major financial institutions of Europe, America and Asia, acted as creditors.

Raising Resources with the Use of Securities Market Instruments

In 2012, Vnesheconombank's active engagement with Russian and foreign banks enabled it to place US dollar-denominated Eurobonds for the total amount of USD 1 750 mn, as well as place in the domestic market 3-year currency bonds totaling USD 500 mn and ruble-denominated bonds in the sum of RUB 35 bn with a record long maturity of 20 years.

In 2012, Fitch Ratings assigned Vnesheconombank's bond placements the following ratings:

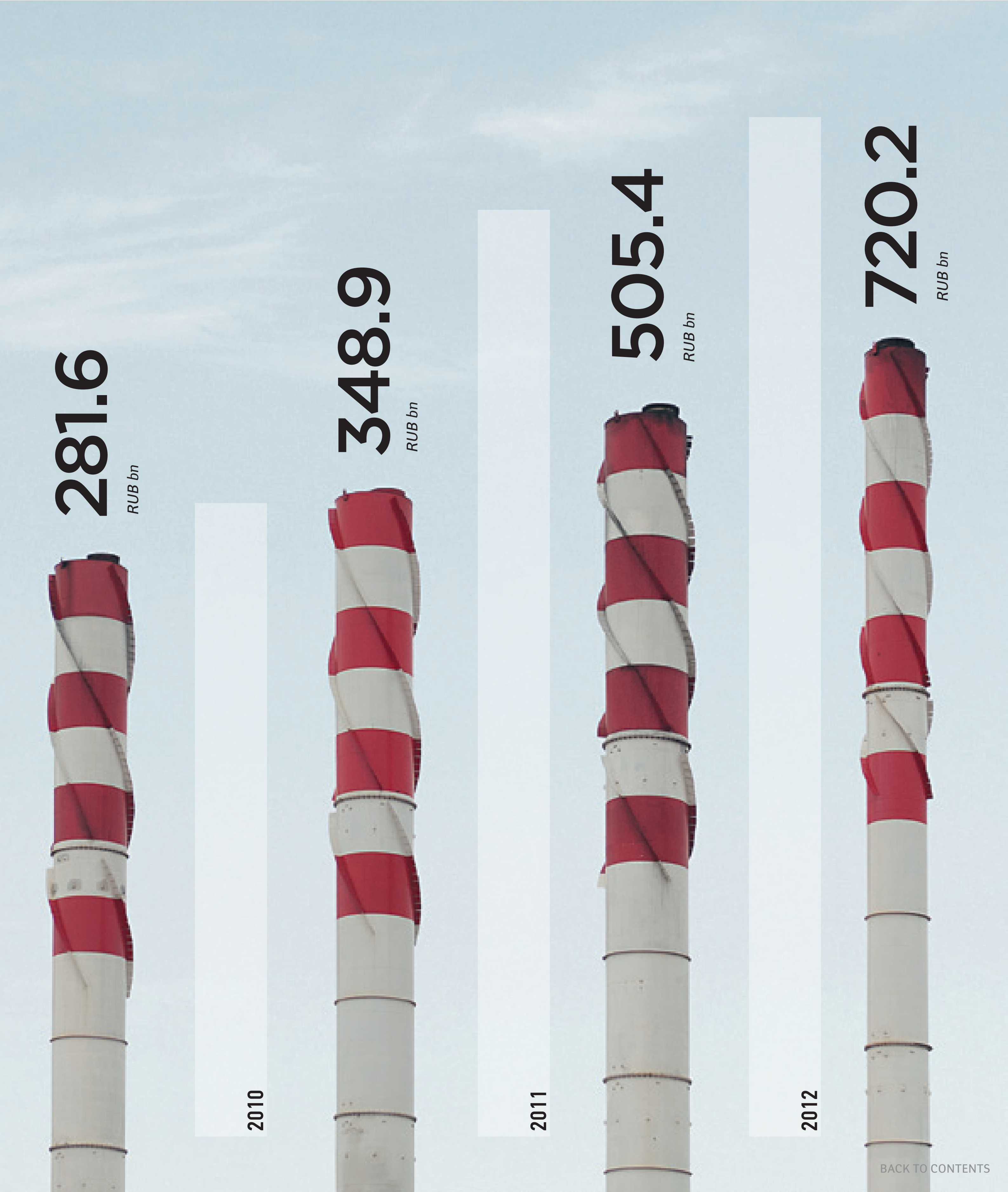
- ruble-denominated bond issues – "BBB" long-term domestic currency rating;
- domestic US dollar-denominated bond issues – "BBB" long-term foreign currency rating;
- Eurobond placement – long-term "BBB" rating.

The Standard&Poor's assigned to Vnesheconombank's domestic foreign currency bonds and Eurobonds "BBB" ratings.

<table>
<tr><th>Bond issue: amount, currency 2012</th><th>Month of bond placement</th><th>Coupon rate</th><th>Maturity</th></tr>
<tr><td colspan="4">Domestic market</td></tr>
<tr><td>USD 500 mn</td><td>February</td><td>3.30%</td><td>3 years (with a 1-year blackout period)</td></tr>
<tr><td>RUB 15 bn</td><td>March</td><td>8.40%</td><td rowspan="3">20 years (with a 3-year blackout period)</td></tr>
<tr><td>RUB 10 bn</td><td>October</td><td>8.55%</td></tr>
<tr><td>RUB 10 bn</td><td>October</td><td>8.55%</td></tr>
<tr><td colspan="4">Foreign market</td></tr>
<tr><td>USD 750 mn</td><td>February</td><td>5.375%</td><td>5 years</td></tr>
<tr><td>USD 1000 mn</td><td>July</td><td>6.025%</td><td>10 years</td></tr>
</table>

Loan Portfolio of the Bank for Development*

*
Portfolio of loans extended by VEB to non-credit institutions, public executive bodies and municipalities for investment projects and export support, excluding loans extended using the funds of the CBR and NWF.


281.6
RUB bn
2010
348.9
RUB bn
2011
505.4
RUB bn
2012
720.2
RUB bn

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

Vnesheconombank engages in operations in the FX, interbank money markets and the securities market with a view to placing temporary idle funds and managing risks in compliance with the Law "On Bank for Development" and Vnesheconombank's Memorandum on Financial Policies.

To this end, Vnesheconombank places and raises short-term loans (up to 90 days), engages in FX operations and transactions with the securities and the derivative financial instruments.

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

FX and Interbank Money Market

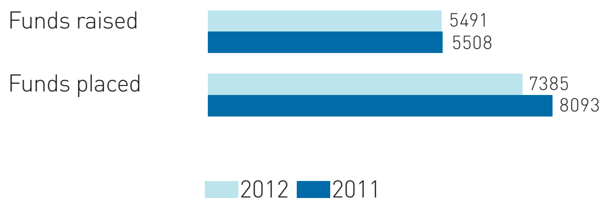
In 2012, the fluctuations of the exchange rates of the major global currencies could well be attributed to the crisis events in the financial sector of the EU states, as well as to the policy measures undertaken to grapple with the crisis.

At the start of the reported period, the markets witnessed appreciation of the euro exchange rate against the dollar from 1.29 (at the end of 2011) to 1.34–1.35. But in the summer of 2012, the political crisis unfolding in Greece followed by the capital deficit experienced by Spanish commercial banks brought about the weakening of the euro versus the US dollar to the level of 1.20–1.21. Then by the end of the year, as a result of active measures undertaken by the ECB the EUR/USD exchange rate bounced back to 1.32. The weakening of the US dollar exchange rate seen starting from September 2012 was a direct consequence of the US Fed Reserve QE (quantitative easing) effort designed to secure the US dollar liquidity.

In these circumstances, the dynamics of the RUB/USD and RUB/EUR exchange rates was contingent on the appetite of international investors for assets with a higher (relative to the US dollar and the euro) risk levels and on the oil prices.

Over the year, the ruble dynamics was characterized by the following exchange rate movements: gains for the ruble against the US dollar and the euro from 32.19 to 28.85 and from 41.66 to 38.30 respectively seen at the beginning of the year; the ruble weakening by mid 2012 versus the US dollar and the euro to 33.50 and 41.80, respectively; then, the ruble rebound against these currencies to 31.37 and 41.23, respectively, witnessed at the end of 2012. Admittedly, the fluctuations were subject to the CBR control exercised through currency interventions. However, in 2012 the interventions were performed on a smaller scale, primarily due to policies focused on regulating the money market rates rather than the exchange rates of foreign currencies.

Turnover of money market operations (short-term interbank loans), RUB bn



The need to actively manage the currency risks, arising against the backdrop of high volatility of exchange rates of major global currencies, resulted in increased amounts of FX operations (RUB 9 219.7 bn in 2012 as compared to RUB 6 718.8 bn posted in 2011). In 2012, the overall turnover under the "currency swap" operations grew from RUB 4 050 bn to RUB 5 964 bn.

As a matter of fact, placement of ruble- and foreign currency-denominated funds (for up to 90 days) and raising funds to secure the ongoing liquidity were the major lines of the Bank's activities in the interbank money market.

Notably, over the year, the overall turnover of fund placement in the interbank market somewhat declined from RUB 8 093 bn in 2011 to RUB 7 385 bn in 2012, while the overall volume of funds raised practically remained the same to total RUB 5 491 bn (RUB 5 508 bn in 2011).

Leading Russian banks were Vnesheconombank's counterparties in the interbank money market.

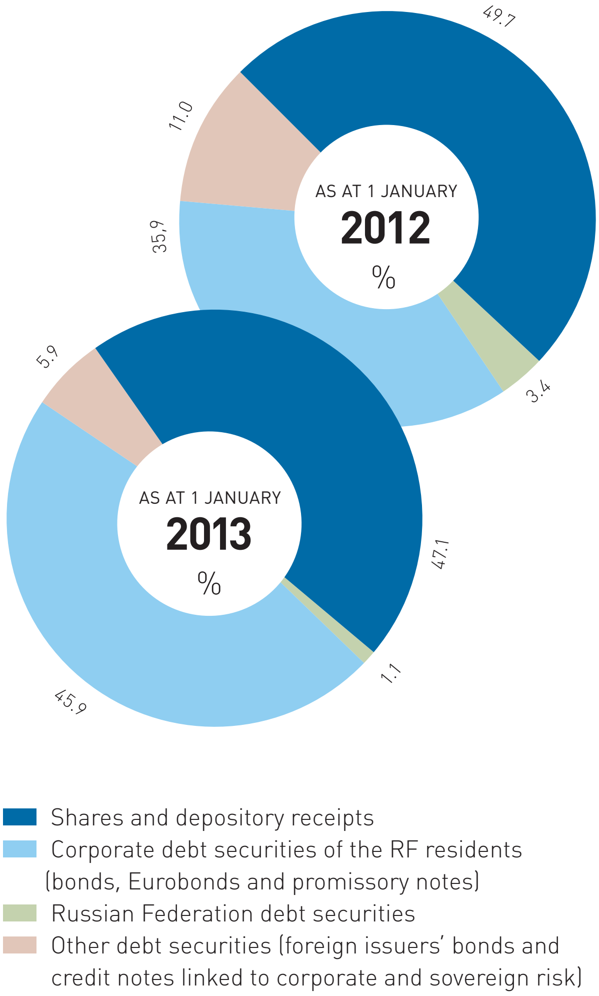
Managing Securities Portfolio

In 2012, the quotations in the Russian stock market demonstrated a slight increase following the global trends witnessed in the emerging markets. The ruble-denominated index of the Moscow International Currency Exchange (MICEX) grew by 5.2 % (from 1402 points posted at 01.01.2012 to 1475 points as at the end of 2012), while the Russian Trading System (RTS) dollar-denominated index posted a 10.5% increase from 1382 points as at 01.01.2012 to 1527 points as at the end of 2012. At the same time, the year saw periods of considerably reduced trading amounts and withdrawal of foreign investor funds from the segment of Russian issuers' equities.

Given these market trends, to secure reasonably acceptable yield levels, as well as to reduce interest rate risks, in 2012, the structure of the Bank's securities portfolio used to manage liquidity was adjusted, with a substantially decreased share of Eurobonds and a simultaneously increased share of ruble-denominated corporate bonds that have shorter maturities. The share of equities and depository receipts linked to Russian issuers' equities saw just a slight drop on 2011.

As at 01.01.2013, Vnesheconombank's securities portfolio, with due consideration for revaluation and the accrued interest (coupon yield) amounted to RUB 455.2 bn versus RUB 474.1 bn posted at the beginning of 2012. The decline in the securities portfolio amount is directly attributable to fluctuations in the exchange rates of the currencies and securities revaluation.

Securities portfolio



4 Depository Activities

For more than 13 years, Vnesheconombank has been providing clients with high quality and high technology depository and settlement services in respect of Russian and foreign securities.

Vnesheconombank is noted for a high level of process automation, electronic communication through SWIFT, availability of its own "Bank-Client Depo" system, high level of client service: a system of client manager in place, prompt instruction execution, and a wide range of client report formats.

As at 01.01.2013, the overall number of client depo accounts maintained by Vnesheconombank was running at 677, including 160 depo nominal holder accounts opened for other Russian depositories. In 2012, 65 new client depo accounts were opened.

In 2012, the number of depository operations over the client accounts effected on client instructions made 19 348. Also, over the reporting period, 9 907 operations related to corporate action of security issuers were carried out. The rights to the respective securities were recorded on depo accounts with Vnesheconombank. Income on the securities in the total amount equivalent to USD 996.4 mn was transferred to clients.

In the reported period, issue-grade securities of 540 issues were accepted for servicing. As at the end of the year, the number of issues of issue-grade securities accepted for servicing by the Depository approximated to 2400, whereas Russian issuers' securities accounted for 34% and international securities — for 66%.

Servicing Sovereign Internal Currency Debt

In 2012, Vnesheconombank, acting as a designated depository and payment agent for the RF Ministry of Finance, drawing on the federal budget funds, made payments of principal amounts, as well as coupon payments under the IV and V Tranche Minfin bonds, when the bonds were presented to Vnesheconombank by the bondholders, as well as when exchanging the balances on the Russian legal entities' blocked and special currency accounts for Minfin bonds. The total amount of payments under IV-V Tranche Minfin bonds in 2012 reached USD 8.75 mn, including USD 7.66 mn — in redemption of the principal amount of debt and USD 1.09 mn in redemption of coupon yield under the bonds.

Functions of a Payment Agent under Corporate Bond Issues Backed by Sovereign Guarantees of the Russian Federation

In 2012, Vnesheconombank concluded agreements on performing functions of a payment agent in respect of 2 bond issues of LLC North-West Concession Company in the amount of RUB 10 bn with the final maturity in 2031 and the bond issue of State Company Avtodor in the amount of RUB 3 bn maturing in 2016. Commitments under the respective bond issues are backed by sovereign guarantees of the Russian Federation.

In 2012, Vnesheconombank acting as the payment agent to fulfill the commitments under the bonds of OJSC AHML, OJSC ROSNANO, OJSC United Aircraft Corporation, OJSC Western High-Speed Diameter, LLC North-West Concession Company, State Company Avtodor, effected payments amounting to RUB 17.4 bn drawing on the issuers' funds.

Legislative Amendment and Development of Depository Services

Enactment of Federal Laws No. 414-FZ "On Central Depository" dated 7 December 2011 and No. 415-FZ "On Amendments to Several Legislative Acts of the Russian Federation in View of Adoption of Federal Law "On Central Depository" required amending the list of depository services rendered by Vnesheconombank:

- services on opening and maintaining depo accounts of a foreign nominee holder and a foreign authorized holder for non-resident legal entities, as well as services on opening and maintaining treasury depo accounts for securities issuers were introduced;

- depo account of a pledgee was excluded from the list of accounts that are opened for clients.

Apart from this, since a financial transaction tax (FTT) was introduced in France in 2012, Vnesheconombank started rendering services on filling in and submitting tax declaration forms related to operations with financial instruments.

5 Agent for the Government of the Russian Federation

In 2012, Vnesheconombank continued to perform the functions of the agent for the Government of the Russian Federation in effecting payments/settlements and ensuring information and analytical servicing of Russia's sovereign foreign debt, managing state external financial assets of the Russian Federation, securing repayment of debt owed to the Russian Federation by legal entities, constituent entities of the Russian Federation and municipalities, as well as the functions related to extending and executing of the Russian Federation state guarantees.

Throughout 2012, the amount of assets and liabilities administered by Vnesheconombank exceeded RUB 4.6 tn.

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

In the period under review, the Bank developed and prepared 76 reports and analytical opinions on debt recovery. Documents and/or proposals on trade-economic and scientific-technical cooperation of the Russian Federation with 28 countries for inclusion into the agenda of meetings and sessions of intergovernmental bodies (or committees and subcommittees established within their framework) were prepared.

The Bank's representatives participated in the work of the Russian delegation at all the 8 sessions of the Paris Club of creditors (at 6 sessions the Russian delegation, on the instruction of the RF Ministry of Finance, was headed by Vnesheconombank's representatives), in the annual "Club" meeting with the representatives of the private sector and a number of sovereign creditors, as well as in multilateral negotiations of the Paris Club with Guinea, Ivory Coast, St. Kitts and Nevis. Based on the results of the negotiations, multilateral protocols of the Club with the debtors were signed.

5.1. Servicing the Sovereign Foreign Debt of the Russian Federation

In 2012, the amount of the foreign sovereign debt of the Russian Federation recorded on Vnesheconombank's books increased from USD 32.3 bn to USD 37.45 bn due to, among other things, inclusion into the Bank's books on the instruction of the RF Ministry of Finance of obligations under the Russian Federation Eurobonds with final maturities in 2017, 2022 and 2042 (issuance of 2012).

Over the reporting period, Vnesheconombank in due time effected payments totaling USD 3.97 bn (drawing on the RF budget funds) in redemption and servicing of the Russian Federation sovereign foreign debt. In particular, the Bank made payments totaling USD 3.7 bn in redemption and servicing of the Russian Federation Eurobonds.

In 2012, the Bank's professionals kept records, carried out servicing and made payments in redemption of the indebtedness under 24 tied credits (foreign trade contracts under which Russian organizations acted as importers of goods and services) extended by foreign counterparties under the RF Government guarantees after 1 January 1992. Payments amounting to USD 78.36 mn were effected in favour of German, Turkish and Japanese creditors. In 2012, settlements under the credit extended by the Bank of Turkey were fully completed.

Also, scheduled payments totaling the sum equivalent to USD 114.85 mn under the financial credit raised from Japan Bank for International Cooperation, Tokyo, were made.

Vnesheconombank, on the instructions of the RF Ministry of Finance, interacted with the holders of claims, considered as commercial indebtedness of the former USSR, on issues related to the settlement of the respective claims in conformity with the RF Government Directive No. 2418-r dated 28 December 2011. Negotiations with 3 creditors resulted in signing by the RF Ministry of Finance of the respective agreements and, in December 2012, Vnesheconombank made payments in their favour in the total amount equivalent to USD 0.5 mn.

In 2012, the Bank ensured the redemption and servicing of the sovereign foreign debt of the former USSR and the Russian Federation owed to the countries that are not members of the Paris Club of creditors and Finland in the total amount of USD 386.77 mn. That included debt redemption through the goods and services delivery schemes amounting to USD 304.46 mn (China, Kuwait, Finland, Montenegro and Serbia), including additional writing off the debt amounting to USD 1.45 mn (Montenegro), as well as payments in hard currency amounting to USD 82.31 mn (the Czech Republic and South Korea).

In 2012, expertise of 5 intergovernmental draft documents on debt settlement (the Czech Republic, the Slovak Republic, Finland, Kuwait and Montenegro) was carried out, with the respective expert opinions duly presented. Also, the signing of 1 supplement to the interbank agreement on the procedure for book-keeping/settlements of indebtedness was ensured (Montenegro).

Within the framework of events aimed at bolstering financial and economic relations of the Russian Federation with the CIS countries, Vnesheconombank ensured preparation of information and analytical materials on the current state of settlements under the internal foreign currency-denominated debt of the former USSR owed to the CIS countries and the Baltic states and presented the respective expert opinions.

5.2. Managing State External Financial Assets of the Russian Federation

The funds transferred to the federal budget in 2012 as a result of the Bank's operations to manage state external financial assets of the Russian Federation included payments by foreign borrowers in redemption and servicing of the debt, as well as proceeds delivered through realization of clearing and blocked currency-denominated debts.

Vnesheconombank kept records and effected settlements related to debts owed to Russia by 55 debtor-countries under state loans extended by the former USSR and the Russian Federation in accordance with 268 loan agreements.

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

- 11 trilateral agreements between the RF Ministry of Finance, Vnesheconombank and Russian organizations on the procedure regulating the provision of budget financing to Russian exporters that supply goods and render services utilizing state credits;

- 7 technical agreements and supplements with designated foreign organizations on technical procedure of bookkeeping/settlements under state credits.

Apart from this, 10 intergovernmental draft agreements and protocols on settlement of debt owed by debtor-countries to the Russian Federation and on extending new state loans by the Russian Federation were agreed. Later on, the documents were signed by the RF Government and the Governments of the respective states.

5.3. Ensuring Repayment of Debt Owed to the Russian Federation by Legal Entities, Constituent Entities of the RF and Municipalities

In an agency capacity, in 2012, Vnesheconombank also placed a tight focus on resolving issues related to the settlement of bad debts owed by legal entities, the constituent entities of the Russian Federation and municipalities under the federal budget loans.

In 2012, the total amount of settled indebtedness owed to the federal budget exceeded RUB 35.5 bn. That included the following efforts:

- in pursuance of para. 6, Article 18 of Federal Law No. 371-FZ dated 30 November 2011 "On the Federal Budget for 2012 and the 2013–2014 Budget Plan" (hereinafter — "Law No. 371-FZ"), 2 agreements on debt assignment and restructuring the indebtedness in the total amount of RUB 15.8 bn were entered into. The agreements envisage settlement of indebtedness towards the Russian Federation that arose due to financing the construction of fishing vessels under the guarantees of the RF Government (as security for the respective obligations, in 2012, 17 mortgage agreements amounting to RUB 18.1 bn were concluded);

- the indebtedness amounting to RUB13.6 bn was written off from the Bank's books;

- more than RUB 4.5 bn were transferred to the federal budget (including RUB 2.25 bn in conformity with the previously concluded amicable and restructuring agreements);

- 2 amicable agreements in the total amount exceeding RUB 1.6 bn that envisage settlement of the indebtedness towards the Russian Federation were concluded.

In pursuance of para 7, Article 18 of Law No. 371-FZ supplement agreements to 4 agreements on partial debt assignment and restructuring of indebtedness and to 6 agreements on fishing vessels mortgage were concluded that envisage extension of the term of indebtedness restructuring.

Vnesheconombank's specialists participated in 143 court hearings with respect to 28 lawsuits that concerned settlement of indebtedness towards the federal budget.

5.4. Extension and Execution of the Russian Federation State Guarantees

In conformity with Law No. 371-FZ and the RF Government Directive No. 1249 dated 30 December 2011 "On Measures to Implement the Federal Law "On the Federal Budget for 2012 and the 2013–2014 Budget Plan" Vnesheconombank was authorized to perform the functions of the Agent for the RF Government in extending and executing the Russian Federation state guarantees.

In the period under review, the Bank made a thorough scrutiny of 113 applications for provision of state guarantees for the total sum of RUB 728.6 bn for 102 principals.

Based on the results of reviews and analyses, 295 conclusions were prepared and submitted to the RF Ministry of Finance. They include 60 final positive conclusions amounting to RUB 625.7 bn, 2 conclusions prepared based on the results of the preliminary analysis of the financial standing of the principals and 1 conclusion prepared in respect of evaluating liquidity and appropriateness of a collateral offered by the principal to secure commitment fulfillment and its compliance with the RF legislation requirements and acceptability as a pledge.

In 2012, Vnesheconombank prepared and concluded 59 agreements on extension of state guarantees of the Russian Federation in the total amount of RUB 624.1 bn in conformity with the Directives by the RF Government.

Over 2012, Vnesheconombank's professionals prepared and submitted to the RF Ministry of Finance 79 conclusions on making amendments/supplements to loan agreements and contracts on securing commitment fulfillment, which are covered by the Russian Federation state guarantees.

The year 2012 witnessed scrutiny of 17 beneficiaries' claims to execute state guarantees of the Russian Federation in the total amount of RUB 7.0 bn. As a result, 11 positive conclusions, as well 6 conclusions on non-compliance of the claims with the established procedures in respect of state guarantees of the Russian Federation were prepared. Over 2012, the Bank verified the financial standing of 53 principals that were given the RF state guarantees.

As at 01.01. 2013, Vnesheconombank keept analytical records of 243 state guarantees of the Russian Federation amounting to RUB 1205.7 bn (as at 01.01.2012 — 184 state guarantees amounting to USD 581.2 bn).

6 State Trust Management Company

FEDERAL LAW

No. 360-FZ
dd. 30.11.2011

"On Procedure for Financing Payments Drawing on Pension Savings"

Since 2003, Vnesheconombank has been performing the function of the State Trust Management Company (hereinafter — the "STMC") to manage the pension savings of the insured citizens of the Russian Federation who have not exercised the right to choose a private pension fund or a private asset management company and those who have shown preference for the STMC.

In 2012, the Bank was designated as the STMC to manage resources of the payment reserve and pension savings of the insured citizens, who are entitled to term pension payments.

It is important to note that all the operations of the STMC related to the pension savings management are effected in strict compliance with the legislation in force, with the principle of independence and segregation of the above operations from the Bank's other activities strictly observed.

In 2012, just as in the previous years, the STMC priority tasks included:

- ensuring safety of the pension savings;
- minimizing market risks when investing the respective funds and transferring the funds back at the request of the RF Pension Fund;
- investment portfolios diversification.

FEDERAL LAW

No. 111-FZ
dd. 24.07.2002

"On Investing Funds for Financing Accumulative Part of Labour Pensions in the Russian Federation"

RUSSIAN FEDERATION GOVERNMENT DIRECTIVE

No. 34
dd. 22.01.2003

"On Designating the Bank for Foreign Economic Affairs of the USSR (Vnesheconombank) as the State Trust Management Company to Manage Pension Savings"

RUSSIAN FEDERATION GOVERNMENT DIRECTIVE

No. 970
dd. 22.12.2008

"On Setting the Term for the Bank for Development and Foreign Economic Affairs (Vnesheconombank) to Act as the State Trust Management Company to Manage Pension Savings"

In order to ensure safety of investments, the STMC practices a conservative approach to placement of funds that allows for maintaining a relatively low level of risks.

Major factors that impacted the STMC activities related to investment of pension savings in 2012 were:

- increasing the share in the extended investment portfolio of non-government securities that have a higher yield as compared with the government securities;
- high demand demonstrated by commercial banks for the STMC investments of pension savings in the form of deposits;
- reduced yield on OFZs resulting from the growing demand for the above bonds.

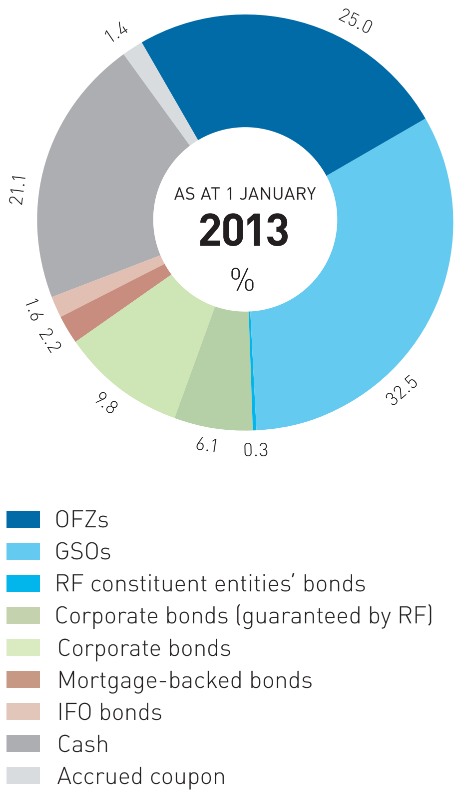
Management of Pension Savings of the RF Insured Citizens

Vnesheconombank, while performing the functions of managing pension savings of the citizens, forms two portfolios: an extended investment portfolio and an investment portfolio of government securities.

Extended Investment Portfolio

In conformity with the Investment Declaration of the extended investment portfolio, the pension savings are eligible for investment in government rouble- and foreign currency-denominated securities, in the securities of the RF constituent entities, corporate bonds, mortgage securities, the securities of the international financial organizations (IFOs) and in rouble- and foreign currency-denominated cash funds and deposits placed on accounts with credit organizations.

Structure of the STMC extended investment portfolio



Throughout 2012, the RF Pension Fund, with the aim of forming the respective portfolio, transferred to the STMC cash funds in the total amount of RUB 304.8 bn (RUB 602.9 bn — 2011).

As at the end of 2012, the market value of the extended investment portfolio amounted to RUB 1635.8 bn (as at year start 2012 — RUB 1328.9 bn).

To address the strategic challenge of enhancing the respective portfolio diversification, during the period under review, the amount of investment in non-government bonds was considerably increased. It happened, among other things, due to acquisition of RUB 50.71 bn (at par value) worth of bonds of corporates that engage in implementing infrastructure projects of national significance (OJSC Glavnaya Doroga, OJSC Western High-speed Diameter, OJSC FSK UES, OJSC Russian Railways, JSC Transneft). As at the end of 2012, investment in infrastructure bonds, at par value, amounted to RUB 97.7 bn.

In order to diversify the extended investment portfolio, effectively manage the short-term liquidity, as well as to ensure the transfer of funds back at the request of the RF Pension Fund, 8 tenders were held. In the course of the tenders, the STMC placed RUB 235.0 bn worth of funds for a term of approximately 11 months, with the average weighted interest rate of funds placing — 9.14% p.a. (in 2011 the funds amounting to RUB 136.9 bn were placed for an average term of 10 months at the rate of 8.06%).

Throughout 2012, the structure of the extended investment portfolio underwent the following changes: the share of investment in government bonds decreased from 67.6 to 57.5%, the share of cash funds (including deposits) increased from 16.5 to 21.1%. That happened due to the transfer of pension savings to the STMC for management by the Pension Fund of the Russian Federation at the end of Q IV of the reported period.

In 2012, the yield on the STMC extended portfolio amounted to 9.21% (the level of inflation — 6.60% p.a.)

Investment Portfolio of Government Securities

In conformity with the Investment Declaration applicable to the government securities portfolio, the pension savings are eligible for investment in government rouble- and foreign currency-denominated securities, corporate bonds backed by the RF sovereign guarantee, as well as in rouble- and foreign currency-denominated cash funds placed on accounts with credit organizations.

In the reported period, the RF Pension Fund transferred to the STMC for management pension savings in the total amount of RUB 2.8 bn. These funds were earmarked for investment in the portfolio of government securities.

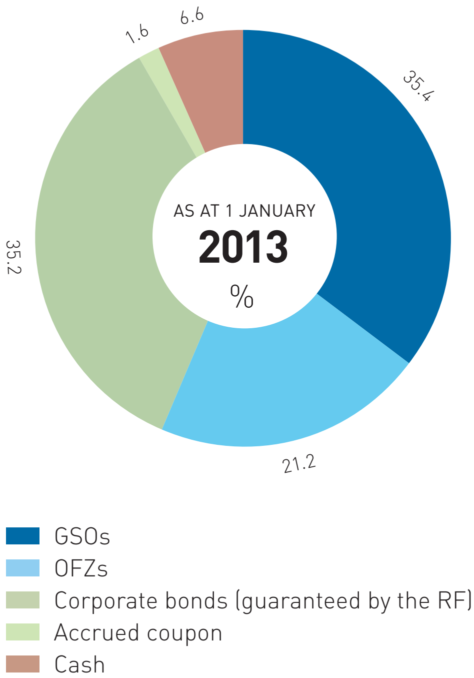
As at 01.01.2013, the government securities portfolio amounted to RUB 8.01 bn.

Over the reported period, to reduce the risk of negative revaluation of the given portfolio, RUB 1.70 bn worth of GSOs were acquired at par value. The share of GSOs witnessed a substantial increase from 21.8 to 35.4%.

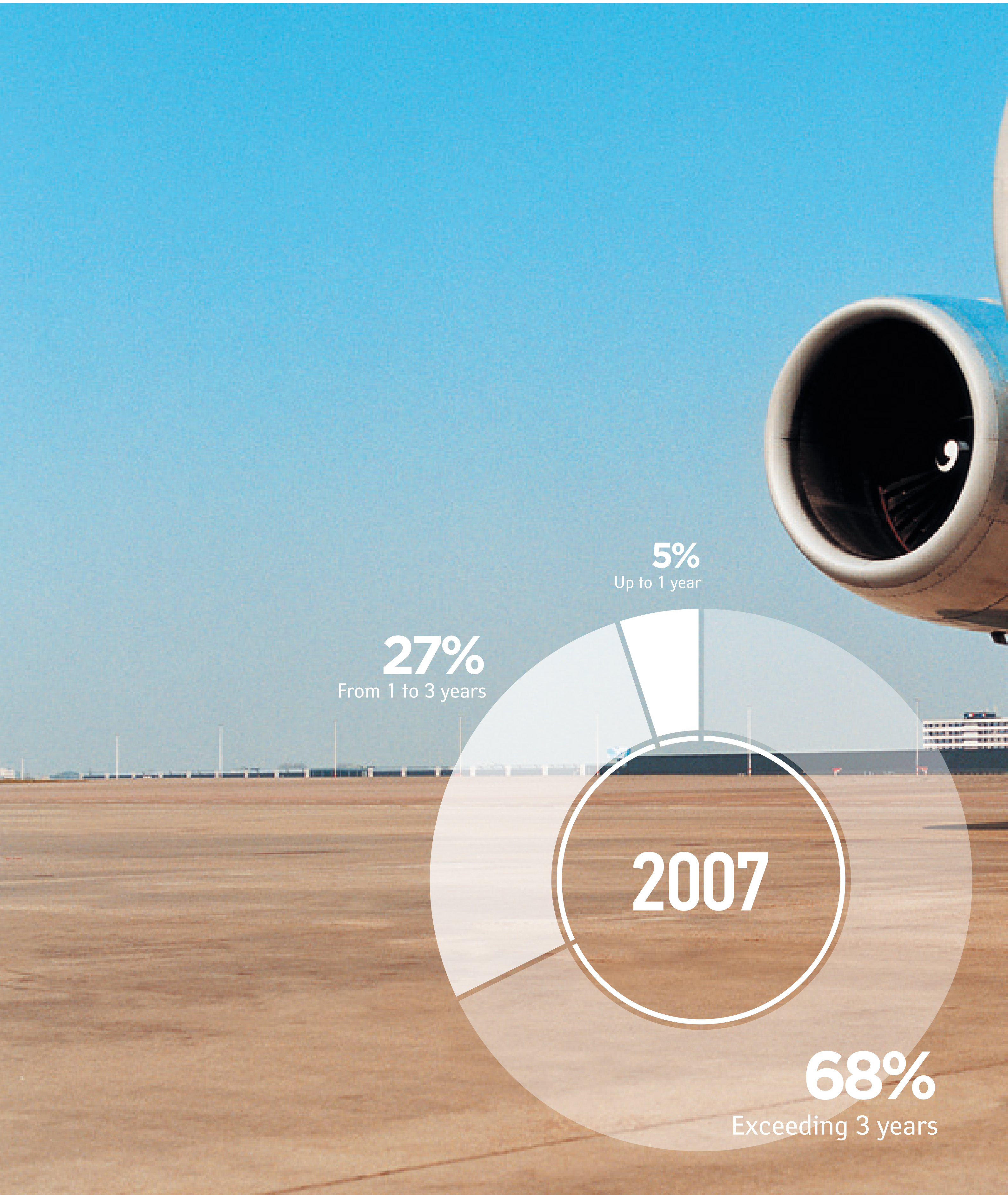
At the same time, with the aim of diversifying and obtaining a higher yield on investment, as compared to that on the government securities, corporate bonds amounting to RUB 2.15 bn at par value backed by the RF state guarantee were acquired. The respective bonds, as at the end of year 2012, accounted for 35.2% against 14.2% as at 01.01.2012.

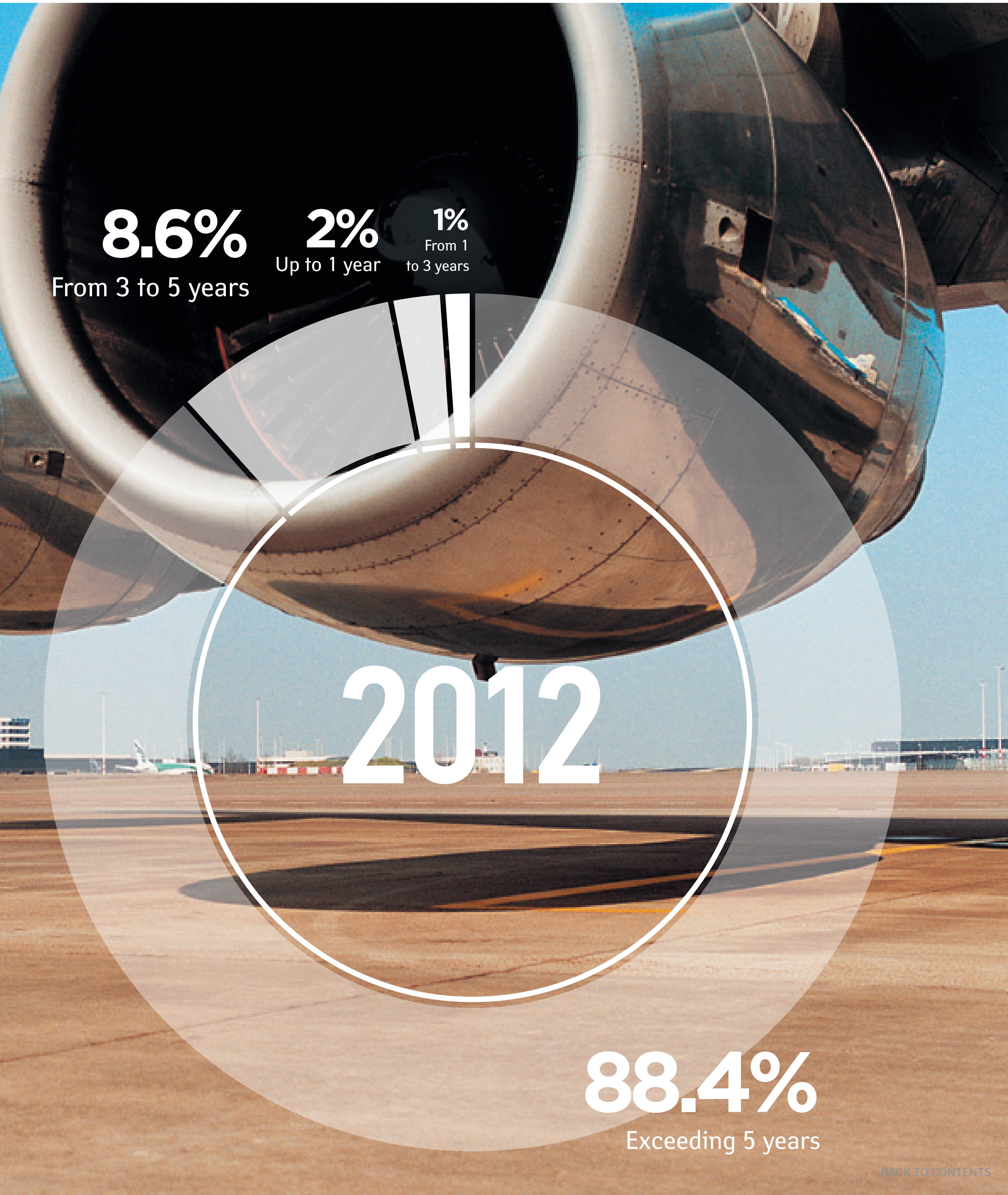
In 2012, the investment yield on the government securities investment portfolio made 8.47% p.a., that is by 1.87% higher than the annual inflation rate.

Structure of the STMC Russian Government Securities Portfolio



Loans to customers (by maturity)





BACK TO CONTENTS

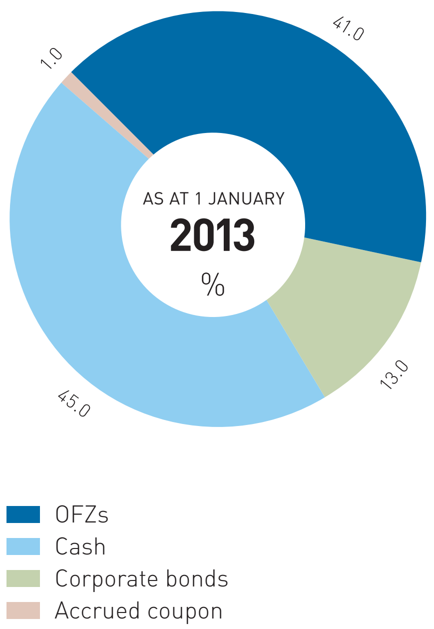
Managing Funds of Payment Reserve and Pension Savings of Insured Citizens Entitled to Term Pension Payments

In November 2012, the RF Pension Fund transferred the resources for forming new investment portfolios.

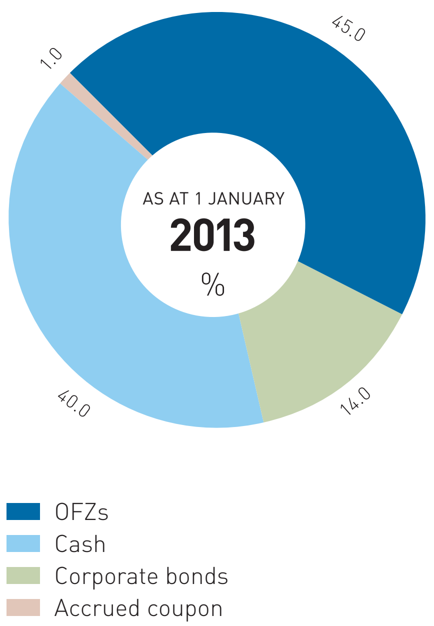
As at 01.01.2013, the structure of portfolios included OFZs, corporate bonds and cash funds. The payment reserve portfolio amounted to RUB 313.4 mn, the amount of the portfolio of pension savings of insured citizens entitled to term pension payments made RUB 37.0 mn.

In 2012, the investment yield on the respective portfolios made 2.47% and 2.66% respectively, which, in this particular case, could be attributed to a short enough period of investment of funds of new portfolios in the reported period.

Structure of the STMC Payment Reserve Portfolio



Structure of the STMC Portfolio of Pension Savings of the Ensured Citizens Entitled to Term Pension Payments



7 System of Governance

In compliance with Federal Law "On Bank for Development", Vnesheconombank's governing bodies consist of the Supervisory Board, the Management Board and the Chairman of Vnesheconombank.

7.1. Governing Bodies

The Supervisory Board consists of 8 members appointed by the Government of the Russian Federation and the Chairman of Vnesheconombank, who is on the Supervisory Board ex officio.

The Chairman of the Russian Federation Government is the Chairman of Vnesheconombank's Supervisory Board.

Supervisory Board — Vnesheconombank's Supreme Governing Body.

Key functions of the Supervisory Board:

- defining the major areas of the Bank's activities;
- approving the Bank's revenues/expenditures plan (budget);

SUPERVISORY BOARD IN 2012

25 meetings held
110 issues carefully scrutinized

MANAGEMENT BOARD IN 2012

211 meetings held
904 issues carefully scrutinized

- approving the Bank's annual report and other basic internal documents;
- approving an independent external auditor to perform a mandatory annual audit of the Bank's annual financial statements;
- appointing Head of the Bank's Internal Control Service;
- making decisions on approving transactions in compliance with the documents regulating the Bank's activities.

Management Board — a collegiate executive body of Vnesheconombank.

The Management Board consists of Vnesheconombank's Chairman (ex officio) and 8 Management Board members[7] appointed by Vnesheconombank's Supervisory Board.

The Chairman of Vnesheconombank heads the Board and is in charge of its activities.

The Management Board acts within the powers set forth by Federal Law "On Bank for Development" and the provision on Vnesheconombank's Management Board, and in line with the established procedures.

The procedures stipulate that the Management Board meetings be held on a regular basis, at least once a month.

Chairman of Vnesheconombank — Chairman of Vnesheconombank acts as the sole executive body.

Vnesheconombank's Chairman is appointed to office by the President of the Russian Federation on the nomination of the Chairman of the Russian Federation Government.

The Chairman manages the Bank's day-to-day operations.

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

7. The number of the Management Board members is defined by Article 13 of Federal Law No. 82-FZ dd. 17 May 2007 "On Bank for Development".

7.2. Risk Management System

Vnesheconombank's professionals have put in place a risk management system that is functioning successfully. The system complies with the international standards in respect of banking oversight and risk management and the best globally accepted practices.

The procedures applied to risk management concern monitoring and analysis of the state of the external environment, assessing the risks and undertaking measures on risk mitigation, including proposals in respect of the structure/amount of limits set on risks, setting exposure limits and exercising control over their enforcement, making reserves for loss coverage and preparation of reports, informing the Bank's management on risks assumed to ensure timely and adequate managerial decision-making.

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

Within the procedures related to credit risk management, expert opinions based on the analysis of the financial position and business record of borrowers and principals, collateral quality and other parameters of the given transactions were prepared. The Bank has adopted methodologies to assess exposure by various categories of borrowers. For this particular purpose, it applies a single rating scale to assess risks inherent in various borrower categories. The scale is also used for developing proposals in respect of setting limits and for assessing the costs of transactions associated with credit risks.

Within the procedures related to the market risk management, the Bank, on a daily basis, monitors levels of market risks (interest rate, currency and stock market). A Value-at-Risk (VaR) measure is computed and used as the major indicator in the market risk assessment.

To assess potential losses in portfolios of financial instruments and the Bank's open foreign currency positions that can occur in case of extreme deterioration of key market and financial factors and other conditions of the Bank's activities, the procedure for stress-testing is carried out. Both historical scenarios (based on historical data of risk factors dynamics) and hypothetical (Vnesheconombank's hypothetical assessments of probable extreme changes in future) are used. The results obtained serve as a significant supplement to risk assessments computed using VaR model.

To reduce market risks, limits are set on sizes and parameters of positions/portfolios. On a daily basis, using VaR models, the amount of risk of the Bank's positions in securities market instruments is calculated. VaR is calculated both for individual instruments and for portfolios of certain types of instruments, as well as for the Bank's overall portfolio of securities market instruments.

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

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

In order to control liquidity risks, the Bank continuously monitors and analyzes maturity mismatches between the Bank's assets and liabilities, as well as mismatches in terms of major currencies. On a monthly basis, the liquidity reserve and the amount of potential sources of market funding are monitored in order to identify funds available to cover unexpected liquidity gaps that could occur due to the unforeseen deterioration of market and credit factors. On a regular basis, stress testing of the Bank's liquidity position is carried out using various scenarios of market and credit risks realization. The obtained results are used in the Bank's asset/liability management.

Given intensive growth of the VEB Group, introduction of integrated procedures for assessing liquidity of subsidiary banks and companies aiming to project the VEB Group's needs in long-term funding and ensure coordination of public borrowings was a major focus of the VEB Group' risk management system. In 2012, the elaborated group-wide documents were put to test.

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

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

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

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

The year witnessed dedicated efforts to improve organizational, technical, regulatory and methodological components of both the Bank's and its subsidiaries' risk management systems.

In particular, apart from the integration of the procedures applied to liquidity risk management, over the period under review, the group-wide risk management policies were coordinated and agreed.

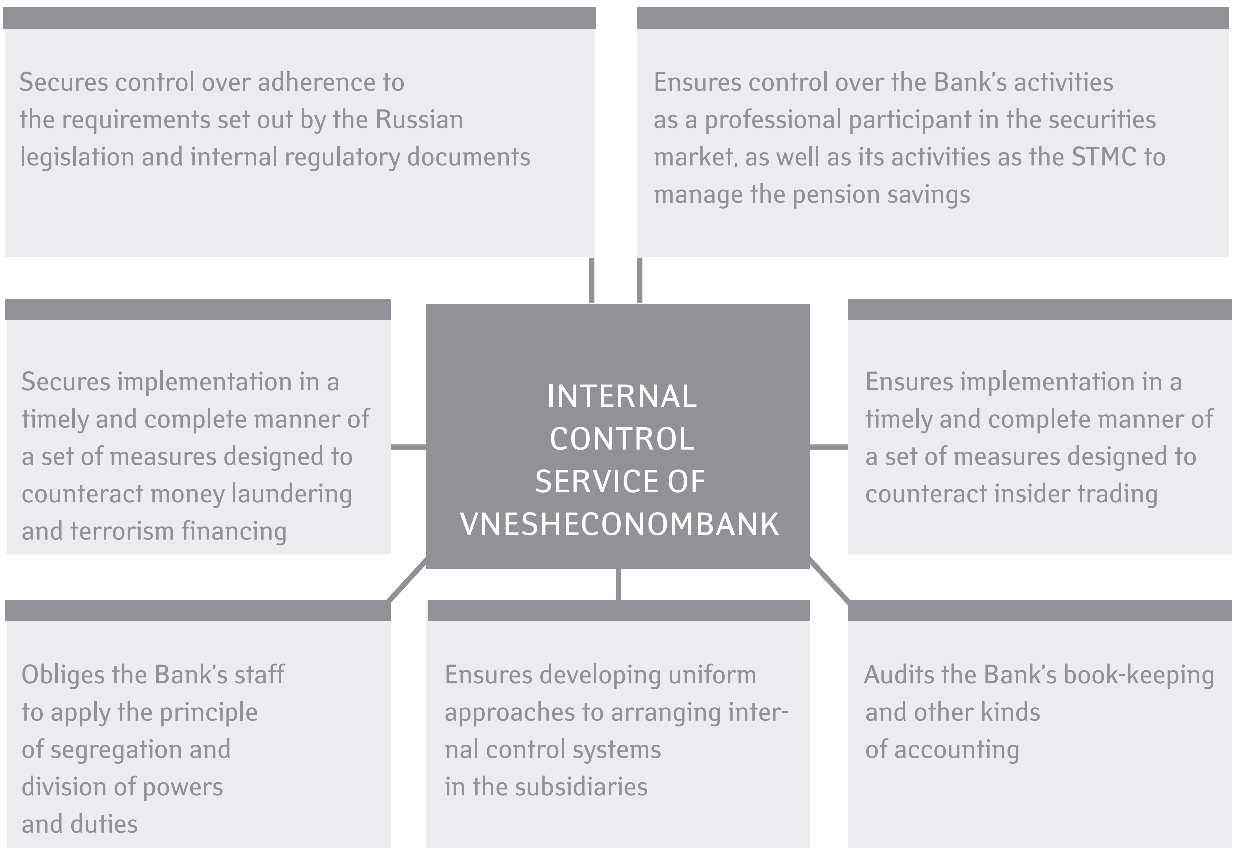
7.3. Internal Control System

The system of Vnesheconombank's internal control is organized in full compliance with the legislation of the Russian Federation. It ensures an appropriate security level that complies with the specifics and scope and scale of Vnesheconombank's activities.

The system is oriented towards ensuring enhanced effectiveness and efficiency in conducting banking operations and other transactions, managing the Bank's asset/liability programme and the Bank's risk, as well as observing legislative requirements and regulatory rules.

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

Aiming to execute control over the Bank's adherence to the provisions of Memorandum on Financial Policies of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)", the ICS carries out monitoring of critical business processes. The monitoring is carried out to execute control over risks that arise in the process of the Bank's lending and investment activities, activities in the financial markets, as well as over the appropriateness of the reserve formation



IN 2012:

the methodological base underlying control over adherence to Memorandum on Financial Policies of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" was expanded and upgraded, as well as 21 methodologies related to control procedures over investment projects implementation were completed;

the methodological base to apply to control over the Bank's professional activities in the securities market was expanded;

a number of documents in respect of auditing the activities of the Bank's subsidiaries and affiliates, as well as scrutinizing the VEB Group activity reports were devised.

procedure and functioning of the information systems.

Vnesheconombank's Internal Control Service also executes continuous control over the level of effectiveness and appropriateness of the measures undertaken by the Bank in order to eliminate inconsistencies identified in the course of the monitoring.

Throughout 2012, audits, comprehensive and thematic reviews in respect of Vnesheconombank's activities, as well as in respect of financial and economic activities of the Bank's subsidiaries and affiliates were carried out. Also, the VEB Group Sustainability Report was audited.

All the undertaken measures were aimed at establishing and putting in place an effective internal control system in the VEB Group.

Upgrading the internal regulatory framework is viewed as one of the major preconditions for enhancing efficiency of internal control.

As at 01.01.2013, the ICS staff had 7 permits from the Russian Ministry of Finance authorizing them to engage in banking audit activities and 1 certificate for engaging in general audit; 19 certificates from the FCSM/FFMS to engage in various activities in the securities markets; 1 ITIL certificate, 1 MBA diploma, 1 diploma of a professional accountant of the Institute of Professional Accountants and Auditors of Russia (IPAA) and 1 diploma in International Financial Reporting (DipIFR).

7.4. The Bank's Organizational Structure and HR Management

In 2012, aiming to deliver against the objectives and development tasks, the Bank's professionals continued committed efforts to upgrade the organizational structure.

To this end, the structure of a number of VEB's units was expanded through consolidation of interrelated business lines. Given the increased amount of work, the organizational structure of 7 standalone structural units saw further development. The year also witnessed the establishment of a new standalone structural division.

Dedicated work on upgrading Vnesheconombank's organizational structure was based on the outcomes of efforts undertaken in 2012 to rationalize, properly measure and appraise the staff labor activities. Due consideration was given to statistical data on the concrete amount of staff work performed in the Bank's key business lines.

At the end of the period under review, the Bank's organizational structure comprised 33 standalone structural divisions and 17 representative offices in Russia and abroad.

Special energies were devoted to improving employee qualifications and work efficiency. In 2012, in order to ensure efficient employee training and appropriate qualifications upgrade, 1184 employees (826 employees in 2011) participated in various training and professional development events.

Training was provided in such areas as counteracting the legalization of illicit gains and terrorism financing, preventing improper use of insider information, personnel appraisal and certification, accounting and IFRS, foreign languages, IT and occupational health and safety, corporate governance, finance and investment.

Key events to bolster exchange of experience in effective HR management and in defining the strategy and priorities of HR management in the financial sector included:

- 7th International Interbank HR Conference "Human Capital: Efficient HR Management — Efficient Banking Business" brought together Vnesheconombank's top executives, HR heads representing leading Russian and CIS commercial banks and financial institutions;

- Round Table with the participation of representatives of HR services of the VEB Group and other leading Russian banks. The key theme of the event was "Career Planning". HR management practices were in the focus of both the discussion and the subsequent exchange of experience in implementation of projects devoted to various aspects of HR management.

Committed work on selection of candidates for inclusion in the federal managerial reserve was continued, with the proposals in respect of 76 candidates duly submitted to the RF Government.

Management was invariably seeking to improve employee social protection schemes. In 2012, the list of the respective services was enhanced with an annual spending limit per person increased. That primarily concerned a programme of Vnesheconombank's employee medical insurance, which offers the mechanism of the Bank/employee co-investment in the insurance premiums. A new employee health rehabilitation programme (health resort treatment and rest) was developed.

Maintaining focus on rendering aid to retirees, members of the Retiree Council, remained a priority task. The retiree support package includes medical insurance, corporate pension schemes and arrangement of corporate events for the Bank's veterans.

Management acknowledges that "Partners of the 21st Century" sporting event tangibly contributes to bolstering the team spirit and reinforces relations between the VEB employees and those of the VEB Group.

7.5. Developing and Putting in Place the Bank's CSR System

In 2012, seeking to drive the development of the CSR system and non-financial reporting forward, Vnesheconombank continued to arrange events designed to develop the concept of responsible financing and foster the practices of non-financial reporting across the VEB Group.

The major CSR highlights of the year included:

- Seminar on responsible financing with engagement of specialists representing foreign banks and the IFC. Vnesheconombank's Management arranged employee secondments with the China Development Bank, with the training programme focused on the role of the financial sector in securing sustainability;

- Seminar "Promotion of the CSR Principles in the VEB Group: Preparation of Sustainability Reports 2011". The representatives of the VEB Group demonstrated active engagement.

- 3rd International Conference "Investment in Sustainable Development. Partnership of Financial Institutions and the Real Sector of Economy". The RF Ministry of Development, the Russian Union of Industrialists and Entrepreneurs, the UNGC Russia and the UN Environment Programme Finance Initiative (UNEP FI) acted as Conference partners.

As part of Vnesheconombank's engagement in the work of UNGC Russia, 2 Round Tables devoted to "Promotion of CSR in the Russian Financial and Banking Community: Efficient Solutions and Barriers" and "Policies of Managing the Impacts of Company Administrative and Economic Activities: Shall We Start with Ourselves?" were held.

Vnesheconombank's professionals participated in the work of the interdepartmental working group to draft a concept to develop non-financial reporting in the Russian Federation. The working group was established on the initiative of the RF Ministry of Development in order to promote and upgrade the mechanisms of non-financial reporting and its independent assurance, as well as to secure environmentally responsible behavior of Russian companies.

Also, the year 2012 saw the arrangement of the presentation featuring Vnesheconombank's efforts in promotion of sustainable development and creating the CSR system. The presentation was held within the framework of an educational project "Training of Specialists — Participants in Investment Projects Implemented with Support of D evelopment Institutions".

Vnesheconombank's CSR activities and commitments are highlighted in a special section of the Bank's official Internet site. The CSR section presents the Bank's Sustainability Reports, CSR guidance materials, internal documents regulating Vnesheconombank's CSR activities and information on the Bank's CSR-related events and its participation in international sustainability initiatives.

The past year saw the launch of a new volunteer project to secure aid for the elderly who are in need of special nursing and care, village of Ostashkovo, Volokolamsk District, Moscow Region.

THE YEAR 2012 SAW THE LAUNCH OF 29 VOLUNTEER CAMPAIGNS HELD WITH ACTIVE ENGAGEMENT OF THE VEB STAFF

rendering financial aid to the "Boarding School for Orphans and Children Left without Parental Control and Patronage", arranging the holiday-making process for the children in Krasnodar Region;

providing donations and humanitarian aid to the victims of floods in Krasnodar Region;

arranging 2 "Day of Donor" actions with voluntary engagement of both the Bank's staff and that of the VEB Group;

collecting funds to accommodate homeless animals.

7.6. Information Policies

In 2012, just as before, the principle of maximum openness and an aspiration to raise investor, business and stakeholder awareness of the activities of the Bank and the subsidiaries were guiding Vnesheconombank's information policies.

When communicating with the public and highlighting the most meaningful events in the Bank's activities, the accomplishments and plans, the best use is made of all the communication channels available.

The Bank's official Internet site www.veb.ru. serves as a major channel to communicate most full and up-to-date information that would feature the Bank's activities.

Vnesheconombank's site presents both information eligible for disclosure in compliance with the legislation and the data that serve as guidance for investment project initiators in preparation of applications for financing, as well as other information pertaining to the Bank's activities that traditionally arouse public interest.

In delivering the information policies, the Bank benefits from an interactive map of investment projects that is placed on the Internet site to disclose information on investment projects implemented with the Bank's engagement in each of the Russian federal districts and abroad. The interactive map helps you to get a clearer vision of the projects' geographic reach, implementation goals and the sector significance. Navigating the map ensures and facilitates access to detailed information on projects: the total value of a concrete project, Vnesheconombank's commitment, the implementation progress and the expected social-economic deliverables.

Invariably, various aspects of the Bank's activities were in the spotlight of the mass media. In the course of numerous briefings, press conferences, forums and round tables, Vnesheconombank's CEOs and specialists would inform media representatives of the Bank's stance in respect of most urgent and publicly important issues related to developing the Russian economy.

Information materials that give coverage to the Bank's performance, as well as opinion articles written by the Bank's CEOs are published both in periodicals and major federal press publications.

We recognize that in 2012 the celebrations devoted to the 5th anniversary of the Bank for Development establishment became a major highlight of Vnesheconombank's information effort. A memorable logotype symbol to mark the event was devised and a special advertizing campaign "Report on the Deals" was launched in the mass media.

The year witnessed continuation of the "Development Projects" programme broadcast on the Russian "Vesti" 24 TV channel (17 programmes in the period under review). The target audience was continuously informed of the major investment projects delivered with Vnesheconombank's engagement that are instrumental for the development of the Russian economy.

We admit that a positive Information Favourability Index (IFI), an integrated indicator assigned to the Bank in the media ratings of Russian banks by Medialogia company is clear evidence of Vnesheconombank's active information profile. The index is reflective of not only the quantitative, but also of the qualitative aspects of the entity's presence in the information field. Just as within the past 4 years, in 2012 the Bank was among 3 leading banks.

Obviously, the Bank's presence at major regional and international economic forums is another information resource benefiting the Bank's information profile. Vnesheconombank's expositions and displays at such forums help bolster the Bank's image of a modern and efficient development institution. To illustrate, the Bank's photo display of infrastructure projects implemented with Vnesheconombank's commitment presented in the course of the Krasnoyarsk Economic Forum. The Moscow International Forum for Innovative Development "Open Innovations" witnessed the presentation of a test to perform an express evaluation of investment projects that qualify for Vnesheconombank's financial support.

The year 2012 saw the continuation of dedicated work to design the architecture of a single VEB Group brand.

7.7. Information Technology Activities

Vnesheconombank's major goal in the IT area is focused on securing the Bank's stable functioning and sustainable development through consistent improvement and provision of IT services. The ITSM/ITIL methodology-based IT management system introduced at the Bank ensures an objective assurance of continuous compliance of IT services with the respective requirements. In 2012, Vnesheconombank was one of the winners in the competition "ITSM — a Project of the Year" in the nomination "IT Complex Control System". That was a clear demonstration of efficiency and sophistication of the IT system applied by the Bank.

In 2012, a stronger focus was placed on enhancing the efficiency and functional reliability of the Bank's software/hardware infrastructure. Alongside that, a set of measures was undertaken to create new and upgrade the existing software packages.

In 2012, to drive forward the lending-investment activities, work on complex automation of the process of monitoring and administering investment projects with the use of a software package "System of Planning, Analysis and Monitoring of Investment Projects" was continued.

The "Sovereign Guarantee" automated system for information-analytical record-keeping was put into operation. It was developed to ensure information and technological support for the Bank's activities in performing the function of an agent for the RF Government in issuing and executing the RF sovereign guarantees.

Vnesheconombank as the STMC to manage pension savings in conformity with RF Government Directives No. 658 dated 29 June 2012 and No. 550 dated 04 June 2012 was delegated the functions of the STMC to manage the resources of the RF Pension Fund Payment Reserve. With this aim in view, software related to record-keeping of the new trust management portfolios — "Payment Reserve" and "Term Pension Payments" was modernized.

The 1st stage of the project "Creating SWIFT Corporate System for the Group of Banks" was completed. The project envisages Vnesheconombank's switch over to a new SWIFT Corporate soft/hardware platform and connection of one of the subsidiary banks to the system.

Since the international payment system witnessed a switch over to a new version of the PCI DSS Security Standard, a set of measures was undertaken to modernize the Bank's processing center. As a result of an external audit Vnesheconombank obtained a certificate of compliance with the requirements of PCI DSS Standard version 2.

Work to modernize the software in conformity with the current requirements of legal and regulatory acts is carried out in a regular manner.

Over the period under review, a set of measures was introduced to further develop and upgrade the System designed to counteract the illegal use of insider information and prevent market manipulation. With this aim in view, the critical processes were automated and the Bank's respective internal regulatory framework was upgraded. The measures undertaken substantially contributed to strict observance of the requirements of the legislation in force and those of the respective authorized bodies in counteracting the illegal use of insider information, restriction of access to insider information and securing the confidentiality regime.

To enhance control over the Strategy implementation, a software-technological complex of monitoring Strategy implementation was developed and launched. The complex was devised on the basis of the system of balanced scores and automated data storage of the Bank's major financial and non-financial indicators.

Within the framework of the project to upgrade the electronic document turnover, Vnesheconombank witnessed a switch over to electronic document turnover in respect of document preparation, agreeing, signing and execution. Electronic document processing is ensured on tablet computers with the use of global Internet.

In 2012, to substantially reduce risks associated with the sustainability of the key business functions, work on creating Vnesheconombank's data processing centre in compliance with the best global practices was started.

8 Vnesheconombank's SCO IBC- and BRICS-Related Activities

Vnesheconombank is one of the leading participants in the Interbank Consortium of the Shanghai Cooperation Organization (SCO IBC).

Vladimir Dmitriev, Chairman of Vnesheconombank, took part in the Meeting of the Council of Heads of the SCO Member-States within the official delegation of the Russian Federation (7 June 2012, Beijing) and in the preceding VIII Meeting of the SCO IBC Council where the parties signed a number of documents prepared and negotiated in 2012:

- Agreement on Cooperation in environment protection and energy saving aimed at efficient interaction, sharing of experience and information exchange in the area of environment protection, energy saving and emission reductions, as well as support for the development of alternative and renewable energy sources;

- Agreement on Cooperation in servicing and developing the real economy that specifies financial priorities (hi-tech and innovative equipment, energy saving and environment protection, modernization of farming and agro-industrial sector, SMEs, etc.) and serves as a "road map" in implementing the mid-term SCO IBC's Development Strategy for 2012–2016.

The participants in the Meeting also approved a declaration/initiative of the SCO IBC Council on sustainable development, thus confirming their intention to stimulate social and economic growth of the SCO member-states through rational use of resources, to improve energy security, upgrade internal CSR systems and promote CSR principles among all stakeholders.

In 2012, the BRICS Interbank Cooperation Mechanism witnessed further development.

In March 2012, Vladimir Dmitriev, Chairman of Vnesheconombank, participated in the Annual Meeting of Heads of the Partner Banks — Partners in the BRICS Interbank Cooperation Mechanism — in Delhi, India, in the BRICS Financial Forum and in the events within IV Summit of the BRICS member-states. During the Summit, the partner banks signed a Master Agreement on granting credits in national currencies and an Agreement on L/Cs Acceptance within the BRICS Interbank Cooperation Mechanism that are designed to optimize interbank settlements under contracts executed by foreign economic entities of the BRICS countries and to qualitatively raise the level of economic relations.

In the reporting period, the Bank arranged a number of workshops involving representatives of the leading foreign development institutions engaged in SCO IBC activities, banks of the BRICS member-states and representatives of the VEB Group. The workshops focused on best global standards and practices of training the staff, performing expert evaluation of investment projects, supporting national exports, building up the Strategy and system of corporate social responsibility and applying the PPP mechanisms.

Funds raised in capital markets

with a 1-year maturity or more (including through bond placement)

BACK TO CONTENTS

9 Vnesheconombank's Participation in NCOs

Vnesheconombank is a participant in more than 30 associations, partnerships, unions and non-governmental organizations. Such membership helps the Bank to efficiently promote cooperation with partners and establish new business contacts.

Participation in professional unions of the securities market participants, such as NAUFOR, PARTAD, National Currency Association (NCA), National Stock Association (NSA), Association of Bill Market Participants (ABMP), Association of the Russian Members of Europay, etc. enables the Bank to operate in the financial markets in compliance with the standards recognized by the global financial community.

In 2012, the Bank continued cooperation with Russian-Chinese Business Council, Russian-American Business Council, Coordination Committee of Russian-Arab Business Council, Russo-British Chamber of Commerce, Moscow Chamber of Commerce and Industry, Association of Russian Banks, Russian Union of Industrialists and Entrepreneurs, Vremya Publishing House.

In the reporting year, the Bank participated in the ICC Banking Commission in Paris and in the ICC Russian National Committee. The Commission priorities include:

- analyzing potential requirements from regulatory bodies in the context of applying new recommendations of Basel III;

- producing a set of rules on Bank Payment Obligation (BPO) — a new instrument for bank settlements;

- preparing a new revision of the Uniform Customs and Practice for Documentary Credits; setting out new Uniform Rules for Forfaiting (URF);

- defining the role of Export Insurance Agencies and private credit insurance in trade finance and international sales;

- fulfilling the requirements for anti-money laundering and counter terrorist financing (AML/CTF); imposing economic sanctions.

Vnesheconombank as a co-founder of Nonprofit Partnership for Cooperation between CIS Member-states — CIS Finance and Banking Council (CIS FBC) — participated in the annual meeting of the Council held within the framework of VI Vienna Economic Forum for CIS Countries and Eastern Europe. The Bank took part in jubilee V Baku International Banking Conference of CIS Member-states organized by CIS FBC in cooperation with International Bank of Azerbaijan and CIS Executive Committee.

In 2012, Vnesheconombank introduced a set of measures aimed at joining the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). ADFIAP membership will enable the Bank to benefit from the events held by the Association and use them as a platform for presenting various programmes and projects and establishing good relations with development institutions in the region. Vnesheconombank will have an opportunity to co-finance with ADFIAP members projects relating to infrastructure, environment, energy efficiency, social development, microfinance and SMEs.

Vnesheconombank in cooperation with BDC (Canada), BNDES (Brazil), CDB (China), NAFINSA (Mexico), OSEO (France), SIDBI (India) initiated the establishment of the Montreal Group — a nonprofit organization registered in September 2012 and bringing together development institutions to encourage an exchange of ideas and best practices with the aim of assisting SMEs in addressing business challenges. Vnesheconombank participated in the 1st session of the General Assembly and the Board of Directors of the Montreal Group held in Montreal (Canada) on 27–28 September 2012. As a starting initiative, the founding members of the Montreal Group agreed on creating online storage to ensure an exchange of best practices in assisting SMEs.

In 2012, Vnesheconombank joined a nonprofit business association — Norwegian-Russian Chamber of Commerce (NRCC or the Chamber). NRCC's members include most influential Norwegian financial institutions such as Den Norske Bank, SpareBank 1, Eksportfinans, Innovation Norway, GIEK, etc. Currently, the

Chamber includes major Norwegian investors in Russia: Statoil, Telenor, DNV, A-Pressen. The Chamber's activities are focused on fostering business relations between Norwegian and Russian companies in the field of imports, exports, business development, including tourism, as well as promoting mutual investment.

In September 2012, the Bank joined a non-profit partnership — National Payment Council (NPC). The Council established in March 2012 is an inter-sectoral association of payment market participants. The founding members include Association of Russian Banks, Russian Union of Industrialists and Entrepreneurs, major Russian banks (OJSC Sberbank, OJSC VTB Bank, OJSC Alfa Bank, etc.).

NPC's priorities comprise: upgraded legal and regulatory framework of the national payment system, enhanced security level of fund transfers, introduction of new payment technologies.

NPC seeks to consolidate the efforts of participants in the Russian national payment system to:

- secure stability, develop and enhance the efficiency of institutional and infrastructure components of the national payment system;
- consolidate the approaches of market participants to development of the national payment system;
- accumulate, assess and disseminate best practices;
- develop and promote in the Russian market advanced technologies employed by the national payment system.

10 Vnesheconombank's Participation in Panels, Councils, Working Groups under the Auspices of Public Authorities, and in Intergovernmental Commissions

Participation in Intergovernmental Commissions

Vnesheconombank carried out work in intergovernmental commissions (IGCs) being, primarily, guided by VEB's strategic priorities in foreign economic activities, with a focus on the project-related activities abroad.

In the framework of cooperation between Russia and foreign states, 92 intergovernmental commissions (11 of them with the CIS sates) and over 270 sub-commissions and working groups were established and operate.

In 2012, Vnesheconombank took part in more than 40 events held under the auspices of IGCs in Russia and abroad, in particular, with the engagement of such strategic partners as Ukraine, Germany, Japan, India and Great Britain. The Bank prepared and presented for consideration 15 proposals, which were later embedded in IGCs' final documents.

Vnesheconombank continued work in the context of bilateral subcommissions and working groups on financial and banking cooperation. The Bank also took part in the XI Meeting of the Russian-Vietnamese Working Group on Interbank Cooperation, XVIII Meeting of the Subgroup on Banking and Financial Issues of the Russian-Indian IGC, as well as the Working Group on Financial Cooperation under the auspices of the X Meeting of the Intergovernmental Russian-Cuban Commission on Commercial, Economic, Scientific and Technical Cooperation. At the meeting, the BRICS Technical Group for Interbank Cooperation agreed upon the drafts of a master agreement on loans in national currencies and an agreement on the L/Cs acceptance as part of the BRICS Interbank Cooperation Mechanism.

Furthermore, Vnesheconombank continued active interaction with Oesterreichische Kontrollbank AG, Vienna with a view to promoting and broadening cooperation in the context of the Russian-Austrian Working Group on Financial Cooperation (RAWGFC) of the Joint Russian-Austrian Commission for Trade and Economic Cooperation. In April 2012, Vienna (Austria) hosted the workshop Trade and Export Finance held in the framework of RAWGFC. The Russian side was represented by speakers from the VEB Group and other Russian banks.

In December 2012, the Bank's representatives took part in the meeting of the 14th Session of the Joint Russian-Austrian Commission for Trade and Economic Cooperation. In particular, the event served as a platform for a meeting between RAWGFC co-chairmen, where they summarized the results of the year 2012 and outlined interaction prospects for 2013.

Remarkably, Vnesheconombank's foreign projects received high-profile attention from the respective IGCs. Such projects include construction of the Ekibastuz GRES-2 power plant in Kazakhstan; delivery of electric locos for the Ukrainian Government Railway Authorities; delivery of Sukhoi Superjet 100 aircraft to Indonesia and Laos; construction of special-purpose railroad for coal transportation from the mines in Kalimantan, Indonesia; reconstruction of the trans-Korean railway at the Hasan-Rajin section (Republic of Korea); launch of the Angosat national satellite in Angola.

Development of long-term programmes of bilateral economic cooperation became a major business line within the IGC framework. Vnesheconombank contributed to preparation of the respective documents with Armenia and Uzbekistan, as well as of the road maps with Indonesia and Singapore.

Overall, Vnesheconombank working in IGCs was invariably displaying a prompt and constructive response to the events. That helped promote the Bank's interests, ensure its favorable positioning in foreign economic arena, enhance the image and business reputation, while maitaining potential for more efficient engagement with IGCs.

Participation in Commissions, Sub-Commissions and Committees under the Auspices of Public Authorities

The Bank paid special attention to work in the Government Commission for Economic Development and Integration headed by Igor Shuvalov, First Deputy Prime Minister of the

Russian Federation, as well as in the respective Sub-Commission for Economic Integration. The Commission and Sub-Commission tackled issues related to adjusting the Russian economy to the WTO and OECD membership requirements, with a strong focus on economy sustainability in the circumstances of an ever changing business environment.

Due recognition was given to the Bank's proposals put forward in the course of developing the RF Government action plan to create an integrated system of support for Russian companies operating in the foreign markets (including the respective road map), as well as to proposals to develop a regulatory framework for extension of state guarantees under credits or bond issues raised by legal entities for the purposes specified by the RF Government.

Vnesheconombank and Russia's Ministry of Economic Development, working together in an interagency working group on adjustment of the Russian legislation on financial support to exports to the OECD standards, amended Vnesheconombank's Memorandum on Financial Policies to augment the export finance function with financing of local costs incurred in the importer's country.

Russia's Ministry of Trade in cooperation with the Ministry of Finance and Vnesheconombank drafted the Russian Government's Resolution "On Approval of Rules for Federal Budgetary Subsidy in the Form of Asset Contribution by the Russian Federation to State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" in Partial Compensation for Expenses Incurred to Support High-Tech Production". The respective Rules were also drafted and approved by the Russian Government's Resolution No. 1302 dated. 13 December 2012.

Working on the Committee for Assessment and Expert Evaluation of Investment Projects, the Bank sought to expand opportunities for identification and selection of the promising projects in the CIS states that would help restore and strengthen cooperation ties and expand investment cooperation on the post-Soviet territory. In 2012, as part of its work on the Committee, the Bank performed initial analysis of a number of investment projects.

Participation in Working Groups Established to Reform the Structure and Modernize the Economy of Single-industry Towns

In 2012, the Bank continued work in the Working Group on Single-industry Town Modernization under the auspices of the Government Commission for Economic Development and Integration. The Commission reviews and approves finalized investment projects within the framework of comprehensive investment plans (CIPs) for single-industry town modernization.

The Commission held 12 meetings devoted to procurement and delivery of investment projects and policy measures specified in single-industry towns CIPs, as well as 2 absentee voting sessions on the list of single-industry towns facing a high risk of production decline and/or high unemployment rate. Furthermore, the Commission held 7 working meetings attended by the representatives of the executive authorities of the Russian constituent entities, single-industry town administrations, owners of core companies and investment project initiators.

The Working Group drafted and submitted to the Russian Government a list of 25 single-industry municipalities facing a high risk of production decline and/or high unemployment rate (exceeding 4%) and eligible for potential state support in case of a downturn in the Russian economy.

Furthermore, in the year under report, Vnesheconombank's Working Group on Single-industry Town Modernization held 2 meetings to discuss preparation of documents under investment projects submitted for Vnesheconombank's consideration within the framework of single-industry town CIPs.

11 Charitable Activities and Sponsorship

Active engagement in charitable activities as a demonstration of moral aspiration and inner desire to render support for those in extreme need evidences spiritual maturity of society.

For years, Vnesheconombank has been participating in charitable activities. The Bank's social initiatives are targeted for educational and healthcare institutions, museums, theatres and the Russian Orthodox Church.

Vnesheconombank sponsors different events and projects falling within its investment priorities.

Moreover, the Bank devotes special attention to developing high achievements sports in Russia by delivering sponsorship aid to sport teams and acting as a sponsor of large-scale sport events.

Healthcare and Social Support

In 2012, the Bank provided assistance primarily to those who need it most desperately: orphans, children deprived of parental care, veterans of the Great Patriotic War, families of military personnel wounded or killed at flashpoints.

In the reporting year, Vnesheconombank continued to sponsor all the healthcare projects started in the past years. In particular, in 2012 the Bank supported a number of healthcare institutions and organizations such as Research Institute for Pediatric Oncology and Hematology at the Blokhin Cancer Research Centre, Moscow Regional Psychoneurological Hospital for Children with Central Nervous System Disorders, the First Hospice for Children with Cancer, Interregional Charitable Public Organization to Help Children Suffering from Rheumatic and Other Chronic Diseases "Vozrozhdenie".

In 2012, Vnesheconombank financed the purchase of expensive medical equipment for FGBU Federal Research and Clinical Centre for Specialized Types of Medical Care and Medical Technologies of FMBA of Russia.

Culture and Education

Traditionally, the Bank supports major Russian cultural events. In 2012, funds were allocated to hold V. Gergiev's Music Festival "Stars of White Nights", Military Band Festival "Spasskaya Tower", Gala Ballet "Ballet Stars of the 21st Century", Musical "Time Cannot Be Chosen" based on Kataev's novel. Furthermore, in 2012 Vnesheconombank supported the exhibitions "100 Years of the Museum in Volkhonka Street" at the Pushkin State Museum of Fine Arts and "The Golden Age of English Court: from Henry VIII to Charles II" at the Moscow Kremlin Museums.

Within the framework of the Year of Russia in Germany and the Year of Germany in Russia, Vnesheconombank sponsored the exhibition "Russians and Germans: 1000 Years of History, Arts and Culture" at the State Historical Museum.

For many years, the Bank has supported the Pyotr Fomenko Studio, and the Academy of Young Opera Soloists of the St. Petersburg Mariinsky Theatre. Vnesheconombank patronized the concerts of young talented singers at the La Fenice Theatre (Venice, Italy) and the Petruzzelli Theatre (Bari, Italy) as well as theatres in Rome and Vienna.

In the year under review, the Bank continued to provide grants to the most talented students of MGIMO University, Lomonosov Moscow State University, Finance University and Higher School of Economics.

Sports

Seeking to maintain traditions, Vnesheconombank supported the development of Russian sports. The Bank's longstanding partners include the All-Russia Volleyball Federation, Russian Hockey Federation, the All-Russia Swimming Federation and the Russian Cycling Federation. Last year Vnesheconombank delivered sponsor aid to the Russian Rugby Union, Russian Football Union and acted as a partner of the Rowing World Cup, with the World Cup stages taking place in Switzerland, Serbia, United Kingdom and Germany, as well as "Tennis Legends in Moscow" Tournament.

Support for Russian Orthodox Church

The Bank is actively involved in preserving and developing the religious traditions and spiritual culture. Vnesheconombank views financing of the preservation and restoration of operating churches as one of the priority tasks.

In 2012, funds were transferred to ensure restorations and repairs of the Spaso-Preobrazhenskiy Solovetskiy Monastery, the Presvyataya Bogoroditsa Pokrov Church in Tyunezh (Tula Region), the Svyatye Petr and Pavel Apostols Church of Svyato-Troitze-Sergieva Lavra, the Spasskaya Church in Ubory (Odintsovo District, Moscow Region), the Ioanno-Predtechenskiy Church in Butyrki (Lyubimy Municipal District, Yaroslavl Region), the Kazan Icon of the Mother of God Church in Moscow, the Tikhvin Icon of the Mother of God Church in Putilovo (Leningrad Region).

In 2012, the Bank continued financing the construction and completion works for the Centre of Spiritual Development of Children and Youth at the Moscow Danilov Monastery.

Apart from this, Vnesheconombank continued rendering financial aid to the Russian Orthodox Church abroad. The Bank supports the construction of the Russian Orthodox Church Parish of Prepodobnyi Sergey Radonezhskiy in Johannesburg (Republic of South Africa) and the orthodox monastery in Hetzendorf (Germany).

Environment Protection

Since 2010, Vnesheconombank has been financing an environmental project on preserving the flora and fauna diversity at the Belovezhskaya Pushcha National Park. In 2012, the Bank made charitable contributions to the State Environment Institution “National Park “Pripyatsky” and the Autonomous Non-Profit Organization “Eurasian Centre for Leopard Preservation”.

Economic Forums, Conferences and Exhibitions

The Bank sponsors various events and projects that meet its objectives and major investment business lines.

In the reporting year, the APEC Summit in Vladivostok, held in Russia for the first time, became one of the major international events. In 2012, Russia chaired the APEC Summit. In a sponsor capacity, Vnesheconombank actively participated in the pre-event activities.

The first Moscow International Forum for Innovative Development “Open Innovations” organized by leading Russian development institutions — Vnesheconombank, Russian Venture Company, OJSC RUSNANO and Skolkovo Foundation — was another prominent event of the year.

The Bank is further involved in sponsoring the autonomous non-profit organization Agency for Strategic Initiatives to Promote New Projects and the non-profit fund Forum Analytical Centre established in 2011 to provide consulting support for activities related to setting up an MIFC in Russia.

In the year under review, Vnesheconombank sponsored the All-Russia Strategy and Business Management Championship within the framework of the Global Management Challenge, X Annual Russia & CIS Airfinance Conference and XII Annual European Business Angel Network Congress.

In order to support and improve Russia's investment image, the Bank acted as a sponsor in a number of Russian and international projects including the St. Petersburg International Economic Forum 2012, the Sochi-2012 International Investment Forum, IX Krasnoyarsk Economic Forum, annual sessions of the Russian Economic and Financial Forum; Regional Cooperation Forums in Switzerland, Austria, France, Germany and Monaco and the Annual Banking Forum of the Eastern Europe and CIS. Traditionally, Vnesheconombank acts as a partner and sponsor of the Russian-German St. Petersburg Dialog Forum.

In 2012, Vnesheconombank also participated as a sponsor in a number of major exhibitions both in Russia and abroad. These include Transport of Russia-2012; INNOPROM-2012; EXPO-2012 in Yeosu, Korea; IX Gidroaviasalon in Gelendzhik; II International Forum Engineering Technologies-2012.

12 Accounting and Reporting

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

Over 2012, the Bank engaged in accounting procedure in line with the Accounting Rules applicable to Banks on the Territory of the Russian Federation, as approved by the CBR Directive No. 302-P dated 27 March 2007.

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

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

Independent auditors' report

ERNST & YOUNG

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

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

To the Supervisory Board of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"

We have audited the accompanying consolidated financial statements of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2012, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2012, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries as at 31 December 2012, and their financial performance and cash flows for the year 2012 in accordance with International Financial Reporting Standards.

O.V. Youshenkov
Partner
Ernst & Young LLC

23 April 2013

Details of the audited entity

Name: state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"
State corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" was formed by means of reorganization of Bank for Foreign Economic Affairs of the USSR pursuant to and in accordance with Federal Law No. 82-FZ dated 17 May 2007, "On Bank for Development". In accordance with Federal Law No. 395-1, "On Banks and Banking Activity", dated 2 December 1990, the state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" performs banking operations as stipulated by Federal Law No. 82-FZ dated 17 May 2007, "On Bank for Development".
Certificate of registration in the State Register of Legal Entities No. 1077711000102 issued by Department of Federal Tax Service of Moscow on 8 June 2007.
Address: Russia 107996, Moscow, Prospect Akademika Sakharova, 9.

Details of the auditor

Name: Ernst & Young LLC
Main State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Consolidated Statement of Financial Position

As of 31 December 2012

(in millions of Russian rubles)

	Notes	2012	2011
1	2	3	4
ASSETS			
Cash and cash equivalents	10	239,997	178,028
Precious metals		744	260
Financial assets at fair value through profit or loss	11	72,119	94,362
Financial assets at fair value through profit or loss lent and pledged under repurchase agreements	11	16,668	–
Due from credit institutions	12	446,476	457,698
Loans to customers	14	1,497,239	1,228,923
Loans to customers pledged under repurchase agreements	14	148	–
Investment financial assets:	15		
available-for-sale		493,813	454,285
held-to-maturity		16,582	17,779
Investment financial assets available for sale pledged under repurchase agreements	15	11,751	4,715
Due from the Russian Government	16	118	124
Receivable from the Russian Government under London Club Arrangements	8	–	1,147
Investments in associates	17	9,510	5,894
Property and equipment	18	41,813	34,286
Income tax assets	19	3,566	3,332
Other assets	21	68,556	51,114
Total assets		**2,919,100**	**2,531,947**
LIABILITIES			
Due to credit institutions	22	569,942	472,014
Financial liabilities at fair value through profit or loss	13	2,494	6,945
Due to the Russian Government and the Bank of Russia	8	981,868	884,592
Due to London Club creditors	8	–	1,147
Amounts due to customers	23	335,827	352,424
Debt securities issued	24	388,939	261,030
Income tax liabilities	19	1,702	1,885
Provisions	20	997	206

	Notes	2012	2011
1	2	3	4
Other liabilities	21	105,448	19,029
Total liabilities		**2,387,217**	**1,999,272**
EQUITY	25		
Charter capital		382,571	382,571
Additional paid-in capital		62,600	62,600
Retained earnings		46,330	28,845
Unrealized gains on investment financial assets available for sale		41,102	57,782
Foreign currency translation reserve		(1,426)	58
Equity attributable to the Russian Government		**531,177**	**531,856**
Non-controlling interests		**706**	**819**
Total equity		**531,883**	**532,675**
Total equity and liabilities		**2,919,100**	**2,531,947**

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

Vladimir A. Dmitriev *Chairman of the Bank*

Vladimir D. Shaprinsky *Chief Accountant*

17 April 2013

The accompanying selected notes 1-35 are an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2012

(in millions of Russian rubles)

	Notes	2012	2011
1	2	3	4
CONTINUING OPERATIONS			
Interest income			
Loans to customers		119,759	87,947
Amounts due from credit institutions and cash equivalents		39,852	39,653
Investment securities		19,972	17,545
		179,583	**145,145**
Finance leases		20,427	12,128
Financial assets at fair value through profit or loss		2,315	2,514
Other investment financial assets available for sale		1,829	–
		204,154	**159,787**
Interest expenses			
Amounts due to credit institutions and the Bank of Russia		(37,050)	(24,079)
Amounts due to customers and the Russian Government		(63,624)	(56,984)
Debt securities issued		(22,984)	(14,390)
		(123,658)	**(95,453)**
Net interest income		**80,496**	**64,334**
Provision for impairment of interest-earning assets	12, 14	(47,872)	(38,790)
Net interest income after provision for impairment of interest-earning assets		**32,624**	**25,544**
Net fee and commission income	27	**5,902**	**6,612**
Gains less losses arising from financial instruments at fair value through profit or loss		(6,116)	(2,508)
Gains less losses from investment financial assets available for sale	28	2,248	10,130
Gains less losses from foreign currencies:			
dealing		12,388	12,275
translation differences		2,237	(17,287)
Gains less losses on initial recognition of financial instruments and restructuring		5,209	3,746
Share in income of associates	17	607	285
Dividends		10,383	4,551
Other operating income		5,400	3,136
Non-interest income		**32,356**	**14,328**

	Notes	2012	2011
1	2	3	4
Payroll and other staff costs		(19,411)	(16,890)
Occupancy and equipment		(5,321)	(5,156)
Depreciation of property and equipment	18	(1,763)	(1,334)
Taxes other than income tax		(3,720)	(3,050)
Other impairment and provisions	20	(965)	(366)
Other operating expenses	29	(19,278)	(11,555)
Non-interest expense		**(50,458)**	**(38,351)**
Profit before income tax and hyperinflation effect		**20,424**	**8,133**
Profit/(loss) on net monetary position resulting from hyperinflation		(398)	381
Profit before income tax		**20,026**	**8,514**
Income tax expense	19	(2,538)	(1,034)
Profit for the reporting year		**17,488**	**7,480**
Attributable to:			
the Russian Government		17,509	7,474
non-controlling interests		(21)	6
		17,488	**7,480**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012

(in millions of Russian rubles)

	Notes	2012	2011
1	2	3	4
Profit for the reporting year		**17,488**	**7,480**
Other comprehensive income			
Change in unrealized losses on investment financial assets available for sale	25	(16,715)	(27,933)
Income tax relating to components of other comprehensive income	19	41	7
Translation differences		(1,647)	(337)
Other comprehensive loss for the reporting year, net of tax		**(18,321)**	**(28,263)**
Total comprehensive loss for the reporting year		**(833)**	**(20,783)**
Attributable to:			
the Russian Government		(656)	(20,733)
non-controlling interests		(177)	(50)
		(833)	**(20,783)**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

(in millions of Russian rubles)

	Attributable to the Russian Government							
	Charter capital	Additional paid-in capital	Retained earnings/ (accumulated deficit)	Unrealized gains/ (losses) on investment financial assets available for sale	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
1	2	3	4	5	6	7		
31 December 2010	**382,571**	**–**	**25,043**	**85,679**	**373**	**493,666**	**1,438**	**495,104**
Total comprehensive income/(loss) for the year	–	–	7,474	(27,908)	(299)	(20,733)	(50)	(20,783)
Contribution of the Russian Government (Note 25)	–	62,600	–	–	–	62,600	–	62,600
Change in interest in existing subsidiaries (Note 6)	–	–	(3,672)	11	(16)	(3,677)	(561)	(4,238)
Dividends from subsidiaries (Note 25)	–	–	–	–	–	–	(8)	(8)
31 December 2011	**382,571**	**62,600**	**28,845**	**57,782**	**58**	**531,856**	**819**	**532,675**
Total comprehensive income/(loss) for the year	–	–	17,509	(16,679)	(1,486)	(656)	(177)	(833)
Change in interest in existing subsidiaries (Note 6)	–	–	(24)	(1)	2	(23)	64	41
31 December 2012	**382,571**	**62,600**	**46,330**	**41,102**	**(1,426)**	**531,177**	**706**	**531,883**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

(in millions of Russian rubles)

	Notes	2012	2011
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the reporting year		17,488	7,480
Adjustments:			
Change in interest accruals		(24,606)	(8,226)
Impairment and other provisions		48,837	39,156
Changes in unrealized revaluation of trading securities and derivative financial instruments		13,044	(4,969)
Gains less losses from investment financial assets available for sale, net of impairment loss		(4,217)	(19,040)
Impairment of investment financial assets available for sale		1,969	8,910
Changes in translation differences		(2,237)	17,287
Gains less losses on initial recognition of financial instruments and restructuring		(5,209)	(3,746)
Share in net income of associates		(607)	(285)
(Profit) / loss on net monetary position resulting from hyperinflation		398	(381)
Depreciation and amortization		2,419	1,873
Deferred income tax		(135)	(1)
Other changes		(2,435)	(1,488)
Cash flows from operating activities before changes in operating assets and liabilities		**44,709**	**36,570**
Net (increase)/decrease in operating assets			
Precious metals		(477)	(1)
Financial assets at fair value through profit or loss		(12,289)	(9,847)
Amounts due from credit institutions		(40,351)	(35,988)
Loans to customers		(315,197)	(416,379)
Due from the Russian Government		0	44
Other assets		(19,725)	(9,537)
Net increase/(decrease) in operating liabilities			
Due to credit institutions, net of long-term interbank financing		63,116	55,354
Due to the Russian Government and the Bank of Russia, net of long-term special purpose financing		108,799	26,246
Amounts due to customers		(16,490)	31,648
Debt securities issued, net of bonds and Eurobonds		5,192	3,708

	Notes	2012	2011
1	2	3	4
Other liabilities		7,788	1,344
Net cash flows used in operating activities		**(174,925)**	**(316,838)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment financial assets		(350,672)	(260,441)
Proceeds from sale and redemption of investment financial assets		290,090	264,523
Purchase of property and equipment		(7,918)	(11,161)
Proceeds from sale of property and equipment		258	191
Subordinated loans repaid by Russian credit institutions		50,000	–
Investments in associates	17	(2,548)	(19)
Acquisition of subsidiaries, net of cash acquired	6	–	(2,178)
Net cash flows used in investing activities		**(20,790)**	**(9,085)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term interbank financing raised		91,155	218,477
Long-term interbank financing repaid		(40,243)	(76,975)
Long-term special purpose financing raised from the Russian Ministry of Finance		50,000	37,000
Long-term financing repaid to the Russian Ministry of Finance		(50,000)	–
Placement of bonds and Eurobonds		138,201	97,704
Redemption of bonds		–	(27,923)
Purchase of bonds issued by the Group		(26,561)	(15,561)
Proceeds from sale of previously purchased bonds		16,643	8,499
Change in interest in existing subsidiaries		41	(4,238)
Dividends of subsidiaries		–	(8)
Contribution to additional paid-in capital from the Russian Government, receipt of subsidies and government assistance		80,000	62,600
Net cash flows from financing activities		**259,236**	**299,575**
Effect of changes in foreign exchange rates against the ruble on cash and cash equivalents		(1,552)	7,704
Net increase/(decrease) in cash and cash equivalents		**61,969**	**(18,644)**
Cash and cash equivalents, beginning	**10**	**178,028**	**196,672**
Cash and cash equivalents, ending	**10**	**239,997**	**178,028**
SUPPLEMENTAL INFORMATION			
Income tax paid		(3,096)	(884)
Interest paid		(115,338)	(81,174)
Interest received		168,979	137,917
Dividends received		10,469	4,582

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

Notes to 2012 consolidated financial statements

(in millions of Russian rubles)

1. Principal activities

TThe Group of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" comprises state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" ("Vnesheconombank" or the "Bank"), Russian banks, CIS-based banks, and Russian and foreign companies (collectively, the "Group"). List of major subsidiaries is presented in Note 3, associates – in Note 17.

Vnesheconombank was formed on 8 June 2007 pursuant to and in accordance with Federal Law No. 82-FZ dated 17 May 2007, "On Bank for Development" (the "Federal Law"), by means of reorganization of Bank for Foreign Economic Affairs of the USSR ("Vnesheconombank of the USSR") and is its legal successor. Vnesheconombank of the USSR was a specialized state bank of the Russian Federation servicing, in an agency capacity, the foreign debt and assets of the former USSR and the Government of the Russian Federation and its authorized institutions (the "Russian Government").

In accordance with Federal Law No. 395-1, "On Banks and Banking Activity", dated 2 December 1990, Vnesheconombank performs banking operations as stipulated by the Federal Law. The Bank has no right to attract deposits from individuals. The legislation on banks and banking activity shall apply to the Bank only to the extent that is does not contradict the mentioned Federal Law and subject to certain specifics.

The main principles and areas of the Bank's activity are set out in the Federal Law and the Memorandum on the Bank's Financial Policies, approved by Resolution of the Russian Government No. 1007-r dated 27 July 2007. The Memorandum on the Bank's Financial Policies provides for the main areas of the Bank's investing and financing activities, stipulates quantitative limitations, conditions and criteria of specific operations. The Russian Government, by Resolution No. 2610-r dated 29 December 2012, approved amendments to the Memorandum setting out terms and procedures for providing financial support and guarantees to companies working on state defense contracts and involved in federal-level defense and security programs. In addition, the Memorandum was amended by adding a section on the formal process for Vnesheconombank to make decisions on investing pension savings in bonds covered by guarantees of the Russian government and bonds issued by companies, which have been assigned a long-term credit rating not lower than Russia's sovereign rating by an international credit rating agency approved in accordance with the procedure established by a federal governmental body for financial markets, for the purpose of financing the government's major infrastructure development projects.

The management bodies of the Bank are the Supervisory Board chaired by the Prime Minister of the Russian Federation, the Management Board and the Chairman of the Bank. In accordance with the Federal Law, the Chairman of the Bank is appointed by the President of the Russian Federation for a term which cannot exceed 5 years.

Vnesheconombank activities are aimed at overcoming infrastructure growth constraints, upgrading and promoting non-raw materials economic sector, encouraging innovations and exports of high-technology products, carrying out projects in special economic zones, environment protection projects, and supporting small and medium-sized businesses. The Bank actively participates in large investment projects contributing to the development of infrastructure and high-technology industries of the real sector of the economy.

As detailed in Note 25, the Bank's charter capital has been formed by means of asset contributions from the Russian Federation made under decisions of the Russian Government, including contribution of state-owned shares of OJSC "Russian Bank for Development" (in 2011 renamed to – OJSC "Russian Bank for Small and Medium Enterprises Support" ("SME Bank")), CJSC "State Specialized Russian Export-Import Bank" (EXIMBANK OF RUSSIA) and Federal Center for Project Finance (FCPF) to the charter capital.

Vnesheconombank performs the functions of an agent of the Russian Government for the purpose of accounting, servicing and repaying the foreign national debt of the former USSR and the Russian Federation (including internal currency debt of the former USSR), accounting, servicing and repaying (using) government loans issued by the former USSR and the Russian Federation to foreign borrowers; collecting (recovery) of debts from legal entities, constituent entities of the Russian Federation and municipal governments under cash liabilities to the Russian Federation; providing and executing state guarantees of the Russian Federation and monitoring projects implemented by the Russian Federation with involvement of international financial institutions.

Vnesheconombank performs the functions of an agent of the Russian Government under the Agreement entered into with the Ministry of Finance of the Russian Federation (the "Russian Ministry of Finance") on 25 December 2009, Additional Agreement No. 1 dated 23 December 2010, Additional Agreement No. 2 dated 8 December 2011, and Additional Agreement No. 3 dated 23 July 2012 (collectively, the "Agency Agreements").

(in millions of Russian rubles)

1. Principal activities (continued)

In 2012, Vnesheconombank received a lump-sum consideration in the amount of RUB 534 million (2011: RUB 534 million) for the agency services provided pursuant to Federal Law No. 371-FZ "On the Federal Budget for 2012 and the 2013 and 2014 Planned Period" dated 30 November 2011. This consideration was recorded within fee and commission income of the Bank under agency agreements (Note 27).

As described in Note 8, at 31 December 2011, the Russian Government owed Vnesheconombank RUB 1,147 million relating to the London Club debt obligation of Vnesheconombank. In pursuance of a letter of the Russian Ministry of Finance, in December 2012 Vnesheconombank derecognized the unsettled debt owed to the London Club.

The Bank performs functions of the agent servicing the foreign debt of the former USSR and of the Russian Federation, including maintenance of accounting records, settlements and reconciliation of above debt until the date determined by the Russian Government.

In January 2003, the Bank was nominated as the state trust management company for the trust management of pension savings funds accumulated by the State Pension Fund of the Russian Federation (the SPF). Vnesheconombank performs trust management of accumulated pension savings of insured citizens who have not selected a private management company and who have selected the Bank as the management company.

On 2 August 2009, Federal Law No. 182-FZ dated 18 July 2009, "On Amendments to Federal Law "On Non-state Pension Funds" and Federal Law "On Investment of Funds to Finance the Funded Part of Labor Pensions in the Russian Federation", came into effect which provides that from 1 November 2009 the Bank as a state trust management company for pension savings shall form two portfolios: an extended investment portfolio and an investment portfolio of government securities. The Bank shall form the portfolios in accordance with the investment declarations approved by Resolution of the Russian Government No. 540 dated 1 September 2003 and Resolution of the Russian Government No. 842 dated 24 October 2009. In accordance with Resolution of the Russian Government No. 658 dated 29 June 2012 "On Amendments to Resolution of the Russian Government No. 970 dated 22 December 2008", Vnesheconombank was appointed as state management company for funds in the payment reserve. The salary reserve is formed in accordance with Federal Law No. 360-FZ of 30 November 2011 "Concerning the Procedure for Using Pension Accruals to Finance Payments" for purposes of payments to the cumulative part of the old-age pension.

During 2012, the Bank, as a state management company, mainly invested in state securities denominated in Russian rubles, and corporate bonds of highly credible Russian issuers, as well as mortgage securities and bonds of international financial organizations. At 31 December 2012 and 31 December 2011, total funds of the SPF placed in management to the state management company amounted to RUB 1,635,758 million and RUB 1,328,885 million in the extended investment portfolio and RUB 8,008 million and RUB 5,157 million in the portfolio of government securities, respectively. At 31 December 2012, total funds of the SPF placed in management to the state management company amounted to RUB 313 million in the payment reserve investment portfolio and RUB 37 million in the investment portfolio of pension savings of insured persons, whom assigned a term pension payment.

In accordance with Resolution of the Russian Government No. 970 dated 22 December 2008, the Bank shall perform functions of state trust management company for pension savings and state management company for the payment reserve until 1 January 2014.

Since October 2008, Vnesheconombank has been taking measures aimed at supporting the financial system of the Russian Federation so as to implement Federal Law No. 173-FZ dated 13 October 2008, "On Additional Measures to Support the Financial System of the Russian Federation" (Federal Law No. 173-FZ). As detailed in Notes 12 and 14, the Bank extended unsecured subordinated loans to Russian banks, and starting from the end of December 2010, the Bank acts as a lender for operations to enhance affordability of mortgage loans through extending loans to OJSC "The Agency for Housing Mortgage Lending" (OJSC "AHML").

The Bank's head office is located in Moscow, Russia. The Bank has representative offices in St. Petersburg (Russia), Khabarovsk (Russia), Yekaterinburg (Russia), Pyatigorsk (Russia), Rostov-on-Don (Russia), Krasnoyarsk (Russia), Nizhny Novgorod (Russia), New-York (the United States of America), London (the United Kingdom of Great Britain and Northern Ireland), Milan (the Italian Republic), Frankfurt-am-Main (the Federal Republic of Germany), Johannesburg (the Republic of South Africa), Mumbai and New-Delhi (the Republic of India), Beijing (the People's Republic of China), Paris (the French Republic) and Zurich (the Swiss Confederation). The Bank's principal office is located at 9 Prospekt Akademika Sakharova, Moscow.

At 31 December 2012 and 31 December 2011, the Group had 16,945 and 17,935 employees, respectively.

2. Basis of preparation

General

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

The Bank, its subsidiaries and associates are required to maintain their accounting records and prepare financial statements in accordance with regulations applicable in their country of registration. These consolidated financial statements are based on those accounting books and records, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies below. For example, trading securities, financial assets designated as at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments and investment property have been measured at fair value.

These consolidated financial statements are presented in millions of Russian rubles ("RUB million"), unless otherwise is indicated.

Functional currency

The Russian Ruble is the functional currency of Vnesheconombank and the presentation currency of the Group. Transactions in other currencies are treated as transactions in foreign currencies. The Group's foreign subsidiary OJSC "Belvnesheconombank" (Bank BelVEB OJSC) uses the Belarusian Ruble ("BYR") as its functional currency. Public Stock Company "Joint-Stock Commercial Industrial and Investment Bank" (PSC Prominvestbank), another foreign subsidiary of the Group, uses the Ukrainian Hryvnia ("UAH") as its functional currency.

London Club debt amount denominated in foreign currencies is recorded at the official rates of the Bank of Russia at 31 December 2011 (at 31 December 2012, no debt was owed).

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 Russian Ministry of Finance. Clearing currencies-denominated assets and liabilities have been translated into RUB at the official rates of the Bank of Russia at 31 December 2012 and 31 December 2011.

Segregation of operations

In its agency capacity the Bank manages and services certain assets and liabilities on behalf of the Russian Government. Balances of respective assets and liabilities have not been included in the accompanying statements of financial position given the agency nature of the relationship and in accordance with the underlying Agency Agreements and specific guidelines (hereinafter, the "Guidelines") approved by the Board of Directors of Vnesheconombank of the USSR and the Russian Ministry of Finance in 1997.

The Guidelines stipulated the following assets and liabilities are the responsibility of the Russian Ministry of Finance and have, therefore, been excluded from the accompanying statements of financial position:

- 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 8);

- Internal foreign currency debt to residents of the former USSR;

- 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;

- Clearing, barter, and mutual settlements, including corresponding settlements with clients, executed on the basis of intergovernmental agreements;

- Participation claims and liabilities related to the reorganization of former USSR-owned foreign banks, which are subject to trilateral settlement by the Bank of Russia, the Russian Ministry of Finance, and Vnesheconombank, and equity participations financed by borrowings, the responsibility for which was assumed by the Russian Ministry of Finance;

- Claims against Russian commercial banks and other commercial entities for guarantees in favor of the Russian Ministry of Finance under centralized operations, as well as other claims and liabilities that resulted from, or arise as a result of, operations conducted at the expense of the Russian Government.

(in millions of Russian rubles)

3. Major subsidiaries

The Group's major subsidiaries included in the consolidated financial statements are presented in the table below:

Subsidiaries	Ownership 31 December 2012	Ownership 31 December 2011	Country of incorporation	Type of activity
EXIMBANK OF RUSSIA	100%	100%	Russia	Banking
Bank BelVEB OJSC	97.52%	97.49%	Republic of Belarus	Banking
OJSC "VEB-Leasing"	98.96%	98.96%	Russia	Leasing
"SME Bank"	100%	100%	Russia	Banking
Sviaz-Bank	99.47%	99.47%	Russia	Banking
PSC Prominvestbank	97.85%	97.85%	Ukraine	Banking
CJSC "Kraslesinvest"	100%	100%	Russia	Production and processing of materials
CJSC "GLOBEXBANK"	99.99%	99.99%	Russia	Banking
LLC "VEB-Capital"	100%	100%	Russia	Finance intermediary
"VEB Engineering" LLC	67.55%	67.55%	Russia	Investment project implementation services
FCPF	100%	100%	Russia	Finance intermediary
OJSC "Development Corporation of North Caucasus"	100%	100%	Russia	Advisory services, investment project support
RDIF Management Company LLC	100%	100%	Russia	Management company
EXIAR	100%	100%	Russia	Insurance
OJSC "The Far East and Baikal Region Development Fund"	100%	100%	Russia	Support to investment projects
	Share of assets:			
Closed-end Mutual Hedge Fund "MRIF"	99.92%	99.92%	Russia	Mutual fund
Closed-end Mutual Equity Fund "MRIF-II"	99.9992%	99.9975%	Russia	Mutual fund
Mutual Fund RDIF	100%	100%	Russia	Mutual fund

At 31 December 2012 and at 31 December 2011 the Group is the sole shareholder and fully controls the activities of OJSC "VEB-Leasing". At 31 December 2012 the Group is the wholly owner and fully controls "VEB Engineering" LLC.

At 31 December 2012 and at 31 December 2011 the Group owns 100% shares of AMURMETAL HOLDING LIMITED, a company holding shares of the entity, which is the owner of a group of metallurgical enterprises. The Group lost control over the company as a result of entering into an option agreement for the sale of the above interest, thus financial statements of the company had not been included in the consolidated financial statements of the Group at 31 December 2012 and 31 December 2011.

At 31 December 2012 and at 31 December 2011 the Group owns 100% shares of Machinery & Industrial Group N.V., a company holding shares of a group of machinery enterprises. The Group did not obtain control over the company due to simultaneously concluded option agreement for the sale of the above interest. Due to absence of control, financial statements of the Machinery & Industrial Group N.V. have not been included in the consolidated financial statements of the Group at 31 December 2012 and 31 December 2011.

In February 2012, under Bank BelVEB OJSC private subscription for additional shares, Vnesheconombank paid for 4,055,000,000 shares (equivalent to RUB 1,456 million as at the date of payment). As a result of state registration of the additional issue of shares completed in May 2012, the Bank's share in the charter capital of Bank BelVEB OJSC amounted to 97.52%.

In March, October and December 2012, the Bank transferred funds in the total amount of RUB 2,210 million to pay for 159,562 additional investment units of Closed-end Mutual Equity Fund "MRIF-II". As a result, the Bank's share in the fund's assets increased up to 99.9992%.

In March, May and August 2012, Vnesheconombank made additional contributions to the charter capital of LLC "VEB Capital" in the total amount of RUB 4,025 million. The Bank's share in the charter capital of LLC "VEB Capital" remained unchanged at 100%.

In May 2012, Vnesheconombank purchased 3,100,000 ordinary registered shares additionally issued by OJSC "Development Corporation of North Caucasus" in the total amount of RUB 3,100 million. The Bank's share in the charter capital of its subsidiary remained unchanged at 100%.

In June 2012, the Bank purchased 1,979 ordinary registered shares additionally issued by "SME Bank" in the amount of RUB 1,979 million. Vnesheconombank's share in the charter capital of its subsidiary remained unchanged at 100%.

(in millions of Russian rubles)

4. Summary of significant accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS during the year.

Amendments to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendments require additional disclosure about financial assets that have been transferred to enable the users of the Group's financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

Other amendments to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- *IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
- *IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights (stakes in equity), or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. If necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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

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

Business combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquire, that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, either at fair value or at the proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest are measured at acquisition date fair value. Acquisition costs incurred are expensed.

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

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

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

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

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued))

Business combination (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in consolidated financial statements as an adjustment to the shareholders' equity.

Consolidated financial statements, including comparative figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights or participation shares (stakes in equity), 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 acquisition cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share in net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated statement of income, and its share of changes in reserves is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds the value of its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable, or when the instrument is derecognized.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin. Derivatives are also classified as held for trading. Gains and losses resulting from operations with financial assets at fair value through profit or loss are recognized in the consolidated statement of income within gains less losses from financial instruments at fair value through profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in the consolidated statement of income when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment financial assets available for sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three other categories. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses from changes in fair value being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired. In such case accrued gains or losses previously reported in other comprehensive income are reclassified to the consolidated statement of income as gains less losses from investment financial assets available for sale. However, interest calculated using the effective interest method is recognized in the consolidated statement of income.

Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment unless there are other appropriate and applicable methods which reasonably estimate their fair value.

Determination of fair value

The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option valuation models and other valuation techniques.

Offsetting

Financial assets and liabilities are offset with only the net amount being reported in the consolidated statement of financial position when there is a legal right to set off the recognized amounts and there is an intention to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset meeting the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;

BACK TO CONTENTS

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

other financial assets may be reclassified to the available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to the loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value at the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset at the date of reclassification becomes its new cost or amortized cost, as applicable.

Cash and cash equivalents

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

Precious metals

Gold and other precious metals are recorded at Bank of Russia bid prices, bid prices of National Bank of Belarus ('NB RB') and National Bank of Ukraine('NBU'), which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the above mentioned bid prices are recorded as translation differences from precious metals in other income.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ('repo') are treated as secured financing transactions. Securities sold under repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to the Bank of Russia, credit institutions or customers. Securities purchased under agreements to resell ('reverse repo') are recorded as cash and cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from financial instruments at fair value through profit or loss in the consolidated statement of income. The obligation to return them is recorded at fair value as a financial trade liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and securities markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from financial instruments at fair value through profit or loss or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated statement of income.

Promissory notes

Promissory notes purchased are included in trading or investment securities, or in cash and cash equivalents, in amounts due from credit institutions or in loans to customers, depending on the aim and terms of their purchase, and are recorded in accordance with the accounting policies for these categories of assets.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to the Bank of Russia and the Russian Government, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated statement of income.

For the purposes of the consolidated statement of cash flows, the Group recognizes amounts attracted from banks for a period of up to one year in 'Cash flows from operating activities' category, for a period exceeding one year - in 'Cash flows from financing activities' category.

Government grants and government assistance

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

Government loans provided at below market interest rates are recognized in accordance with IAS 39. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the statement of financial position. This benefit is accounted for in accordance with IAS 20.

Leases

Finance leases – Group as lessee

The Group recognizes finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.

Finance leases – Group as lessor

The Group recognizes lease receivables at value equal to the net investments in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating leases – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease-term and included into expenses for occupancy and equipment.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in statement of income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

4. Summary of significant accounting policies (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Provisions for impairment of financial assets in these consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation, Ukraine and in the Republic of Belarus and what effect such changes might have on the adequacy of the provisions for impairment of financial assets.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance for impairment are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in subsequent years, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of income.

4. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated statement of income.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income – is reclassified from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the statement of financial position;

- If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses the same approach as for financial liabilities described below;

- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan in not impaired after restructuring, the Group derecognizes the initial asset and a new asset is recorded with recognition of the difference in the carrying value of the assets in the consolidated statement of income.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

4. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including an option cash-settled on net basis or a similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including an option cash-settled on net basis or a similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in the 'Other liabilities', being the fee received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income. The fee received is recognized in the consolidated statement of income on a straight-line basis over the life of the guarantee.

Taxation

Current income tax expense is calculated in accordance with the regulations currently in force in the respective countries that the Group operates. Income tax expense of the Group comprises current and deferred income tax. Current income tax is calculated by applying income tax rate effective at the reporting date to the taxable base.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax legislation that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Income and expenses of Vnesheconombank are not taxable for income tax purposes.

Various operating taxes, which are assessed on the Group's activities are included in 'Taxes other than income tax' in the consolidated statement of income.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	15–60
Equipment	2–10
Motor vehicles	2–30

The land has an indefinite useful life and is not depreciated.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortized over the lease term of property and equipment. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in other assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes;

- is not larger than the operating segment as defined in IFRS 8 Operating Segments before aggregation.

Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets other than goodwill

Intangible assets other than goodwill include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-off of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Investment property

Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in the consolidated statement of income in the period in which they arise. The fair value is determined annually by an independent appraiser.

Investment property is derecognized in the consolidated statement of financial position when it has been disposed or permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of income in the reporting year when derecognition takes place.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is its fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the accounting policy stated for property and equipment up to the date of change in use.

Investment property under construction

Investment property under construction represents rights on assets which are being constructed under construction investment agreements. Such assets are not registered as 'real estate assets' with the registration chamber and are under construction. Investment property under construction is stated at cost which represents the amount of cash or other consideration paid, as the fair value of investment property under construction cannot be reliably measured. The Group expects that reliable estimate will become possible upon completion of construction.

Provisions

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

Retirement and other benefit obligations

Current pension contributions of the Group are calculated as a percentage of current gross salary payments to employees; such expense is charged to the statement of income in the period the related salaries are earned and included into payroll and other staff costs.

In addition, the Vnesheconombank operates two separately administered defined contribution pension schemes, where the Bank's obligation for each period is determined by the amounts to be contributed for that period. Contributions made by the Bank are recognized as expense in the respective period.

The Group has no other post-retirement benefits or significant other employee benefits requiring accrual.

Charter capital

Charter capital

Asset contributions of the Russian Federation made for formation of the Bank's charter capital are recorded in the equity. Vnesheconombank's charter capital is not divided into shares (interest).

Dividend income

Vnesheconombank neither accrues nor pays dividends.

Dividends of subsidiaries are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Group.

Segment reporting

The Group's segment reporting is based on five operating segments disclosed in Note 7.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is probable. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Income and expense are recognized to the extent that it is probable that the economic benefits will flow to the Group and they can be reliably measured. The following specific recognition criteria must also be met before income and expense are recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Interest expense on loans and deposits from the Russian Ministry of Finance is included into interest expense on amounts due to customers recorded in the consolidated statement of income.

Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and fees for asset management, custody and other management and advisory services. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Russian Rubles, which is the Bank's functional currency and Group's presentation currency. Each organization in the Group determines its own functional currency and items included in the financial statements of each organization are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of income as 'Gains less losses from foreign currencies - translation differences'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Bank of Russia exchange rate on the date of the transaction are included in 'Gains less losses from foreign currencies'. The official exchange rates of the Bank of Russia at 31 December 2012 and 31 December 2011 were RUB 30.3727 and RUB 32.1961 to 1 USD, respectively.

As at the reporting date, the assets and liabilities of the Group's organizations whose functional currency is different from the presentation currency of the Group and is not a currency of a hyperinflationary economy are translated into Russian Rubles at the rate of exchange ruling at the balance sheet date and, their statements of income are translated at the weighted average exchange rates for the year.

Due to significantly deteriorating macroeconomic environment in the Republic of Belarus, a considerable devaluation of the Belarusian ruble and accelerated inflation of 2011, the Republic of Belarus was recognized a hyperinflationary economy in November 2011 starting from 1 January 2011. Financial statements of a subsidiary in the Republic of Belarus were translated using general price index of the Republic of Belarus before inclusion into the Group's consolidated financial statements in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies. The results and financial position of the subsidiary bank are subject to translation into the presentation currency of the Group at the rate of exchange ruling at the reporting date.

Exchange differences arising from recognition of financial results and position of every consolidated organization are recognized in other comprehensive income and are presented as a separate component of equity.

On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular organization is recognized in the consolidated statement of income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures issued in December 2011 moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition, IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently, the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently, the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required for such entities. In particular, the Group will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on the Group's financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently, the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, JCEs, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on 1 January 2013.

Amendments to IAS 19 Employee Benefits

The amendments to IAS 19 become effective for annual reporting periods beginning on or after 1 January 2013. The amendments introduce major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the 'corridor approach'). In addition, these amendments will limit the changes in the net pension asset (liabilities) recognized in profit or loss to net interest income (expense) and service costs. The amendments will have no impact on the Group's financial position or performance.

Amendment to IAS 1 Presentation of Financial Statements – Presentation of Other Comprehensive Income

The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact on the Group by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Group's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

The amendments become effective for annual periods beginning on or after 1 January 2014.

4. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IFRS 1 Government Loans

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans existing at the date of transition to IFRS. The amendments will have no impact on the Group's financial statements.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities

The amendments to the standards relate mainly to entities classified as 'investment entities'. The amendments to IFRS 10 define an investment entity, introduce an exemption for such entities according to which they are not required to include investments in subsidiaries in their consolidated financial statements, and require that they should be measured at fair value through profit or loss. The amendments to IFRS 12 also introduce disclosure requirements for investment entities. Currently, the Group evaluates possible effect of the adoption of the amendments on its financial position and performance.

Improvements to IFRS

The amendments are effective for annual periods beginning on or after 1 January 2013. These amendments will have no impact on the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards:

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements:

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property, Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments: Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

5. Significant accounting judgments and estimates

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

The most significant use of judgments and estimates is as follows.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Fair value of investment property

The Group recognizes land and buildings within investment property at fair value and performs revaluation on a regular basis. For this purpose, the Group engages an independent qualified appraiser. Fair values of investment property are measured by comparing them to the market value of similar properties, as well as by using other methods.

(in millions of Russian rubles)

5. Significant accounting judgments and estimates (continued)

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. At 31 December 2012, the carrying value of goodwill amounted to RUB 1,381 million (at 31 December 2011: RUB 1,843 million). More details are provided in Note 21.

6. Business combinations

Acquisitions in 2012

Closed-end Mutual Equity Fund "Bazis – Dolgosrochnye Investitsii"

On 19 December 2012, the Group's subsidiary bank CJSC "GLOBEXBANK" acquired control over 100% of units of Closed-end Mutual Equity Fund "Bazis – Dolgosrochnye Investitsii" (hereinafter, Mutual Fund "Bazis – Dolgosrochnye Investitsii"). Mutual Fund "Bazis – Dolgosrochnye Investitsii" was formed on 24 December 2009. The principal activity of the fund acquired involves making long-term investments in securities, interests in the charter capital of Russian limited liability companies and other assets.

The Group acquired the fund to take part in real estate construction and sale projects of Russian companies, the controlling interests in which are recorded on the balance sheet of Mutual Fund "Bazis – Dolgosrochnye Investitsii".

The Group had owned 100% of units of Mutual Fund "Bazis – Dolgosrochnye Investitsii" even before the date it acquired control, but it did not include it in the consolidated financial statements as this ownership did not previously provide control over the fund due to entering into an irrevocable option agreement with a third party on sale of 100% of units. At 31 December 2011, receivables under this option were recognized in the consolidated statement of financial position in other assets as claims on transactions with mutual fund's units in the amount of RUB 2,000 million. On 19 December 2012, the option was terminated and the parties made no cash payments.

The fair value of the identifiable assets and liabilities acquired, as determined by an independent appraiser, and goodwill arising as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	0
Loans to customers	526
Deferred income tax assets	8
Other assets	1,315
	1,849
Amounts due to customers	7
Other liabilities	125
	132
Total identifiable net assets	**1,717**
Goodwill arising on acquisition	102
Consideration transferred on acquisition of control	**1,819**

As a result of impairment testing, goodwill of RUB 102 million was expensed and recorded in other operating expenses in the consolidated statement of income.

The fair value of loans to customers amounts to RUB 526 million. The contracted amount of loans to customers before allowance for impairment as at the date of acquisition was RUB 525 million. As at the date of acquisition, there were no such contractual cash flows from loans to customers that were not expected to be received.

Had the acquisition been made at the beginning of the year, the Group's profit before income tax, interest income and non-interest expense would not have changed significantly.

(in millions of Russian rubles)

6. Business combinations (continued)

Acquisitions in 2012 (continued)

As at the date of acquisition, the Group recognized in its financial statements the current accounts of Mutual Fund "Bazis – Dolgosrochnye Investitsii" and companies, the controlling interests in which are held by the fund, which were opened with the Group, amounting to RUB 181 million. Therefore, as at the date of acquisition, the fund and the companies recognized the amounts due from the Group as cash on bank accounts. The fair value of such assets of Mutual Fund "Bazis – Dolgosrochnye Investitsii" is equal to their carrying value. These transactions are represented by the relations between the Group entities, which were established before and eliminated in the process of accounting for the business combination. Amounts on current accounts with the Group were excluded from the identifiable assets of the fund, and consideration transferred upon acquisition was reduced by the fair value of the above assets.

Acquisitions in 2011

OJSC NATIONAL TRADE BANK

On 18 February 2011, the Group's subsidiary bank CJSC "GLOBEXBANK" acquired 83.7% of shares in OJSC NATIONAL TRADE BANK (OJSC NTB). OJSC NTB was formed on 7 September 1994 as an open joint stock company under the laws of the Russian Federation. OJSC NTB extends credit and accepts deposits from individuals and legal entities, deals in securities, transfers payments in the Russian Federation and abroad, exchanges currencies and provides other banking services to its corporate and retail customers. The head office of OJSC NTB is in Togliatti.

Immediately before the acquisition date, the Group owned 16.3% of shares in OJSC NTB, which were recorded as investment securities available for sale. As a result of acquiring control over OJSC NTB, the Group recognized an income of RUB 215 million from revaluation of the previously existing interest at the fair value as gains less losses from investment financial assets available for sale in the consolidated statement of income.

The fair values of the identifiable net assets acquired and goodwill arising as at the date of acquisition were as follows:

Identifiable net assets	**4,237**
Less fair value of the previously existing interest	(521)
Goodwill arising on acquisition	462
Consideration transferred on acquisition of control	**4,178**

At the acquisition date, a loan issued to OJSC NTB and owned promissory notes of OJSC NTB were recognized in the financial statements of the Group. At 18 February 2011, OJSC NTB recognized the specified instruments in the amount of RUB 731 million in due to credit institutions as well as debt securities issued in the amount of RUB 308 million, respectively. The fair value of these liabilities of OJSC NTB approximates their carrying amount. These transactions are represented by the relations between the Group entities, which were established before and eliminated in the process of accounting for the business combination. The loan raised and promissory notes issued were eliminated from the identifiable liabilities of OJSC NTB. The consideration transferred upon acquisition was increased by the fair value of these liabilities.

Cash flows at acquisition in 2011 were as follows:

Cash acquired with the subsidiary (included in cash flows from investing activities)	961
Cash paid at acquisition in 2011 (included in cash flows from investing activities)	(3,139)
Net cash outflow in 2011	**(2,178)**

In September 2011, the General Shareholders' Meeting of CJSC "GLOBEXBANK" decided to reorganize CJSC "GLOBEXBANK" in a form of affiliation of OJSC NTB (with the transfer of all titles and liabilities of OJSC NTB to CJSC "GLOBEXBANK").

In January 2012, the reorganization of CJSC "GLOBEXBANK" in a form of affiliation of OJSC "NTB" was completed. As the successor of OJSC NTB, CJSC "GLOBEXBANK" shall undertake all its liabilities in full and within the terms previously stipulated.

Changes in ownership interest in subsidiaries in 2012

Changes in ownership interest

In the first quarter 2012, PSC Prominvestbank disposed 1,352,316 of its treasury shares. The reallocation of interests between the Bank and other shareholders resulted in a RUB 29 million increase in the value of non-controlling interests, a RUB 2 million increase in the foreign currency translation reserve, a RUB 1 million decrease in unrealized revaluation of investment securities available for sale and a simultaneous RUB 21 million increase in the Group's retained earnings.

In May 2012, the state registration of an additional issue of shares of Bank BelVEB OJSC was completed. As a result, the Bank's share increased to 97.52%. The amount of additionally issued shares acquired by the Bank totaled RUB 1,516 million. The contribution of non-controlling shareholders amounted to RUB 38 million. As a result of the additional issue, the carrying value of the net

(in millions of Russian rubles)

6. Business combinations (continued)

Changes in ownership interest in subsidiaries in 2012 (continued)

assets of Bank BelVEB OJSC increased by RUB 1,554 million. The reallocation of interests between the Bank and the remaining shareholders resulted in a RUB 37 million increase in the value of non-controlling interests and a simultaneous RUB 1 million increase in the Group's retained earnings.

Disposal of non-controlling interests

In the fourth quarter 2012, "VEB Engineering" LLC bought back its interests from non-controlling members. The reallocation of interests resulted in a RUB 2 million decrease in the value of non-controlling interests and a simultaneous RUB 46 million decrease in retained earnings.

Changes in ownership interest in subsidiaries in 2011

Acquisition of interests

During the first half-year period of 2011, PSC Prominvestbank purchased 260,169 shares from non-controlling shareholders. The reallocation of interests between Vnesheconombank and the remaining non-controlling shareholders resulted in a RUB 13 million decrease in the value of non-controlling interests and a simultaneous RUB 3 million increase in the Group's retained earnings.

In March 2011, the Bank purchased 2,000,000 additionally issued ordinary registered shares of OJSC "VEB-leasing" for a total consideration of RUB 5,000 million. As a result of increase of the ownership share in the subsidiary's equity, retained earnings of the Group changed insignificantly. In September 2011 (in accordance with the additional issue purchase agreement), the Bank purchased 2,000,000 of the remaining additionally issued ordinary registered shares of OJSC "VEB-leasing" to the amount of RUB 5,000 million. At 31 December 2011, the Group's share in the subsidiary's equity amounted to 98.96%.

In July 2011, the Bank paid for an additional issue of 1,500,000,000 shares of Bank BelVEB OJSC at nominal value (equivalent to RUB 844 million at the date of payment).

In August 2011, the Bank purchased 4.01% (21,247,294) of voting shares of PSC Prominvestbank from non-controlling shareholders and increased its interest to 97.85%. The carrying value of the net assets attributable to the shareholders of PSC Prominvestbank amounted to RUB 14,132 million. The compensation for the purchased interest amounted to RUB 4,251 million. As a result of this acquisition, the cost of non-controlling interests decreased by RUB 569 million, the Group's retained earnings decreased by RUB 3,680 million, the amount of the foreign currency translation reserve decreased by RUB 13 million, and the amount of unrealized revaluation of investment securities available for sale increased by RUB 11 million.

In September 2011, the state registration of an additional issue of shares of Bank BelVEB OJSC was completed. As a result, the Bank's share increased to 97.49%. The amount of additionally issued shares acquired by the Bank totaled RUB 848 million. The contribution of minority shareholders amounted to RUB 19 million. As a result of the additional issue, the carrying value of the net assets of Bank BelVEB OJSC increased by RUB 867 million. The reallocation of interests between the Bank and the remaining non-controlling shareholders resulted in a RUB 20 million increase in the value of non-controlling interests, a RUB 3 million decrease in the foreign currency translation reserve and a simultaneous RUB 3 million increase in the Group's retained earnings.

In November 2011, the charter capital of "VEB Engineering" LLC was reduced from RUB 196 million to RUB 148 million. The Group's share in the subsidiary's equity increased to 67.55%.

In December 2011, the Bank purchased 2,090,724 ordinary shares of CJSC "GLOBEXBANK" previously recorded by the subsidiary bank as treasury shares. As the result of the purchase, the Group's share in the equity of CJSC "GLOBEXBANK" increased to 99.99%. The cost of the acquired stake amounted to RUB 209 million.

Disposal of interests

In the first quarter 2011, 2,370,077 treasury shares of Bank BelVEB OJSC were sold. The reallocation of interests resulted in an increase of the Group's retained earnings by RUB 2 million.

In the fourth quarter 2011, 9,276 treasury shares of CJSC "GLOBEXBANK" were sold. As a result of disposal, the cost of non-controlling interests increased by RUB 1 million.

(in millions of Russian rubles)

7. Segment information

For the management purposes the Group has five operating business segments:

Segment 1 Vnesheconombank, "SME Bank", EXIMBANK OF RUSSIA.

Segment 2 Sviaz-Bank, CJSC "GLOBEXBANK".

Segment 3 PSC Prominvestbank (Ukraine).

Segment 4 Bank BelVEB OJSC (Republic of Belarus).

Segment 5 OJSC "VEB-Leasing", LLC "VEB Capital", "VEB Engineering" LLC, FCPF, Closed-end Mutual Hedge Fund "MRIF", Closed-end Mutual Equity Fund "MRIF-II", OJSC "Development Corporation of North Caucasus", RDIF Management Company LLC, EXIAR, Mutual Fund RDIF, OJSC "The Far East and Baikal Region Development Fund" and other subsidiaries.

Segment 1 comprises Vnesheconombank and major banks within the Group. Segment 2 comprises banks that were purchased in 2008 and 2009 to recover their financial stability, in line with

2012	Segment 1	Segment 2
INCOME		
External clients		
Interest income	122,785	37,028
Fee and commission income	3,005	2,209
Gains less losses arising from financial instruments at fair value through profit or loss	(4,512)	(522)
Gains less losses from investment financial assets available for sale	2,223	(123)
Gains less losses from foreign currencies	13,921	477
Share in income of associates	306	–
Other income	16,729	1,063
Total external income	**154,457**	**40,132**
Intersegment income		
Interest income	12,325	1,519
Other intersegment income less expenses	218	261
Total intersegment income	**12,543**	**1,780**
Total income	**167,000**	**41,912**
Interest expense	(87,771)	(17,461)
Fee and commission expense	(646)	(606)

anti-crisis measures developed by the Russian Government. Segments 3 and 4 are responsible for the Group's banking operations in Ukraine and the Republic of Belarus, respectively. Segment 5 comprises other subsidiaries and funds in which the Group holds a controlling ownership interest.

The Group's management monitors the operating results of each segment separately to make decisions on allocation of resources and to assess operating performance. Segments results are defined in a different way from that used for the purposes of the consolidated financial statements, as shown in the table below. Income taxes are managed on a group basis and are not allocated to operating segments.

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

In 2012 and 2011, the Group received no income from transactions with one external client or counterparty, which amounted to 10% or more percent of the Group's total income, except for income from transactions with entities under control of the Russian Federation. Such income was mainly received from transactions within Segments 1 and 2.

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

Segment 3	Segment 4	Segment 5	Total before intersegment (income)/losses	Adjustments	Total
16,285	6,003	22,053	204,154	–	**204,154**
993	1,092	276	7,575	–	**7,575**
–	–	(1,082)	(6,116)	–	**(6,116)**
145	1	2	2,248	–	**2,248**
(74)	283	18	14,625	–	**14,625**
–	23	278	607	–	**607**
611	1,465	1,124	20,992	–	**20,992**
17,960	**8,867**	**22,669**	**244,085**	**–**	**244,085**
–	5	6,920	20,769	(20,769)	–
336	145	202	1,162	(1,162)	–
336	**150**	**7,122**	**21,931**	**(21,931)**	–
18,296	**9,017**	**29,791**	**266,016**	**(21,931)**	**244,085**
(6,672)	(2,029)	(9,725)	(123,658)	–	**(123,658)**
(172)	(248)	(1)	(1,673)	–	**(1,673)**

(in millions of Russian rubles)

7. Segment information (continued)

2012	Segment 1	Segment 2
Provision for impairment of interest-earning assets	(36,591)	(3,270)
Payroll and other staff costs	(6,750)	(5,848)
Depreciation of property and equipment	(403)	(609)
Other impairment provisions	(278)	(17)
Other expenses	(12,433)	(6,022)
Total external expense	**(144,872)**	**(33,833)**
Intersegment expenses		
Interest expense	(6,235)	(6,582)
Other intersegment expenses	(1,311)	(18)
Total intersegment expenses	**(7,546)**	**(6,600)**
Total expenses	**(152,418)**	**(40,433)**
Segment results	**14,582**	**1,479**
Hyperinflation effect	–	–
Income tax expense		
Profit for the year		
Other segment information		
Capital expenditure	602	3,536
Investments in associates	4,216	–

In 2012, the Group recognized a RUB 1,969 million loss from continuing impairment of available-for-sale investment financial assets related to Segment 1 in gains less losses from investment financial assets available for sale.

2011	Segment 1	Segment 2
INCOME		
External clients		
Interest income	100,940	26,580
Fee and commission income	4,596	1,976
Gains less losses arising from financial instruments at fair value through profit or loss	(1,626)	(949)
Gains less losses from investment financial assets available for sale	10,064	275
Gains less losses from foreign currencies	(2,391)	515
Share in income of associates	(43)	–
Other income	8,751	877
Total external income	**120,291**	**29,274**

Segment 3	Segment 4	Segment 5	Total before intersegment (income)/losses	Adjustments	Total
(6,858)	(160)	(993)	(47,872)	–	**(47,872)**
(2,679)	(1,259)	(2,875)	(19,411)	–	**(19,411)**
(404)	(125)	(222)	(1,763)	–	**(1,763)**
(476)	(2)	(192)	(965)	–	**(965)**
(2,071)	(1,856)	(5,937)	(28,319)	–	**(28,319)**
(19,332)	**(5,679)**	**(19,945)**	**(223,661)**	**–**	**(223,661)**
(3,226)	(1,209)	(3,445)	(20,697)	20,697	–
(38)	(120)	(119)	(1,606)	1,606	–
(3,264)	**(1,329)**	**(3,564)**	**(22,303)**	**22,303**	–
(22,596)	**(7,008)**	**(23,509)**	**(245,964)**	**22,303**	**(223,661)**
(4,300)	**2,009**	**6,282**	**20,052**	**372**	**20,424**
–	(398)	–	(398)	–	**(398)**
					(2,538)
					17,488
956	616	6,559	12,269	–	**12,269**
0	96	5,198	9,510	–	**9,510**

Segment 3	Segment 4	Segment 5	Total before intersegment (income)/losses	Adjustments	Total
15,106	4,407	12,754	159,787	–	**159,787**
1,121	705	243	8,641	–	**8,641**
–	–	67	(2,508)	–	**(2,508)**
(213)	3	1	10,130	–	**10,130**
1,183	(3,323)	(996)	(5,012)	–	**(5,012)**
–	24	304	285	–	**285**
85	512	1,208	11,433	–	**11,433**
17,282	**2,328**	**13,581**	**182,756**	**–**	**182,756**

(in millions of Russian rubles)

7. Segment information (continued)

2011	Segment 1	Segment 2
Intersegment income		
Interest income	7,653	1,121
Other intersegment income less expenses	(478)	1,926
Total intersegment income	**7,175**	**3,047**
Total income	**127,466**	**32,321**
Interest expense	(69,419)	(12,655)
Fee and commission expense	(992)	(555)
Provision for impairment of interest-earning assets	(27,831)	(2,422)
Payroll and other staff costs	(5,681)	(5,456)
Depreciation of property and equipment	(253)	(487)
Other impairment provision (charges)/reversal	(96)	(39)
Other expenses	(7,849)	(5,359)
Total external expense	**(112,121)**	**(26,973)**
Intersegment expenses		
Interest expense	(1,192)	(3,493)
Other intersegment (expenses)/income	(908)	16
Total intersegment expenses	**(2,100)**	**(3,477)**
Total expenses	**(114,221)**	**(30,450)**
Segment results	**13,245**	**1,871**
Hyperinflation effect	–	–
Income tax expense		
Profit for the year		
Other segment information		
Capital expenditure	723	3,435
Investments in associates	1,851	–

In 2011, the Group recognized a RUB 8,610 million loss from impairment of available-for-sale financial assets of Segment 1 and a RUB 300 million loss from financial assets of Segment 3 by transferring the negative revaluation previously recorded in comprehensive income to gains less losses from investment financial assets available for sale.

Segment 3	Segment 4	Segment 5	Total before intersegment (income)/losses	Adjustments	Total
–	6	501	9,281	(9,281)	–
163	(96)	118	1,633	(1,633)	–
163	**(90)**	**619**	**10,914**	**(10,914)**	–
17,445	**2,238**	**14,200**	**193,670**	**(10,914)**	**182,756**
(6,422)	(1,105)	(5,852)	(95,453)	–	**(95,453)**
(316)	(151)	(15)	(2,029)	–	**(2,029)**
(6,931)	(1,328)	(278)	(38,790)	–	**(38,790)**
(3,005)	(1,100)	(1,648)	(16,890)	–	**(16,890)**
(368)	(96)	(130)	(1,334)	–	**(1,334)**
(208)	4	(27)	(366)	–	**(366)**
(2,429)	(646)	(3,478)	(19,761)	–	**(19,761)**
(19,679)	**(4,422)**	**(11,428)**	**(174,623)**	**–**	**(174,623)**
(1,985)	(1,003)	(1,467)	(9,140)	9,140	–
(21)	(46)	(24)	(983)	983	–
(2,006)	**(1,049)**	**(1,491)**	**(10,123)**	**10,123**	–
(21,685)	**(5,471)**	**(12,919)**	**(184,746)**	**10,123**	**(174,623)**
(4,240)	**(3,233)**	**1,281**	**8,924**	**(791)**	**8,133**
–	381	–	381	–	**381**
					(1,034)
					7,480
523	954	7,200	12,835	–	12,835
0	68	3,975	5,894	–	**5,894**

(in millions of Russian rubles)

7. Segment information (continued)

Reconciliation of the total segment assets to total assets of the Group according to IFRS is presented below:

	31 December 2012	31 December 2011
Segment assets		
Segment 1	2,196,982	1,931,864
Segment 2	489,436	413,190
Segment 3	143,838	146,528
Segment 4	57,015	42,158
Segment 5	371,013	299,501
Total before deducting intersegment assets	**3,258,284**	**2,833,241**
Intersegment assets	(340,070)	(301,599)
Adjustments	886	305
Total assets	**2,919,100**	**2,531,947**

The adjustments of intersegment income and expenses, and Group's assets, are related to the accounting differences due to the following reasons:

- as a result of transactions made with foreign subsidiaries of the Group in currencies other than the reporting currency of the Group;
- due to repurchase of debt securities issued by the Group entities, or other deals with the financial instruments between the Group entities;
- due to reversal of allowances for impairment of intersegment assets, created by the Group entities.

Geographical information

Allocation of the Group's interest income from transactions with external clients in Russia, Ukraine and other countries, and non-current assets based on the location of these clients as at 31 December 2012 and 31 December 2011 and for the years then ended is presented in the table below:

	2012				2011			
	Russia	Ukraine	Other countries	Total	Russia	Ukraine	Other countries	Total
Interest income from external clients	181,866	16,285	6,003	**204,154**	140,274	15,106	4,407	**159,787**
Non-current assets	32,731	10,448	2,329	**45,508**	25,027	10,628	2,761	**38,416**

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

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

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

	2012	2011
Interest-bearing loans and deposits from the Russian Ministry of Finance	641,196	647,319
Interest-bearing deposits from the Bank of Russia	303,075	225,664
Repurchase agreements with the Bank of Russia	24,691	–
Settlements related to redemption of Russian Government loans	12,717	10,092
Current accounts in precious metals	174	167
Current accounts of the Russian Government	13	16
Special purpose funds	–	1,259
External debt payment funds	–	73
Other funds	2	2
Due to the Russian Government, its institutions and the Bank of Russia	**981,868**	**884,592**

At 31 December 2012 and 31 December 2011, interest-bearing deposits from the Russian Ministry of Finance mainly include funds of the National Welfare Fund of the Russian Federation ("NWF") denominated in Rubles and deposited with Vnesheconombank pursuant to Federal Law No. 173-FZ in the amount of RUB 330,674 million (31 December 2011: RUB 375,243 million). These deposits were raised at annual rates of 6.25% and 7.25% (31 December 2011: 6.25% and 7.25%) and have maturity dates from December 2014 through December 2020.

In June 2012, as a result of early repayment of a portion of a subordinated loan by a Russian credit institution (Note 12), Vnesheconombank partially repaid its liabilities in accordance with Federal Law No. 173-FZ. Simultaneously, the Russian Ministry of Finance placed with Vnesheconombank a new deposit intended to finance acquisition of a financial asset (Note 15); the deposit matures in June 2016. Terms and conditions of debt obligations vary insignificantly and for reporting purposes the exchange of liabilities is considered as a change in terms and conditions of the existing liability as at 31 December 2012, the deposit amounted to RUB 48,453 million.

In addition, at 31 December 2012 and 31 December 2011, interest-bearing deposits from the Russian Ministry of Finance included funds of NWF intended to finance credit institutions and legal entities supporting small and medium enterprises. "SME Bank", a subsidiary bank, is responsible for implementing such financial support. At 31 December 2012, the amount of financing was RUB 28,301 million (31 December 2011: RUB 27,956 million). The funds are denominated in Russian rubles, bear interest at 6.25% p.a. (31 December 2011: 6.25%) and mature in December 2017.

(in millions of Russian rubles)

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

At 31 December 2012, interest-bearing deposits from the Russian Ministry of Finance include also RUB-denominated deposits of NWF in the amount of RUB 34,703 million (31 December 2011: RUB 33,833 million) placed with Vnesheconombank pursuant to Federal Law No. 173-FZ at the interest rate 6.25% p.a. maturing in May 2020 for further lending to OJSC "AHML" (Note 14). These deposits were raised at the rate below the market level. Gains on initial recognition of financial instruments in the amount of RUB 6,134 million were recognized in the consolidated statement of income for the period ended 31 December 2011.

In addition to the above the interest-bearing deposits from the Russian Ministry of Finance include USD-denominated funds of NWF intended to finance investment projects. At 31 December 2012, the amount of financing was RUB 191,327 million maturing in December 2014 (31 December 2011: RUB 205,576 million maturing from July 2011 to December 2012).

At 31 December 2012, the Russian Ministry of Finance placed temporarily available funds on RUB-denominated short-term deposits with the Group's subsidiary banks, amounting to RUB 7,247 million and maturing in January 2013 (31 December 2011: RUB 4,120 million maturing from January to March 2012).

At 31 December 2012 and at 31 December 2011, the interest-bearing deposits from the Bank of Russia include special RUB-denominated deposits for the purposes of implementing the program of financial support to Sviaz-Bank (31 December 2012: RUB 123,548 million, 31 December 2011: RUB 123,925 million) and CJSC "GLOBEXBANK" (31 December 2012: RUB 85,433 million and 31 December 2011: RUB 85,561 million) to ensure activities on development of business of the above entities. Deposits raised for the outlined purposes were extended by 1 year in 2012 at interest rates below the market level. According to IFRS requirements, the Group derecognized initial liabilities and recognized new liabilities. Gains on initial recognition of financial instruments in the amount of RUB 6,662 million were recognized in the consolidated statement of income for the reporting year ended 31 December 2012 (for the year ended 31 December 2011: RUB 5,767 million).

In addition, at 31 December 2012, interest-bearing deposits of the Bank of Russia include short-term RUB-denominated deposits raised by the Group in the amount of RUB 94,094 million maturing from January to December 2013 (31 December 2011: RUB 16,178 million maturing from March to November 2012).

At 31 December 2012, under the repurchase agreements with the Bank of Russia, the Group sold debt securities with a fair value of RUB 27,659 million, subject to repurchase. Pledged securities are treated as trading financial assets with a fair value of RUB 16,165 million, loans to customers with a fair value of 153 million (Note 14), and investment financial assets available for sale with a fair value of RUB 11,341 million.

At 31 December 2012, repurchase agreements with the Bank of Russia also include funds received from the Bank of Russia and collateralized by securities with a fair value of RUB 2,747 million received under reverse repurchase agreements.

Settlements related to redemption of Russian Government loans represent funds received from borrowers as repayment of loans granted by the Russian Government. These funds and the processing of payments are managed and conducted by the Bank in accordance with the Agency Agreements. At 31 December 2012 and at 31 December 2011, these amounts are classified as due to the Russian Government.

At 31 December 2012 and at 31 December 2011, special purpose funds included proceeds from export sales and other funds subject to settlement between the Russian Ministry of Finance and Vnesheconombank.

Current accounts in precious metals include funds of the Russian Government transferred to the statement of financial position of Vnesheconombank in the process of reorganization.

London Club

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

The London Club debt was issued as a legal obligation of the Vnesheconombank of the USSR. Based on Russian Government resolution No. 1167 "On the Settlement of the Indebtedness of the Former USSR to Foreign Commercial Banks and Financial Institutions (the London Club)" dated 15 September 1997 and the Declaration of Support dated 28 November 1997, the Russian Government expressed its willingness, without right of legal recourse from creditors or specific commitment,

(in millions of Russian rubles)

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

London Club (continued)

to provide financial resources to enable the Vnesheconombank of the USSR to honor its London Club obligations as they became due. The Declaration of Support remains in force as long as any debt under the London Club restructuring agreements remains outstanding.

On 11 February 2000, an agreement was reached between representatives of the London Club creditors and the Russian Government, under which the outstanding London Club debt of approximately USD 31,700 million (at 31 March 2000) was exchanged for a new issue of Eurobonds issued by the Russian Government and maturing in 2010 and 2030. As the exchange process substitutes obligations of the Bank with obligations of the Russian Government, receivables from the Russian Government under London Club and amounts due to London Club have been excluded from the Bank's consolidated statement of financial position to the extent that the bondholders have presented their PRINs and IANs for exchange.

As at 31 December 2011, the Group's consolidated statement of financial position includes liabilities only to those IAN holders, who have not exchanged these instruments for the Russian Federation Eurobonds maturing in 2010 and 2030 under the agreement between the Russian Government and representatives of the London Club of creditors reached on 11 February 2000, and have not presented their claims for settlement pursuant to Resolution of the Russian Government No. 1047-r dated 30 July 2009.

At 31 December 2012, based on a letter of the Russian Ministry of Finance concerning write-off of liabilities under the debt instruments of London Club by Vnesheconombank, claims not presented for settlement by creditors were derecognised from the Group's consolidated statement of financial position.

9. Agency operations

At 31 December 2012 and 31 December 2011, other assets and liabilities maintained by the Bank under the applicable Agency Agreements represent predominantly claims against foreign governmental and corporate debtors, former USSR companies, Russian state companies, and non-club debt to foreign creditors.

Vnesheconombank is not a legal obligor or creditor under the above categories of external debt or government external assets and, therefore, the corresponding amounts were not included in the Group's consolidated statement of financial position.

10. Cash and cash equivalents

Cash and cash equivalents comprise:

	2012	2011
Cash on hand	13,596	13,293
Current accounts with the Bank of Russia	102,168	19,427
Correspondent nostro accounts with credit institutions and current accounts with other non-banking organizations:		
Russian Federation	12,186	15,621
other countries	46,234	36,923
Interest-bearing loans and deposits maturing within 90 days:		
due from the Bank of Russia	300	120
due from credit institutions	59,959	90,015
Non-interest deposits with OECD credit institutions up to 90 days	1	94
Non-interest deposits with Russian credit institutions up to 90 days	39	–
Reverse repurchase agreements with credit institutions for up to 90 days	5,514	2,535
Cash and cash equivalents	**239,997**	**178,028**

At 31 December 2012, reverse repurchase agreements included loans of RUB 5,514 million (31 December 2011: RUB 2,385 million) issued to credit institutions and secured by corporate bonds with the fair value of RUB 6,315 million (31 December 2011: RUB 2,786 million). At 31 December 2011, reverse repurchase agreements also included loans in the amount of RUB 150 million issued to credit institutions and secured by corporate shares with the fair value of RUB 217 million.

As at 31 December 2012, current accounts with the Bank of Russia included property contributions made by the Russian Ministry of Finance in the amount of RUB 80 000 million (Note 21). The funds can be used strictly in compliance with the allocation purposes.

In February 2012, under the financing agreement with the Russian Bank Capitalization Fund (the RBCF) Vnesheconombank transferred USD 250 million (RUB 7,445 million at the date of transfer) to the International Finance Corporation (IFC). At 31 December 2012, part of the amount RUB 6 486

(in millions of Russian rubles)

10. Cash and cash equivalents

million was temporarily invested in money market instruments maturing in less than 90 days. The RBCF will invest in the capital of Russian universal second-echelon banks actively operating in the regions and funding small and medium-sized Russian businesses in the real sector (Note 15).

11. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2012	2011
Trading financial assets	28,414	41,814
Derivative financial assets (Note 13)	16,517	29,468
Financial assets designated as at fair value through profit or loss	27,188	23,080
Financial assets at fair value through profit or loss	**72,119**	**94,362**

Trading financial assets held by the Group comprise:

	2012	2011
Debt securities:		
Corporate bonds	13,354	17,006
Federal Loan Bonds (OFZ)	86	3,650
Municipal and sub-federal bonds	–	725
	13,440	**21,381**
Eurobonds issued by the Russian Federation	1,442	7,115
Eurobonds of Russian and foreign issuers	1,027	1,115
	15,909	**29,611**
Equity securities	12,134	11,541
Other financial assets	371	662
Trading financial assets	**28,414**	**41,814**

At 31 December 2012, financial assets lent and pledged under repurchase agreements, include corporate bonds with the fair value of RUB 16,165 million and shares with the fair value of RUB 503 million. At 31 December 2011, there were no financial assets at fair value through profit or loss lent or pledged under repurchase agreements.

Financial assets designated as at fair value through profit or loss

At 31 December 2012 and at 31 December 2011, financial assets designated as at fair value through profit or loss included primarily shares of Russian and foreign companies, as well as units in the closed-end mutual real estate fund held by a subsidiary bank.

The Bank entered into an option agreement which is economically related to its purchase of a Russian company's shares in the second quarter 2010; changes in the fair value of that agreement are recorded in the consolidated statement of income as gains less losses arising from financial instruments at fair value through profit or loss. To avoid 'accounting mismatch', these securities were classified as designated at fair value through profit or loss, thus excluding inconsistency in recognition of the respective gains and losses. At 31 December 2012, the fair value of these shares and loss from its change during the period respectively (as recorded in the consolidated statement of income) amount to RUB 13,143 million (31 December 2011: RUB 18,314 million) and RUB 5,171 million (for the year ended 31 December 2011: RUB 6,511 million).

Other securities included in this category meet the criteria to be classified as at fair value through profit or loss since the Group management measures the performance of these investments in terms of changes in their fair value based on quoted prices in an open market, valuation models, using both observable and non-observable market data.

12. Amounts due from credit institutions

	2012	2011
Obligatory reserve with the central banks	4,088	4,774
Non-interest-bearing deposits	9,684	9,823
Subordinated loans	305,569	349,940
Interbank loans and term interest-bearing deposits with credit institutions	125,652	92,479
Mortgage bonds	2,212	1,079
	447,205	**458,095**
Less allowance for impairment	(729)	(397)
Amounts due from credit institutions	**446,476**	**457,698**

Obligatory reserve with the central banks includes cash non-interest-bearing deposits (obligatory reserve) maintained by the Group's subsidiary banks with the Bank of Russia, the National Bank of the Republic of Belarus and the National Bank of Ukraine. The amount of this reserve depends on

(in millions of Russian rubles)

12. Amounts due from credit institutions (continued)

the level of funds attracted by the credit institutions. The banks' ability to withdraw such deposits is significantly restricted by the statutory legislation. Pursuant to law, Vnesheconombank creates no obligatory reserve to be maintained with the Bank of Russia.

At 31 December 2012, non-interest-bearing deposits include non-interest-bearing deposits in clearing currencies in the gross amount of RUB 9,409 million (31 December 2011: RUB 9,498 million). The use of these deposits is subject to certain restrictions as stipulated by agreements between governments of the respective countries. The funds can be used for purchase of goods and services by Russian importers who purchase clearing currencies of tenders organized by the Group under the supervision of the Russian Ministry of Finance.

At 31 December 2012 and at 31 December 2011, subordinated loans issued to Russian credit institutions comprised loans in the amount of RUB 305,569 million and RUB 349,940 million, respectively, issued to sixteen Russian credit institutions in accordance with Federal Law No. 173-FZ in Russian rubles, carrying interest of 6.5% and 7.5% p.a. (31 December 2011: 6.5% and 7.5%) and maturing from December 2014 to December 2020.

In June 2012, one of the borrowers (a Russian credit institution) repaid a part of subordinated loans by transferring to Vnesheconombank a financial asset classified as an investment asset available for sale (Note 15). The loss from early partial repayment of the debt amounted to RUB 112 million and was recognized in the consolidated statement of income.

At 31 December 2012, interbank loans and term interest-bearing deposits with credit institutions include funds intended to finance (via the subsidiary bank "SME Bank") credit institutions supporting small and medium enterprises. At 31 December 2012, such loans issued amounted to RUB 75,187 million (31 December 2011: RUB 58,651 million). For the reporting year ended 31 December 2012, loss on initial recognition of the part of these financial instruments in the amount of RUB 119 million was recognized in the statement of income (for the year ended 31 December 2011: RUB 733 million).

At 31 December 2012, mortgage bonds represent debt securities of a Russian bank in the amount of RUB 2,212 million (31 December 2011: RUB 1,079 million) at the rate below the market level and maturing in 2043-2044, which were purchased by Vnesheconombank under 2010-2013 Investment Program to support affordable housing construction and mortgage projects. For the reporting period ended 31 December 2012, loss on initial recognition of financial instruments in the amount of RUB 592 million (31 December 2011: RUB 559 million) was recognized in the consolidated statement of income.

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

	2012	2011
At 1 January	**397**	**1,719**
Charge/(reversal)	334	(57)
Write-offs	(2)	(1,265)
At 31 December	**729**	**397**

13. Derivative financial instruments

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

	2012			2011		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and swaps – foreign	71,372	303	1,102	141,999	12,363	4,185
Forwards and swaps – domestic	19,884	741	448	37,939	1,465	530
Securities forward contracts						
Debt securities	1,868	215	–	8,134	62	21
Equity securities and units	1,297	354	–	408	449	–
Interest rate swaps						
Foreign contracts	5,431	–	698	20,221	13	1,953
Domestic contracts	7,973	–	177	–	–	–
Option contracts	30,640	14,137	–	44,315	14,829	–
Cross-currency interest rate swap	18,397	764	68	27,953	287	256
Precious metals contracts	528	3	1	–	–	–
Total derivative assets/liabilities		**16,517**	**2,494**		**29,468**	**6,945**

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

(in millions of Russian rubles)

13. Derivative financial instruments (continued)

Derivative financial assets are included in financial assets at fair value through profit or loss (Note 11).

At 31 December 2011, the Group has positions in the following types of derivatives:

Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

At 31 December 2012 and 31 December 2011, the Group's options included asset related to a put option with a fair value of RUB 13,544 million and RUB 6,081 million, respectively, for shares of a Russian company recognized within in the Group's securities designated as at fair value through profit or loss to avoid accounting inconsistencies.

At 31 December 2011, the Group's options included an asset related to a put option with a fair value of RUB 8,731 million for shares of a Russian company recognized within the Group's investment financial assets available for sale. In 2012, the option agreement was terminated and the Group derecognized the asset.

Derivative financial instruments held or issued for trading purposes

Most of the Group's derivative trading activities relate to deals with credit institutions. The Group may take positions in derivative financial instruments with the expectation of profiting from favorable movements in prices, rates or indices. Positions in derivative financial instruments may be closed by taking an offsetting position. This item also includes derivatives that do not qualify for hedging in accordance with IAS 39.

14. Loans to customers

Loans to customers comprise:

	2012	2011
Commercial loans, including loans to individuals	746,333	634,076
Project finance	622,953	464,659
Net investments in leases	165,152	123,635
Financing of operations with securities	52,083	41,810
Back-to-back finance	34,811	34,328
Pre-export finance	20,363	12,892
Reverse repurchase agreements	13,909	19,339
Claims under letters of credit	13,616	11,003
Promissory notes	10,115	21,325
Mortgage bonds	1,712	753
Other	9,625	28,412
	1,690,672	**1,392,232**
Less allowance for impairment	(193,433)	(163,309)
Loans to customers	**1,497,239**	**1,228,923**
Loans to customers pledged under repurchase agreements		
Other	151	–
Less allowance for impairment	(3)	–
Total loans to customers pledged under repurchase agreements	**148**	**–**
Loans to customers (including those pledged under repurchase agreements)	**1,497,387**	**1,228,923**

At 31 December 2012 and 31 December 2011 back-to-back finance represented an unsecured loan issued to OJSC "AHML", using funds deposited by the Russian Ministry of Finance with Vnesheconombank, in accordance with Federal Law No. 173-FZ (Note 8). This loan was placed at the rate below the market level. For the year ended 31 December 2011, the loss on initial recognition of financial instruments in the amount of RUB 5,380 million was recognized in the consolidated statement of income.

(in millions of Russian rubles)

14. Loans to customers (continued)

At 31 December 2012, mortgage bonds represent debt securities of OJSC "AHML" in the amount of RUB 1,712 million maturing in 2044-2045 (31 December 2011: RUB 753 million maturing in 2044), with an interest rate below the market level, purchased by Vnesheconombank under Vnesheconombank's 2010-2013 Investment Program to support affordable housing construction and mortgage projects. For the reporting year ended 31 December 2012, loss on initial recognition of financial instruments in the amount of RUB 499 million (year ended 31 December 2011: RUB 378 million) was recognized in the statement of income.

Allowance for impairment of loans to customers

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

	Project finance 2012	Commercial loans 2012	Pre-export finance 2012	Net investment in leases 2012
At 1 January 2012	**75,758**	**75,768**	**2,160**	**380**
Charge/(reversal)	24,778	21,611	350	520
Write-offs	(2,996)	(7,404)	–	–
Interest accrued on impaired loans	(6,859)	(1,872)	–	–
Reversal of allowance previously written off	–	1,726	–	–
Hyperinflation effect	–	1	–	–
At 31 December 2012	**90,681**	**89,830**	**2,510**	**900**
Individual impairment	69,866	73,387	1,925	419
Collective impairment	20,815	16,443	585	481
	90,681	**89,830**	**2,510**	**900**
Total amount of individually impaired loans before allowance for impairment	**157,339**	**138,405**	**2,046**	**4,037**

	Project finance 2011	Commercial loans 2011	Pre-export finance 2011	Net investment in leases 2011
At 1 January 2011	**69,970**	**65,691**	**1,767**	**164**
Charge/(reversal)	15,544	19,218	414	222
Write-offs	(2,454)	(8,749)	–	(2)
Interest accrued on impaired loans	(7,232)	(1,386)	(21)	–
Reversal of allowance previously written off	–	1,215	–	–
Hyperinflation effect	(70)	(221)	–	(4)
At 31 December 2011	**75,758**	**75,768**	**2,160**	**380**
Individual impairment	63,403	61,662	1,979	15
Collective impairment	12,355	14,106	181	365
	75,758	**75,768**	**2,160**	380
Total amount of individually impaired loans before allowance for impairment	**161,938**	**102,065**	**2,163**	**54**

Financing of operations with securities 2012	Promissory notes 2012	Reverse repurchase agreements 2012	Back-to-back finance 2012	Claims under letters of credit 2012	Mortgage bonds 2012	Other 2012	Total 2012
2,865	**737**	**6**	**1,407**	**2,815**	**31**	**1,382**	**163,309**
(517)	(188)	5	198	260	48	473	**47,538**
–	–	(7)	–	–	–	–	**(10,407)**
–	–	–	–	–	–	–	**(8,731)**
–	–	–	–	–	–	–	**1,726**
–	–	–	–	–	–	–	**1**
2,348	**549**	**4**	**1,605**	**3,075**	**79**	**1,855**	**193,436**
–	91	–	–	2,602	–	1,641	149,931
2,348	458	4	1,605	473	79	214	43,505
2,348	**549**	**4**	**1,605**	**3,075**	**79**	**1,855**	**193,436**
–	**91**	**–**	**–**	**2,602**	**–**	**1,642**	**306,162**

Financing of operations with securities 2011	Promissory notes 2011	Reverse repurchase agreements 2011	Back-to-back finance 2011	Claims under letters of credit 2011	Mortgage bonds 2011	Other 2011	Total 2011
2,583	**744**	**220**	**96**	**2,695**	–	**281**	**144,211**
893	(7)	(25)	1,311	145	31	1,101	38,847
(611)	–	(189)	–	(7)	–	–	(12,012)
–	–	–	–	–	–	–	(8,639)
–	–	–	–	–	–	–	1,215
–	–	–	–	(18)	–	–	(313)
2,865	**737**	**6**	**1,407**	**2,815**	**31**	**1,382**	**163,309**
1,408	78	4	–	2,524	**–**	232	131,305
1,457	659	2	1,407	291	**31**	1,150	32,004
2,865	**737**	**6**	**1,407**	**2,815**	**31**	**1,382**	**163,309**
1,408	**78**	**7**	**–**	**2,524**	**–**	**232**	**270,469**

(in millions of Russian rubles)

14. Loans to customers (continued)

Individually impaired loans

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for pre-export finance – pledges of claims for revenues under export contracts;
- for financing operations with securities and reverse repurchase transactions – cash or securities;
- for project finance and commercial lending – charges over real estate properties, inventory, and trade receivables, securities and other claims to third parties;
- for retail lending – mortgages over residential properties and other subject matter of lending.

The Group also obtains guarantees from the Russian Government, parent companies for loans to their subsidiaries and other guarantees from third parties as collateral for loans issued.

At 31 December 2012, reverse repurchase agreements were in respect of marketable and non-marketable shares with a fair value of RUB 8,073 million, marketable bonds with a fair value of RUB 6,600 million and promissory notes of Russian credit organizations with a fair value of RUB 1,408 million. At 31 December 2011, reverse repurchase agreements were signed in respect of marketable shares with a fair value of RUB 19,871 million, and marketable corporate bonds with a fair value of RUB 4,758 million.

Concentration of loans to customers

At 31 December 2012, the total outstanding amount of loans to three major borrowers/groups of related borrowers was RUB 264,880 million, equivalent to 15.7% of the Group's gross loan portfolio (31 December 2011: RUB 243,102 million, or 17.5%). At 31 December 2012, an impairment allowance of RUB 41,032 million was made against these loans (31 December 2011: RUB 39,145 million). At 31 December 2012, these loans included loans issued to an associate of the

Group involved in the real estate business, which accounted for 8.4% of the gross loan portfolio of the Group (31 December 2011: 10.2 %).

At 31 December 2012 and at 31 December 2011, in addition to the three major borrowers mentioned above, loans were issued to ten other major borrowers/ groups of related borrowers in the amount of RUB 286,002 million and RUB 241,210 million or 16.9% and 17.3% of the gross loan portfolio, respectively. At 31 December 2012 and at 31 December 2011, an allowance was created for these loans in the total amount of RUB 15,404 million and RUB 14,937 million, respectively.

Loans have been extended to the following types of customers:

	2012	2011
Private enterprises	1,382,400	1,131,991
State-controlled entities (Russia)	223,577	173,120
Companies under foreign state control	44,741	37,098
Individuals	34,096	19,997
Individual entrepreneurs	3,725	2,565
Regional authorities	2,284	2,794
Foreign states	–	24,667
	1,690,823	**1,392,232**

Loans are made principally in the following industry sectors:

	2012	%	2011	%
Real estate and construction	352,257	21	308,815	22
Manufacturing, heavy machinery and military-related goods production	333,680	20	255,600	18
Finance companies	283,922	17	259,426	19
Transport	200,937	12	138,405	10
Agriculture	118,752	7	85,973	6
Energy	106,386	6	69,170	5
Trade	93,219	5	82,777	6
Oil and gas	45,125	3	46,555	3
Metallurgy	38,407	2	40,459	3
Individuals	34,096	2	19,997	2
Mining	23,542	1	9,656	1
Telecommunications	16,658	1	18,946	1
Research and education	9,411	1	614	0
Logistics	5,384	0	5,427	0
Regional authorities	2,284	0	2,794	0
Mass media	1,204	0	732	0
Foreign states	–	0	24,667	2
Other	25,559	2	22,219	2
	1,690,823	**100**	**1,392,232**	**100**

(in millions of Russian rubles)

14. Loans to customers (continued)

Concentration of loans to customers (continued)

At 31 December 2012, loans and similar debt included a total of RUB 1,411,261 million granted to companies operating in Russia, which is a significant concentration. At 31 December 2011, loans and similar debt included a total of RUB 1,140,887 million granted to companies operating in Russia, which is a significant concentration.

Finance lease receivables

The analysis of finance lease receivables at 31 December 2012 is as follows:

	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total
Finance lease receivables	42,107	133,763	74,397	250,267
Unearned future finance income on finance leases	(3,272)	(40,400)	(41,443)	(85,115)
Net investment in finance leases	**38,835**	**93,363**	**32,954**	**165,152**

The analysis of finance lease receivables at 31 December 2011 is as follows:

	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total
Finance lease receivables	30,958	94,905	70,326	196,189
Unearned future finance income on finance leases	(2,506)	(29,278)	(40,770)	(72,554)
Net investment in finance leases	**28,452**	**65,627**	**29,556**	**123,635**

15. Investment financial assets

Investment financial assets available for sale

Investment financial assets available for sale comprise:

	2012	2011
Debt securities		
Corporate bonds	151,420	139,549
Promissory notes	30,965	15,386
Debt instruments issued by foreign government bodies	14,026	3,848
Federal loan bonds (OFZ)	4,000	22,557
Municipal and sub-federal bonds	234	549
	200,645	**181,889**
Eurobonds of Russian and foreign issuers	15,025	25,261
Eurobonds issued by the Russian Federation	1,967	2,124
	217,637	**209,274**
Equity securities	**229,042**	**245,011**
Other available-for-sale financial assets	**47,134**	**–**
Available-for-sale investment financial assets	**493,813**	**454,285**

Investment financial assets available for sale pledged under repurchase agreements comprise:

	2012	2011
Securities pledged under repurchase agreements		
Corporate bonds	10,932	–
Debt instruments issued by foreign government bodies	410	3,217
Municipal and sub-federal bonds	409	–
Shares	–	836
Eurobonds of Russian and foreign issuers	–	662
Investment financial assets available for sale pledged under repurchase agreements	**11,751**	**4,715**

At 31 December 2012, equity securities included Vnesheconombank's investment in the RBCF with fair value of RUB 1,078 million (Note 10).

The Group recognized a continuing impairment loss of RUB 1,969 million on available-for-sale financial assets for the year ended 31 December 2012 (for the year ended 31 December 2011: RUB 8,910 million) in gains less losses from investment financial assets available for sale in the consolidated statement of income (Note 28).

(in millions of Russian rubles)

15. Investment securities (continued)

Investment financial assets available for sale (continued)

In June 2012, as a result of early repayment of a subordinated loan by a Russian credit institution (Note 12) Vnesheconombank received a financial asset with a fair value of RUB 47,715 million and classified it as available for sale. This financial asset represents rights to the credit institution's shares and the Bank's obligation to sell the shares of this credit institution pursuant to a written American call option exercisable in a period of eight years. Pursuant to the option agreement, Vnesheconombank receives semiannually a fixed premium, which is recognized in interest income from other investment financial assets available for sale in the consolidated statement of income.

Investment financial assets held to maturity

Investment financial assets held to maturity comprise:

	2012	2011
Eurobonds of Russian and foreign issuers	15,170	15,127
Corporate bonds	724	1,396
Municipal and sub-federal bonds	761	1,297
Federal loan bonds (OFZ)	–	25
Promissory notes	–	9
	16,655	**17,854**
Less allowance for impairment (Note 20)	(73)	(75)
Investment financial assets held to maturity	**16,582**	**17,779**

16. Due from the Russian Government

At 31 December 2012, amounts due from the Russian Government included claims to the Russian Ministry of Finance in the amount of RUB 118 million (31 December 2011: RUB 124 million) to unfreeze correspondent accounts.

17. Investments in associates

The Group's major associates accounted for under the equity method in the financial statements are presented in the table below:

Associates	Ownership 31 December 2012	Ownership 31 December 2011	Country of incorporation	Industry
LLC "Managing Company "Bioprocess Capital Partners"	25.10%	25.10%	Russia	Finance intermediary
OJSC "Corporation of Development of Krasnoyarsk Territory"	25.00%	25.00%	Russia	Finance intermediary
LLC "PROMINVEST"	25.00%	25.00%	Russia	Finance intermediary
OJSC "Ilyushin Finance Co."	21.39%	21.39%	Russia	Leasing
LLC "VEB-Invest"	19.00%	19.00%	Russia	Investment
CJSC "Leader"	27.62%	–	Russia	Management company
		Share of assets:		
CMIF "Bioprocess Capital Ventures"	50.00%	50.00%	Russia	Investment

In March 2012, the Bank purchased 27.62% shares of CJSC "Leader" in the amount of RUB 2,071 million. Principal activities of the company include management of investment funds, mutual investment funds and non-government pension funds.

Movement in investments in associates was as follows:

	2012	2011
Balance, beginning of the reporting period	5,894	5,638
Cost of acquisition	2,548	19
Share in net profit	607	285
Dividends received	(86)	(31)
Translation differences	(115)	3
Fair value of previously acquired interest	672	–
Other	(10)	(20)
Investments in associates, end of the reporting period	**9,510**	**5,894**

At 31 December 2012, the Group's unrecognized share in loss of its associates amounted to RUB 670 million (31 December 2011: RUB 1,853 million). At 31 December 2012, the Group's unrecognized share in loss of the associates amounted to RUB 5,524 million (31 December 2011: RUB 4,854 million).

(in millions of Russian rubles)

17. Investments in associates (continued)

The following table illustrates summarized aggregated financial information of the associates:

Aggregated assets and liabilities of associates	2012	2011
Assets	207,187	185,337
Liabilities	202,873	183,085
Net assets	**4,314**	**2,252**

Aggregated revenue and profit/(loss) of associates	2012	2011
Revenue	14,001	7,329
Profit/(loss)	61	(8,429)

18. Property and equipment

The movements in property and equipment were as follows:

	Buildings	Land	Equipment	Motor vehicles	Leasehold improvements	Assets under construction and warehoused property and equipment	Total
COST							
At 31 December 2011	**17,745**	**234**	**6,002**	**2,337**	**535**	**14,515**	**41,368**
Additions	3,162	133	1,116	760	110	6,988	12,269
Disposals	(465)	(168)	(503)	(48)	(239)	(376)	(1,799)
Reclassification of property and equipment to investment property and assets held for sale	(521)	(4)	–	–	–	–	(525)
Transfers	6,288	–	27	51	15	(6,381)	–
Translation effect	(459)	(4)	334	(38)	2	(845)	(1,010)
At 31 December 2012	**25,750**	**191**	**6,976**	**3,062**	**423**	**13,901**	**50,303**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 31 December 2011	**3,300**	**–**	**3,006**	**624**	**152**	**–**	**7,082**
Depreciation charge	377	–	1,006	296	84	–	1,763
Depreciation of property and equipment reclassified to investment property	(29)	–	–	–	–	–	(29)
Disposals	(43)	–	(138)	(70)	(75)	–	(326)
At 31 December 2012	**3,605**	**–**	**3,874**	**850**	**161**	**–**	**8,490**

	Buildings	Land	Equipment	Motor vehicles	Leasehold improve-ments	Assets under construction and warehoused property and equipment	Total
NET BOOK VALUE							
At 31 December 2011	**14,445**	**234**	**2,996**	**1,713**	**383**	**14,515**	**34,286**
At 31 December 2012	**22,145**	**191**	**3,102**	**2,212**	**262**	**13,901**	**41,813**
COST							
At 31 December 2010	**15,830**	**231**	**4,954**	**2,002**	**335**	**6,632**	**29,984**
Additions	2,541	–	905	390	295	8,704	12,835
Acquisition through business combinations (IFRS 3)	226	–	69	13	35	47	390
Disposals	(172)	–	(346)	(369)	(144)	(4)	(1,035)
Reclassification of property and equipment to investment property	(1,195)	–	–	–	–	–	(1,195)
Transfers	93	–	481	257	14	(845)	–
Translation effect	422	3	(61)	44	–	(19)	389
At 31 December 2011	**17,745**	**234**	**6,002**	**2,337**	**535**	**14,515**	**41,368**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 31 December 2010	**3,098**	**–**	**2,662**	**537**	**135**	**2**	**6,434**
Depreciation charge	354	–	649	255	76	–	1,334
Depreciation of property and equipment reclassified to investment property	(139)	–	–	–	–	–	(139)
Disposals	(13)	–	(305)	(168)	(59)	(2)	(547)
At 31 December 2011	**3,300**	**–**	**3,006**	**624**	**152**	**–**	**7,082**
NET BOOK VALUE							
At 31 December 2010	**12,732**	**231**	**2,292**	**1,465**	**200**	**6,630**	**23,550**
At 31 December 2011	**14,445**	**234**	**2,996**	**1,713**	**383**	**14,515**	**34,286**

(in millions of Russian rubles)

19. Taxation

Income tax comprises:

	2012	2011
Current tax charge	2,673	1,093
Deferred tax benefit – origination and reversal of temporary differences in the statement of income	(135)	(1)
Hyperinflation effect	–	(58)
Income tax expense	**2,538**	**1,034**

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

Russian legal entities must file individual tax declarations. The tax rate for profits other than on state securities was 20% for 2012 and 2011. The tax rate for interest income on state securities was 15% for federal taxes.

The aggregate income tax rate effective in the Republic of Belarus was 18% for 2012 and 24% for 2011. The aggregate income tax rate effective in Ukraine was 21% for 2012 and 23% for 2011.

In accordance with federal legislation, effective from reorganization date income and expenses received and paid by Vnesheconombank are not accounted when determining taxable base for income tax purposes. Therefore, income and expenses of the Bank for 2012 and 2011 are not included into taxable base for income tax purposes, which had significant impact on the Group's effective income tax rate for 2012 and 2011.

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

	2012	2011
Current income tax asset	1,006	595
Deferred income tax asset	2,560	2,737
Income tax assets	**3,566**	**3,332**
Current income tax liability	263	167
Deferred income tax liability	1,439	1,718
Income tax liabilities	**1,702**	**1,885**

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

	2012	2011
Income before tax	**20,026**	**8,514**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory tax rate	**4,005**	**1,703**
Tax effect from the following income and expenses:		
Non-taxable income on state securities or taxed at different rates	(217)	(264)
Income taxed at different rate	(111)	(237)
Non-taxable income and non-deductible expenses	648	1,565
Currency translation differences	(5)	1,230
Vnesheconombank's income and expenses not included in tax base for income tax purposes	(2,703)	(2,614)
Change in income tax resulting from change in tax rate and other changes in the legislation	460	1,143
Change in unrecognized deferred tax assets	632	(1,097)
Other	(171)	(395)
Income tax expense	**2,538**	**1,034**

(in millions of Russian rubles)

19. Taxation (continued)

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

	2010	Origination and reversal of temporary differences: In the statement of income	Origination and reversal of temporary differences: In other comprehensive income	Effect of business combination
Tax effect of deductible temporary differences:				
Allowance for impairment	720	255	–	–
Change in fair value of securities	224	67	(3)	–
Initial recognition of financial instruments at fair value	907	55	–	–
Tax losses carried forward	4,651	(484)	–	–
Accrued income and expense	–	23	–	–
Derivative financial instruments	16	77	–	–
Property and equipment	196	(84)	–	4
Other	2,220	500	(8)	236
	8,934	**409**	**(11)**	**240**
Unrecognized deferred tax assets	(5,738)	1,097	–	–
	3,196	**1,506**	**(11)**	**240**
Tax effect of taxable temporary differences:				
Change in fair value of securities	(70)	(782)	18	(3)
Loans to customers	(447)	(274)	–	–
Initial recognition of financial instruments at fair value	(914)	(84)	–	–
Allowance for impairment	(105)	(193)	–	–
Accrued income and expense	(90)	(34)	–	–
Derivative financial instruments	(274)	109	–	–
Property and equipment	(16)	(405)	–	–
Other	(657)	158	–	(10)
	(2,573)	**(1,505)**	**18**	**(13)**
Deferred tax asset	**1,638**	**819**	**(11)**	**241**
Deferred tax liability	**(1,015)**	**(818)**	**18**	**(14)**

Currency translation effect	2011	In the statement of income	Origination and reversal of temporary differences: In other comprehensive income	Origination and reversal of temporary differences: Effect of business combination	Currency translation effect	2012
1	976	561	–	–	(3)	1,534
–	288	(186)	2	–	–	104
–	962	(214)	–	–	–	748
(94)	4,073	(43)	–	–	3,117	7,147
8	31	10	–	–	–	41
–	93	(10)	–	–	3	86
(95)	21	81	–	–	4	106
76	3,024	452	(154)	8	(90)	3,240
(104)	**9,468**	**651**	**(152)**	**8**	**3,031**	**13,006**
157	(4,484)	(626)	147	–	(3,034)	(7,997)
53	**4,984**	**25**	**(5)**	**8**	**(3)**	**5,009**
(8)	(845)	(35)	46	–	5	(829)
–	(721)	505	–	–	–	(216)
–	(998)	39	–	–	–	(959)
5	(293)	200	–	–	(4)	(97)
15	(109)	2	–	–	(9)	(116)
69	(96)	(25)	–	–	–	(121)
–	(421)	(279)	–	–	–	(700)
27	(482)	(297)	–	–	(71)	(850)
108	**(3,965)**	**110**	**46**	**–**	**(79)**	**(3,888)**
50	**2,737**	**10**	**(5)**	**8**	**(190)**	**2,560**
111	**(1,718)**	**125**	**46**	**–**	**108**	**(1,439)**

(in millions of Russian rubles)

20. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Investment financial assets	Other assets	Claims	Insurance activity	Guarantees and commitments	Total
At 31 December 2010	**201**	**1,307**	**51**	**–**	**152**	**1,711**
Charge / (reversal)	(10)	241	18	–	117	366
Write-offs	(138)	(190)	(17)	–	(122)	(467)
Reversal of allowance previously written off	22	0	–	–	–	22
Hyperinflation effect	–	(3)	7	–	–	4
At 31 December 2011	**75**	**1,355**	**59**	**–**	**147**	**1,636**
Charge/(reversal)	(2)	147	159	8	653	965
Write-offs	–	(237)	(29)	–	–	(266)
Reversal of allowance previously written off	–	7	–	–	–	**7**
Hyperinflation effect	–	(3)	–	–	–	**(3)**
At 31 December 2012	**73**	**1,269**	**189**	**8**	**800**	**2,339**

Allowance for impairment of assets is deducted from the carrying value of the related assets. Provisions for claims, insurance activity, guarantees and commitments are recorded in liabilities.

21. Other assets and liabilities

Other assets comprise:

	2012	2011
Advances issued to leasing equipment suppliers	24,429	9,644
Settlements with suppliers and other debtors	8,342	8,270
Investment property	6,626	4,464
Equipment purchased for leasing purposes	5,460	1,301
Deferred expenses	4,628	5,101
Investment property under construction	4,486	2,231
Intangible assets	3,695	4,130
Assets held for sale	1,739	3,672
Prepaid securities	1,610	740
Settlements on outstanding operations with securities	1,546	847
Repossessed collateral	1,150	1,349
Other tax assets	898	3,500
Accrued commissions	709	1,225

	2012	2011
Spot transactions	70	46
Claims on transactions with mutual fund's units	–	2,000
Other	4,437	3,949
	69,825	**52,469**
Less allowance for impairment of other assets (Note 20)	(1,269)	(1,355)
Other assets	**68,556**	**51,114**

Investment property

Investment property of the Group comprises real estate properties and land plots held by the Group for capital appreciation, as well as rented office space. Information on investment property is presented below:

	2012	2011
Balance, beginning of the year	**4,464**	**676**
Transfer from property and equipment	383	1,056
Acquisition through business combination (Note 6)	901	1,487
Additions	1,135	1,336
Effect of revaluation	9	36
Disposals	(330)	(213)
Other	64	86
Balance, end of the year	**6,626**	**4,464**
Amounts recorded in consolidated statement of profit or loss:		
rental income	76	40
gain/(loss) from the sale of investment property	116	(42)

There are no restrictions regarding sale of investment property or receipt of profit and proceeds from its disposal.

Intangible assets

Included in other assets are intangible assets in the gross amount of RUB 5,339 million (31 December 2011: RUB 5,299 million), less accumulated amortization of RUB 1,644 million (31 December 2011: RUB 1,169 million). In 2012, the Group disposed of intangible assets in the gross amount of RUB 310 million (2011: RUB 166 million), less accumulated amortization of RUB 181 million (2011: RUB 160 million). The respective amortization charges for the year ended 31 December 2012 are RUB 656 million (for the year ended 31 December 2011: RUB 539 million), which is included in other operating expenses.

(in millions of Russian rubles)

21. Other assets and liabilities (continued)

At 31 December 2012, intangible assets included goodwill in the amount of RUB 1,381 million related to acquisition of Bank BelVEB OJSC and OJSC "VEB-Leasing". At 31 December 2011, intangible assets included goodwill in the amount of RUB 1,843 million related to acquisition of Bank BelVEB OJSC, OJSC "VEB-Leasing" and OJSC "NTB".

Other liabilities comprise:

	2012	2011
Received and unused subsidies	77,000	–
Future period income	9,322	10,798
Finance lease liabilities	4,067	128
Deferred income related to government assistance	3,000	–
Settlements with clients on export revenues	2,198	1,444
Settlements with employees	2,068	1,743
Advances received from lessees	1,866	1,380
Other settlements with credit institutions	1,111	789
Obligations to issue loans at a below-market interest rate	515	680
Settlements on operations with securities	401	5
Spot transactions	39	4
Other	3,861	2,058
Other liabilities	**105,448**	**19,029**

At 31 December 2012, received and unused subsidies included grants provided by the Russian Ministry of Finance pursuant to Federal Law No. 247-FZ dated 3 December 2012, "On Amending the Federal Law "On the Federal Budget for 2012 and the 2013 and 2014 Planned Period":

- in the form of an asset contribution in the amount of RUB 62,000 million for the purpose of formation of Mutual Fund RDIF;

- in the form of an asset contribution in the amount of RUB 15,000 million for implementing top-priority industrial, transport and energy infrastructure development projects in the Far East and the Baikal region.

Deferred income related to government assistance represents an asset contribution in the amount of RUB 3,000 million provided by the Russian Ministry of Finance as compensation for below-market interest rates on loans for manufacturers of high-tech products. At 31 December 2012 no such loans for manufacturers of high-tech products were granted.

In the reporting year ended 31 December 2012, no new agreements on below-market loans were concluded. For the reporting year ended 31 December 2011, loss on initial recognition of obligations to issue loans at below-market interest rate in the amount of RUB 680 million was recognized in the consolidated statement of income.

22. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2012	2011
Correspondent loro accounts of Russian credit institutions	48,010	15,614
Correspondent loro accounts of other credit institutions	12,641	11,746
Loans and other placements from OECD-based credit institutions	266,446	258,417
Loans and other placements from Russian credit institutions	191,178	125,441
Loans and other placements from other credit institutions	51,224	51,318
Repurchase agreements	376	7,397
Cash collateral on securities lent	67	–
Deposits from Russian credit institutions – fiduciaries	–	2,081
Amounts due to credit institutions	**569,942**	**472,014**
Held as security against letters of credit	**128**	**–**

At 31 December 2012, loans and other placements from OECD-based credit institutions include loans primarily denominated in RUB, USD, EUR and GBP with interest rates ranging from three-month MOSPRIME plus 1.1% to 10.0% for RUB loans (31 December 2011: from 5.5% to 9.8%), from three-month LIBOR plus 0.2% to 8.7% for USD loans (31 December 2011: from three-month LIBOR plus 0.2% to 7.6%), from 0.6% to 6.5% for EUR loans (31 December 2011: from 1.97% to 6.5%) and from six-month LIBOR plus 1.5% to 7.9% for GBP loans (31 December 2011: from 5.7% to 7.9%). At 31 December 2012, loans and other placements from OECD-based credit institutions also include loans denominated in CHF with an interest rate of 6.0% (31 December 2011: 5.1%).

At 31 December 2012, loans and other placements from Russian credit institutions include loans denominated in RUB, USD and EUR with interest rates ranging from 4% to 10.7% for RUB loans (31 December 2011: from 3.75% to 9.7%), from 0.2% to 8.9% for USD loans (31 December 2011: from 0.2% to 7%), from 0.1% to 9% for EUR loans (31 December 2011: from 0.7% to 1%). At 31 December 2012 and 31 December 2011, this item also includes deposits held as security against letters of credit and minimum balances on correspondent loro accounts.

(in millions of Russian rubles)

22. Amounts due to credit institutions (continued)

At 31 December 2012, loans and other placements from non-OECD-based credit institutions include loans denominated in RUB, USD, EUR with interest rates ranging from 6% to 9.2% for RUB loans (31 December 2011: from 4% to 9.2%), from 0.2% to 6.5% for USD loans (31 December 2011: from 0.2% to 11%), from 1.9% to 7.2% for EUR loans (31 December 2011: from 0.7% to 6.1%). At 31 December 2012, loans and other placements from non-OECD-based credit institutions also include loans denominated in UAH with interest rates ranging from 7.5% to 16% (31 December 2011: no placements denominated in this currency). At 31 December 2011, this item includes loans denominated in GBP with an interest rate of 0.6% and minimum balances on correspondent loro accounts of non-OECD-based credit institutions.

At 31 December 2012, repurchase agreements with credit institutions include loans of RUB 376 million (31 December 2011: RUB 3,203 million) received from foreign credit institutions and collateralized by debt securities available for sale with the fair value of RUB 410 million (31 December 2011: RUB 3,217 million) (Note 15). At 31 December 2011, repurchase agreements with credit institutions also include loans of RUB 4,194 million received from foreign credit institutions and collateralized by securities acquired under reverse repurchase agreements with the fair value of RUB 4,035 million.

At 31 December 2012, amounts due to credit institutions include cash collateral on securities lent in the amount of RUB 67 million received from a Russian credit institution. The funds lent are represented by equity securities as at fair value through profit or loss with the fair value of RUB 68 million (Note 11).

In 2012, the Bank raised long-term financing on market terms from OECD-based credit institutions totaling RUB 52,259 million (2011: RUB 132,592 million) and repaid long-term financing of RUB 27,178 million (2011: RUB 36,904 million) in accordance with contractual terms. Besides, in 2012 the Bank raised long-term financing on market terms from other credit institutions totaling RUB 18,078 million (2011: RUB 7,010 million) and repaid long-term financing of RUB 392 million (2011: RUB 3,293 million) in accordance with contractual terms.

In addition, in 2012 a leasing company of the Group raised long-term financing from Russian and foreign credit institutions totaling RUB 20,771 million (2011: RUB 76,909 million) and repaid long-term financing of RUB 12,669 million (2011: RUB 36,508 million) in accordance with contractual terms.

23. Amounts due to customers

Amounts due to customers comprise:

	2012	2011
Current accounts	121,227	122,294
Term deposits	213,117	228,771
Repurchase agreements	623	1,316
Cash collateral on securities lent	438	–
Other amounts due to customers	422	43
Amounts due to customers	**335,827**	**352,424**
Held as security against guarantees	**117**	**504**
Held as security against letters of credit	**8,352**	**3,337**

At 31 December 2012 and at 31 December 2011, amounts due to the Bank's four largest customers amounted to RUB 76,942 million and RUB 92,625 million, respectively, representing 22.9% and 26.3% of the aggregate amounts due to customers.

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

	2012	2011
Telecommunications	37,383	36,369
Manufacturing, heavy machinery and military-related goods production	30,885	14,673
Finance	21,769	18,932
Mining	9,226	3,513
Infrastructure development	5,070	32,002
Energy	–	8,293
Transport	–	4,294
	104,333	**118,076**

Included in term deposits are deposits of individuals in the amount of RUB 81,744 million (31 December 2011: RUB 79,534 million). In accordance with the Russian Civil Code, the Bank and its Russian subsidiaries are obliged to repay term deposits of individuals upon demand of a depositor. In accordance with the Banking Code of the Republic of Belarus, the Belarusian subsidiary is obliged to repay term deposits of individuals in five days upon demand of a depositor. In accordance with the banking legislation of Ukraine, the Ukrainian subsidiary is obliged to repay term deposits of individuals in five days upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(in millions of Russian rubles)

23. Amounts due to customers (continued)

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

	2012	2011
State and state-controlled entities	103,155	125,750
Private companies	131,637	120,185
Employees and other individuals	96,631	97,434
Companies under foreign state control	4,404	9,055
Amounts due to customers	**335,827**	**352,424**

At 31 December 2012, repurchase agreements with customers include loans of RUB 623 million received from Russian companies and collateralized by debt securities acquired under a reverse repurchase agreement with the fair value of RUB 1,131 million. At 31 December 2011, repurchase agreements with customers include loans of RUB 1,316 million received from a foreign company and collateralized by available-for-sale debt and equity securities with the fair value of RUB 1,498 million (Note 15).

At 31 December 2012, amounts due to customers also include cash collateral on securities lent in the amount of RUB 438 million received from a Russian company. The funds lent are represented by equity securities as at fair value through profit or loss with the fair value of RUB 435 million (Note 11).

24. Debt securities issued

Debt securities issued comprise the following:

	2012	2011
Eurobonds issued	182,902	134,715
Domestic bonds issued	181,639	107,430
Promissory notes	18,781	18,394
European commercial paper	5,394	–
Deposit and saving certificates	223	491
Debt securities issued	**388,939**	**261,030**
Promissory notes held as security against guarantees	**834**	**1,289**

In the year 2012 ended 31 December 2012, the Group issued the following debt securities:

- interest-bearing bonds with a nominal value of BYR 14,070 million (the equivalent of RUB 55 million as at the date of placement), placed by a subsidiary bank in January 2012 and maturing in December 2016;

- loan participation notes (Eurobonds) with a nominal value of USD 750 million (the equivalent of RUB 22,419 million as at the date of placement), placed by the Bank in February 2012 through a special purpose vehicle company and maturing in 2017;

- foreign-currency bonds with a nominal value of USD 500 million (the equivalent of RUB 14,890 million as at the date of placement), placed by the Bank in February 2012 and maturing in 2015;

- ruble bonds with a nominal value of RUB 10,000 million, placed by a leasing company of the Group in February 2012 and maturing in January 2017;

- ruble bonds with a nominal value of RUB 15,000 million placed by the Bank in March 2012 and maturing in 2032;

- ruble bonds with a nominal value of RUB 5,000 million, placed by a subsidiary bank in March 2012 and maturing in March 2022;

- two issues of ruble bonds with a nominal value of RUB 5,000 million each, placed by a subsidiary bank in April 2012 and maturing in April 2022 (bonds with a nominal value of RUB 5,939 million were purchased by a member of the Group);

- two issues of European commercial paper with a nominal value of USD 50 million and USD 40 million, placed by a subsidiary bank in May 2012 and maturing in May 2013. The placement price was 95.69% and 95.67% of the nominal value (the equivalent of RUB 1,502 million and RUB 1,201 million as at the respective dates of placement, given the discount);

- interest-bearing bonds with a nominal value of BYR 100,000 million (the equivalent of RUB 394 million as at the date of placement), placed by a subsidiary bank in June 2012 and maturing in August 2017;

- loan participation notes (Eurobonds) with a nominal value of USD 1,000 million (the equivalent of RUB 32,207 million as at the date of placement), placed by the Bank in July 2012 through a special purpose vehicle company and maturing in 2022;

(in millions of Russian rubles)

24. Debt securities issued (continued)

- bonds of four issues with a nominal value of USD 100 million each, placed by a leasing company of the Group in July 2012 and maturing in June 2017 (the equivalent of RUB 12,989 million as at the date of placement; the bonds were fully purchased by a member of the Group upon initial public offering);

- ruble bonds with a nominal value of RUB 5,000 million, placed by a subsidiary bank in August 2012 and maturing in August 2022;

- BYR-denominated interest-bearing bonds with a nominal value of BYR 100,000 million (the equivalent of RUB 369 million as at the date of placement), placed by a subsidiary bank in September 2012 and maturing in September 2017;

- two issues of European commercial paper with a nominal value of USD 50 million each, placed by a subsidiary bank in September 2012 and maturing from June till September 2013. The placement price was 96.61% and 95.67% of the nominal value (the equivalent of RUB 1,521 million and RUB 1,511 million as at the respective dates of placement, given the discount; European commercial paper with a nominal value of USD 8.5 million were purchased by a member of the Group);

- two issues of ruble bonds with a nominal value of RUB 10,000 million each placed by the Bank in October 2012 and maturing in 2032;

- bonds of two issues with a nominal value of USD 100 million each, placed by a leasing company of the Group in October 2012 and maturing in October 2017 (the equivalent of RUB 6,180 million as at the date of placement; the bonds were fully purchased by a member of the Group upon initial public offering);

- ruble bonds with a nominal value of RUB 5,000 million, placed by a subsidiary bank in November 2012 and maturing in November 2015 (bonds with a nominal value of RUB 3,650 million were purchased by a member of the Group);

- bonds with a nominal value of RUB 5,000 million, placed by a subsidiary bank in December 2012 and maturing in December 2015 (bonds with a nominal value of RUB 1,237 million were purchased by a member of the Group).

Also during the reporting period, Group members repurchased own bonds under offers for a total of RUB 11,053 million.

At 31 December 2012, debt securities issued include Eurobonds placed at the market rate denominated in USD maturing from May 2016 to November 2025 (31 December 2011: from May 2016 to November 2025) and in CHF maturing in February 2016 (31 December 2011: in February 2016).

As at 31 December 2012, included in debt securities issued are bonds placed at the market rate denominated in RUB maturing from February 2013 to September 2032 (31 December 2011: from February 2013 to September 2021), denominated in USD maturing from February 2015 to October 2017 (31 December 2011: nil), denominated in UAH maturing from March 2013 to March 2014 (31 December 2011: from March 2013 to March 2014), as well as bonds denominated in BYR maturing from September 2016 to September 2017 (31 December 2011: from September to December 2016).

At 31 December 2012, the Group's debt securities issued include interest-bearing promissory notes denominated in RUB, USD and EUR maturing before December 2049 (31 December 2011: maturing in 2049). At 31 December 2012, interest rates are from 0.1% to 9.5% for RUB-denominated promissory notes (31 December 2011: from 0.1% to 9.5%), from 0.2% to 8.5% for USD-denominated promissory notes (31 December 2011: from 0.2% to 4.9%) and from 0.4% to 1.6% for EUR-denominated promissory notes (31 December 2011: from 0.5% to 5%).

At 31 December 2012, debt securities issued include RUB-denominated saving certificates issued by a subsidiary bank at interest rates from 0.1% to 9% maturing from January 2013 to March 2022, as well as RUB-denominated deposit certificates placed by a subsidiary bank at an interest rate of 9.8% maturing in May 2013 (31 December 2011: interest rates for deposit and saving certificates are from 3% to 7.5% and from 0.1% to 9%, respectively, with deposit certificates maturing in May 2012 and saving certificates maturing in March 2022).

25. Equity

Charter capital

In accordance with Federal Law, the Bank's charter capital is formed from asset contributions of the Russian Federation made upon decision of the Russian Government.

In accordance with Resolution of the Russian Government No. 1687-r dated 27 November 2007, pursuant to Federal Law No. 246-FZ dated 2 November 2007, "On Introducing Amendments to

(in millions of Russian rubles)

25. Equity (continued)

Charter capital (continued)

Federal Law "On the Federal Budget for 2007", the Russian Federation contributed RUB 180,000 million to the charter capital of Vnesheconombank in November 2007.

In accordance with Resolution of the Russian Government No. 1766-r dated 7 December 2007, the Russian government contributed 100% of state-owned shares of "SME Bank" and 5.2% of state-owned shares of EXIMBANK OF RUSSIA to the charter capital of Vnesheconombank. The transfer of shares was completed in 2008.

In accordance with Resolution of the Russian Government No. 1665-r dated 19 November 2008, pursuant to Federal Law No. 198-FZ dated 24 July 2007, "On the Federal Budget for 2008 and for the 2009 and 2010 Planned Period", the Russian Federation contributed RUB 75,000 million to the charter capital of Vnesheconombank in November 2008.

In accordance with Resolution of the Russian Government No. 854-r dated 23 June 2009, pursuant to Federal Law No. 204-FZ dated 31 October 2008, "On the Federal Budget for 2009 and for the 2010 and 2011 Planned Period", the Russian Federation contributed RUB 100,000 million to the charter capital of Vnesheconombank in June 2009.

In accordance with Resolution of the Russian Government No. 1891-r dated 10 December 2009, in December 2009 the Russian Federation contributed RUB 21,000 million to the charter capital of Vnesheconombank for further acquisition by the Bank of shares additionally issued by JSC "United Aircraft Corporation".

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

In 2011, Bank BelVEB OJSC, the Group's subsidiary, paid dividends on ordinary shares in the amount of RUB 286 million for the reporting year ended 31 December 2010.

Additional paid-in capital

In December 2011, pursuant to Federal Law No. 357-FZ "On the Federal Budget for 2011 and for the 2012 and 2013 Planned Period" dated 13 December 2010, the Bank received a grant from the Russian Ministry of Finance as an asset contribution in the amount of RUB 62,600 million for the purposes of creating a Russian equity fund, which was recognized in additional paid-in capital. Vnesheconombank used all the funds to acquire units in Mutual Fund RDIF.

Nature and purpose of other reserves

Unrealized gains/(losses) on investment financial assets available for sale

This reserve records fair value changes of available-for-sale investments.

The movements in unrealized gains/(losses) on investment financial assets available for sale were as follows:

	2012	2011
Unrealized gains/(losses) on investment financial assets available for sale	(12,695)	(21,236)
Realized gains on investment financial assets available for sale, reclassified to the statement of income (Note 28)	(4,020)	(15,607)
Impairment loss on investment securities available for sale, reclassified to the statement of income	–	8,910
Change in unrealized gains/(losses) on operations with investment financial assets available for sale	**(16,715)**	**(27,933)**

Foreign currency translation reserve

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

26. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

(in millions of Russian rubles)

26. Commitments and contingencies (continued)

Operating environment (continued)

As emerging markets, the Republic of Belarus and Ukraine do not possess a well-developed business and regulatory infrastructure that would generally exist in more mature market economies. Ukrainian economy continues to display certain characteristics consistent with those of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of the country. In November 2011, the Republic of Belarus was recognized as a hyperinflationary economy starting from 1 January 2011. The future stability of the Belarusian and Ukrainian economies depends to a large extent on the efficiency and further development of the economic, financial and monetary measures taken by the Belarusian and Ukrainian governments.

The Russian, Belarusian and Ukrainian economies are vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2012, the Russian, Belarusian and Ukrainian governments continued to take measures to support the economy to overcome the consequences of the global financial crisis. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could adversely affect the Group's financial position, results of operations and business prospects.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal issues

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group. Movement in provisions for legal claims is disclosed in Note 20.

Taxation

A major part of the Group's business activity is carried out in the Russian Federation. Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are often subject to varying interpretations (which, in particular, may apply to legal relations retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. Therefore, management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities at any time in the future. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of various provisions of this legislation, performing tax reviews and imposing additional tax requirements. It is therefore possible that the tax authorities may challenge transactions and operations of the Group that have not been challenged in the past. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Tax field audits of the accuracy of tax calculation and payments conducted by tax authorities may cover three calendar years preceding the year during which the tax audit decision was made. Under certain circumstances reviews may cover longer periods.

As at 31 December 2012, the Group's management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Commitments and contingencies

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

	2012	2011
Credit related commitments		
Undrawn loan commitments	648,431	568,066
Guarantees	146,402	103,049
Letters of credit	71,919	80,790
	866,752	**751,905**
Operating lease commitments		
Not later than 1 year	1,225	1,322
Later than 1 year but not later than 5 years	2,787	2,256
Later than 5 years	2,090	963
	6,102	**4,541**
Capital expenditure commitments	12,591	19,559
	885,445	**776,005**
Less provisions (Note 20)	(800)	(147)
Commitments and contingencies (before deducting collateral)	**884,645**	**775,858**
Less deposits and securities issued, held as security against guarantees and letters of credit	(9,431)	(5,130)
Commitments and contingencies	**875,214**	**770,728**

(in millions of Russian rubles)

26. Commitments and contingencies (continued)

Commitments and contingencies (continued)

At 31 December 2012, the Group advised export letters of credit for a total amount of RUB 83,474 million (31 December 2011: RUB 73,890 million) and received reimbursement authorization from the issuing credit institutions for a total of RUB 1,884 million (31 December 2011: RUB 2,364 million). The Group bears no credit risks under export letters of credit and reimbursement authorization.

At 31 December 2012, credit related commitments include liabilities in favor of one counterparty, a state company, in the amount of RUB 40,344 million, which accounts for 5% (31 December 2011: RUB 33,924 million, 5%) of all credit related commitments.

Insurance

At 31 December 2012, the Group's premises are insured for RUB 15,576 million (31 December 2011: RUB 9,847 million). The Group has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia, the Republic of Belarus and Ukraine at present.

27. Net fee and commission income

Net fee and commission income comprise:

	2012	2011
Cash and settlement operations	3,513	3,582
Guarantees and letters of credit	2,334	3,295
Agency fees	556	556
Trust management of pension funds	383	279
Operations with securities	117	150
Other operations	672	779
Fee and commission income	**7,575**	**8,641**
Fee and commission expense	**(1,673)**	**(2,029)**
Net fee and commission income	**5,902**	**6,612**

28. Gains less losses from investment financial assets available for sale

Gains less losses from investment financial assets available for sale recognized in the statement of income comprise:

	2012	2011
Gains less losses on sale of investment financial assets available for sale, previously recognized in other comprehensive income (Note 25)	4,020	15,607
Losses on impairment of investment financial assets available for sale	(1,969)	(8,910)
Other gains from sale and redemption of investment financial assets	197	3,433
Total gains less losses from investment financial assets available for sale	**2,248**	**10,130**

29. Other operating expenses

Other operating expenses comprise:

	2012	2011
Legal services	2,164	422
Expenses associated with non-core activities	2,126	905
Loss on acquisition of impaired assets	1,750	–
Advertising expenses	1,626	1,504
Charity	1,290	919
Audit and consulting	1,177	923
Sponsorship	1,122	1,096
Administrative expenses	765	955
Insurance	626	801
Marketing and research	681	259
Loss on write-off of impaired assets	419	214
Deposits' insurance	398	383
Amortization of intangibles	656	539
Loss on write-off of goodwill	564	–
Loss on disposal of financial assets (loans and accounts receivable)	97	389
Other	3,817	2,246
Other operating expenses	**19,278**	**11,555**

30. Risk management

Introduction

The Group's operations expose it to financial risks, which it divides into credit risk, liquidity risk and market risk, the latter being subdivided into interest rate risk, currency risk and equity risk. Group members manage financial risks through a process of ongoing identification, measurement and monitoring, as well as by taking steps towards reducing the level of risk.

The Group is also subject to operational risk and strategic risk. Strategic risk is defined by the Group as a risk of a negative effect on the Group's operations arising from mistakes (deficiencies) made in decisions that determine strategy of the Group; this risk is managed by the Group in the course of its strategic planning process.

The process of risk management is critical to ensure that risks accepted by the Group would not affect its financial stability. Each business division within the Group involved in operations exposed to risk is accountable for controlling the level of risks inherent in its activities to the extent provided in the internal regulations.

Risk management structure in place at Group members

Typical organizational structure of risk management in place at Group members consists of the following elements:

- The supreme collegial management body (Supervisory Board, Board of Directors) takes strategic decisions aimed at organizing and supporting the operation of the risk management system.

- Collegial management bodies (Management Board, Banking Risk Management Committee, Financial Committee, Asset and Liability Management Committee, Credit Committee, Technology Committee) and single management bodies (Chairman of the Bank, Chairman of the Management Board) adopt/prepare management decisions within their established authority, over a particular type of activity or type of risk.

- Independent risk management business division (Risk Management Department, Risk Analysis and Control Department) coordinates activities carried out by independent business divisions to implement risk management decisions taken by management bodies, including development of a regulatory framework that underlies risk assessment and control, independent assessment and subsequent control of risk level, and prepares risk reports for Group member management on a regular basis.

- Business divisions engaging in/supporting operations exposed to risks perform initial risk identification and assessment, control compliance with established limits and generate risk reports subject to the requirements of the adopted/approved regulatory framework.

- The Internal Control Function controls compliance with requirements of internal regulations and evaluates the effectiveness of the risk management system. Following the completion of respective audits, the Internal Control Function reports its findings and recommendations to Group member management.

In 2012, the risk management coordination within the Group of Vnesheconombank was further developed. The Management Board of Vnesheconombank approved the Risk Management Policy of Vnesheconombank's Group that established primary objectives, goals, principles and procedures for consolidated risk management within Vnesheconombank and its subsidiaries.

Vnesheconombank's risk management structure

The Supervisory Board is the supreme management body of the Bank. Within the scope of powers delegated to that body by the Memorandum on Financial Policies and Federal Law No. 82-FZ the Supervisory Board is responsible for establishing specific parameters of the Bank's investing and financing activities including those related to risk management. Along with the Supervisory Board, the Bank's management structure comprises other management and collegial bodies and business divisions that are responsible for controlling and managing risks.

Supervisory Board

Pursuant to the Regulation on the Supervisory Board, powers of the Bank's Supervisory Board in the area of risk management include: the approval of procedures governing the activities of internal control function, credit policy regulations, procedures for providing guarantees, sureties and loans to credit institutions and other legal entities, methods and procedures for measuring credit risk parameters and limits, methodology for calculating the Bank's equity (capital) amount and capital adequacy ratio, impairment and other losses provisioning procedures, regulations on the Bank's management bodies.

The Supervisory Board decides on approving transactions involving acquisition, disposal or potential disposal of assets whose carrying value accounts for at least 10% of the Bank's equity and establishes the maximum amount of funds allocated to manage the Bank's temporarily idle cash (liquidity).

(in millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

Within the scope of powers delegated to it by the Memorandum on Financial Policies and Federal Law, the Supervisory Board establishes parameters of the Bank's investing and financing activities, sets limits and establishes limitations on the structure of the Bank's loan portfolio.

Management Board

The risk management-related authorities of the Management Board include making decisions to approve transactions or a number of interrelated transactions associated with acquisition, disposal or potential disposal of assets whose carrying value accounts for 2% to 10% of the Bank's equity.

The Management Board drafts proposals regarding Vnesheconombank's major lines of business and parameters of its investing and financing activities (including those related to risk management) and submits such proposals for approval by the Supervisory Board.

Chairman of Vnesheconombank

With regard to risk management-related aspects of the Bank's operations, the Chairman of Vnesheconombank issues orders and resolutions, approves policies and technical procedures governing banking transactions.

The Chairman of Vnesheconombank decides on other matters related to risk management except for those falling within the competence of the Supervisory Board and the Management Board.

Credit Committee

The Credit Committee is the Bank's standing collegial body whose primary objective is to develop conclusions as a result of considering suggestions for granting loans, guarantees, sureties and financing on a repayable basis, participation in share capital and/or purchase of bonds, setting limits by counterparty and issuer, as well as debt recovery and write-off.

Assets and Liabilities Committee

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

Working Group on Coordination of Subsidiary Banks' and Financial Companies' Liquidity and Risk Management

Key competences of the Working group include coordination of activity within the group of subsidiary banks and financial companies of Vnesheconombank in order to ensure consistent liquidity and risk management, provide conditions for efficient implementation of policies on managing assets and liabilities and risks within the group of subsidiary banks and financial companies of Vnesheconombank.

Working Group on Coordination of Public Borrowings of Subsidiary Banks and Companies of Vnesheconombank

Key competences of the Working group include assisting subsidiary banks and financial companies of Vnesheconombank by preparing reports and recommendations on the following activities of Vnesheconombank's group of companies: improvement of coordination of public borrowings of Vnesheconombank's subsidiary banks and companies, raising funds for Vnesheconombank's subsidiary banks and companies, and estimation of key parameters for this process.

Internal Control Function

The Internal Control Function is responsible for monitoring, on a continuous basis, the functioning of the banking risk management system as provided in the internal regulations. Following the completion of the respective audits, the Internal Control Function reports its findings and recommendations to the Bank's management.

Risk Management Department

The Risk Management Department is an independent business division designed to maintain the efficient functioning of the risk management system in compliance with the requirements of supervisory and regulatory bodies, international standards governing banking risk management practices in order to ensure the requisite reliability and financial stability of the Bank.

(in millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

The Risk Management Department is responsible for developing methods and procedures for the assessment of various types of risks, draft proposals to limit the risk level, perform follow-up monitoring of compliance with the established risk limits and relevant risk decisions, and prepare reporting documents for each type of risks and each line of the Bank's business.

The Risk Management Department is responsible for monitoring compliance with risk policies and principles, and for assessing risks of new products and structured transactions. The Risk Management Department is composed of units that are responsible for control over the level of exposures by each type of risk and each line of the Bank's business, as well as a division responsible for monitoring risks of subsidiaries.

Directorate for Currency and Financial Transactions

To control the Bank's day-to-day liquidity, the Directorate for Currency and Financial Transactions monitors compliance with the established minimum levels of liquidity and maturity gaps in assets and liabilities. The Directorate prepares regular forecasts of the Bank's estimated leverage by source of funding, performs daily monitoring of open position limits by class of financial instruments and operations performed by the Directorate on money, equity and currency markets as well as counterparty limits.

The Directorate monitors the market value and liquidity of collateral provided by the Bank's counterparties.

Independently from other operating divisions, the Analytical Unit within the Directorate analyzes the current situation on money, equity and currency markets.

Economic Planning Department

The Economic Planning Department is involved in the development of methodological documents for managing the Bank's financial risks. The Department monitors the Bank's financial stability parameters, including capital adequacy ratio. The Department coordinates the activities across the Bank relating to the establishment of allowances for losses.

Risk management

Risk measurement and reporting systems

The Bank's risks are measured using the methodologies approved by the Bank's authorized bodies which allow assessing both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate possible loss at a given level of probability. Losses are measured on the basis of the analysis and processing of historical data relating to risk factors underlying such losses and the established patterns (models) used to determine the relationship between changes in risk factors and loss events. Statistical patterns derived from the analysis of historical data are adjusted, as appropriate, to account for the current operating environment of the Bank and situation on the markets.

The Bank also applies stress testing practices to run worst case scenarios that would arise in case extreme events which are unlikely to occur do, in fact, occur.

Monitoring and limiting risks is primarily performed based on limits established by the Bank. These limits reflect the level of risk which is acceptable for the Bank and set strategic priorities for each line of the Bank's business.

To assess and monitor the aggregate credit, market and operational risk exposure, the Bank computes capital adequacy ratio in accordance with the methodology approved by the Bank's Supervisory Board and based on approaches set out in regulations issued by the Bank of Russia. The minimum capital adequacy ratio of 10% has been set.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. The above information and analytical comments thereon are communicated regularly to the Bank's management bodies, heads of business divisions and the Internal Control Function. The reporting frequency is established by the Bank's management body. The reports include the level of risk and risk profile changes by each type of risks and main business line, respective estimated values, updates on compliance with the existing risk limits, assessment of the amount of unexpected losses based on the value at risk methodology (VaR), results of sensitivity analysis for market risks, and the Bank's liquidity ratios.

To ensure timely response to changes in internal and external operating environment, heads of business divisions are obliged to notify the Bank's management of any factors contributing to banking risks. Information is to be communicated in accordance with the procedure set forth in the corresponding internal documents governing the activities of the business divisions.

(in millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

The Risk Management Department, jointly with other responsible business divisions, regularly monitors compliance with the existing limits, analyzes risk factors associated with financial and non-financial counterparties, jurisdictions, countries, market instruments, and the Bank's position in a given market segment and analyzes changes in the level of risk.

Risk mitigation

As part of its risk management, the Bank may use derivatives and other instruments to manage exposures arising from changes in interest rates, currency rates, equity prices, credit risk factors, and exposures arising from changes in positions under forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see above for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features, or when their ability to meet contractual obligations will be similarly affected by possible changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to control the level of risk concentrations, the Bank's policies and procedures include guidelines and restrictions designed to maintain a diversified portfolio.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations in full when they fall due. The Bank manages and controls credit risk by placing limits on the amount of risk it is willing to accept in relation to one counterparty, groups of counterparties and to industry segments and regions, and by monitoring exposures in relation to the existing limits.

Within the framework of risk management, the Bank ensures compliance with the following limits established in the Memorandum on Financial Policies:

- the maximum limit of exposure per individual borrower or a group of related borrowers shall not exceed 25% of the Bank's equity (capital);

- the aggregate volume of major exposures shall not exceed 800% of the Bank's equity (capital).

Vnesheconombank's Supervisory Board is entitled to set additional limits, including those related to the structure of the Vnesheconombank's loan portfolio.

When extending guarantees under export operations and arranging for export loan insurance against political and commercial risks, the Bank complies with the limitations set forth in the Memorandum on Financial Policies, whereby the maximum value of the Bank's commitments in respect of one borrower or a group of related borrowers should not exceed 25% of the Bank's equity (capital).

The Bank adopts a systemic approach to managing risks associated with the Bank's entire asset portfolio and those attributable to individual transactions entered into with borrowers/counterparties (a group of related borrowers/counterparties). Such approach consists of the following steps:

- risk identification;

- risk analysis and assessment;

- risk acceptance and/or risk reduction;

- risk level control.

Credit risk is managed throughout all the stages of the lending process: loan application review, execution of a lending/documentary transaction (establishment of a corresponding credit limit), loan administration (maintaining loan files, etc.), monitoring the loan (credit limit) drawdown status, monitoring the borrower's financial position and repayment performance until full settlement has been made (credit/documentary limit has been closed), monitoring the status of the current investment project. Since transactions that are bearing credit risk may not only involve credit risk as such, but give rise to other risks (e.g. market risk, project risk, collateral risk), the Bank performs a comprehensive assessment of risks attributable to such transactions.

The principle of methodological integrity provides for the use of a consistent methodology for identifying and measuring credit risk which is in line with the nature and scale of operations conducted by the Bank. The assessment methodology for the credit risk of the Group members is being amended to harmonize approaches to credit risk assessment used within the Group and in order to comply with the Bank's standards.

(in millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a credit rating. Credit ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Bank makes available to its customers documentary operations which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee/letter of credit given. They also expose the Bank to credit risks which are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position is best represented by their carrying amounts.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 14.

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the inputs for measuring the counterparty risk. Not past due and not impaired assets are subdivided into assets with high, standard and sub-standard grade. Grades are assigned based on the requirements of the national standards for assets quality assessment and international ratings of securities issuers. High grade assets comprise demands to counterparties with good financial position, absence of overdue payments, or secured by the guarantees of the Russian Government, and securities with high international credit ratings. Probability of the breach of contractual terms with regard to such assets can be evaluated as low. Standard grade assets comprise demands to counterparties with average financial position or assets with no overdue payments, which were not included in high grade assets. Probability of the breach of contractual terms with regard to such assets can be evaluated as average. Other financial assets, not past due and not impaired, are assigned a substandard grade. Since not all individually impaired assets are considered past due, not past due individually impaired assets and past due assets are separated. Credit risk measurement methodology has been approved by the Bank's Supervisory Board. Group-wide guidelines for assessing the credit quality of assets have been developed for the purpose of preparing Group's consolidated financial statements.

The table below shows the credit quality by class of assets for credit risk-related assets of the consolidated statement of financial position, based on the Group's credit rating system. The information is based on carrying amounts and does not include allowance for impairment.

		Not past due					
		Not impaired					
	Notes	High grade 2012	Standard grade 2012	Sub-standard grade 2012	Individually impaired 2012	Past due 2012	Total 2012
Amounts due from credit institutions	12						
Subordinated loans		294,683	10,886	–	–	–	**305,569**
Interbank loans under small and medium-sized business support program		66,856	7,767	–	266	298	**75,187**
Mortgage bonds		2,212	–	–	–	–	**2,212**
Other amounts due from credit institutions		59,055	4,838	344	–	–	**64,237**
		422,806	**23,491**	**344**	**266**	**298**	**447,205**
Loans to customers (including those pledged under repurchase agreements)	14						
Commercial loans		125,728	376,842	97,064	72,739	73,960	**746,333**
Project finance		121,582	171,552	153,083	112,954	63,782	**622,953**
Net investments in leases		148,750	8,435	1,988	27	5,952	**165,152**
Financing of operations with securities		45,736	6,347	–	–	–	**52,083**
Back-to-back finance		34,811	–	–	–	–	**34,811**
Promissory notes		615	98	9,311	–	91	**10,115**
Reverse repurchase agreements		8,628	5,281	–	–	–	**13,909**
Pre-export finance		5,865	11,451	1,001	135	1,911	**20,363**
Claims under letters of credit		228	8,129	2,657	–	2,602	**13,616**
Mortgage bonds		–	1,712	–	–	–	**1,712**

(in millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

		Not past due					
		Not impaired					
	Notes	High grade 2012	Standard grade 2012	Sub-standard grade 2012	Individually impaired 2012	Past due 2012	Total 2012
Other, including instruments pledged under repurchase agreements		1,692	6,417	25	–	1,642	**9,776**
		493,635	**596,264**	**265,129**	**185,855**	**149,940**	**1,690,823**
Debt investment securities	15						
Available for sale (including those pledged under repurchase agreements)		192,534	36,439	415	–	–	**229,388**
Held to maturity		16,582	–	–	–	73	**16,655**
		209,116	**36,439**	**415**	**–**	**73**	**246,043**
Total		**1,125,557**	**656,194**	**265,888**	**186,121**	**150,311**	**2,384,071**

		Not past due					
		Not impaired					
	Notes	High grade 2011	Standard grade 2011	Sub-standard grade 2011	Individually impaired 2011	Past due 2011	Total 2011
Amounts due from credit institutions	12						
Subordinated loans		339,172	10,768	–	–	–	**349,940**
Interbank loans under small and medium-sized business support program		49,616	8,777	–	230	28	**58,651**
Mortgage bonds		1,079	–	–	–	–	**1,079**
Other amounts due from credit institutions		47,438	981	2	4	–	**48,425**
		437,305	**20,526**	**2**	**234**	**28**	**458,095**
Loans to customers	14						
Commercial loans		103,371	342,254	81,011	51,227	56,213	**634,076**
Project finance		67,151	151,961	83,607	143,906	18,034	**464,659**
Net investments in leases		117,632	4,003	1,284	38	678	**123,635**
Financing of operations with securities		37,080	3,322	–	–	1,408	**41,810**
Back-to-back finance		34,328	–	–	–	–	**34,328**
Promissory notes		3,889	14,669	2,689	–	78	**21,325**
Reverse repurchase agreements		2,281	17,014	37	7	–	**19,339**
Pre-export finance		6,397	4,294	38	210	1,953	**12,892**
Claims under letters of credit		298	6,005	2,176	16	2,508	**11,003**
Mortgage bonds		753	–	–	–	–	**753**

	Notes	Not past due – Not impaired – High grade 2011	Not past due – Not impaired – Standard grade 2011	Not past due – Not impaired – Sub-standard grade 2011	Not past due – Individually impaired 2011	Past due 2011	Total 2011
Other		24,805	3,346	27	–	234	**28,412**
		397,985	**546,868**	**170,869**	**195,404**	**81,106**	**1,392,232**
Debt investment securities	15						
Available for sale (including those pledged under repurchase agreements)		184,107	25,691	3,355	–	–	**213,153**
Held to maturity		17,701	78	–	–	75	**17,854**
		201,808	**25,769**	**3,355**	**–**	**75**	**231,007**
Total		**1,037,098**	**593,163**	**174,226**	**195,638**	**81,209**	**2,081,334**

Aging analysis of past due but not impaired loans per class of financial assets

The table below shows the carrying amounts of past due but not impaired loans by the number of days past due:

	Less than 7 days 2012	7 to 30 days 2012	More than 30 days 2012	Total 2012
Loans to customers				
Project finance	16,029	1,684	1,684	19,397
Commercial loans	621	604	7,068	8,293
Net investments in leases	635	756	551	1,942
	17,285	**3,044**	**9,303**	**29,632**

Included in past due but not impaired loans to customers are outstanding amounts of RUB 16,029 million arising on overdue interest payment. In January 2013, the overdue interest was settled in full.

	Less than 7 days 2011	7 to 30 days 2011	More than 30 days 2011	Total 2011
Loans to customers				
Project finance	–	2	–	2
Commercial loans	460	301	4,614	5,375
Net investments in leases	240	281	141	662
Other	2	0	0	2
	702	**584**	**4,755**	**6,041**

See Note 14 for more detailed information with respect to the allowance for impairment of loans to customers.

30. Risk management (continued)

Credit risk (continued)

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are also assessed and provision is made in a similar manner as for loans.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its financial obligations when they fall due.

The Group manages its liquidity risk at the following levels:

- each bank within the Group manages its liquidity on a standalone basis so that it can meet its obligations in full and comply with requirements of the national regulator; for this purpose relevant policies and procedures have been developed that detail the liquidity risk assessment and control process;

- liquidity-related issues are considered on the Group's level at the meetings of the Working group on coordination of subsidiary banks' and financial companies' liquidity and risk management and the Working group on coordination of public borrowings of subsidiary banks and companies of Vnesheconombank.

Group members assess liquidity risk using analysis of the maturity structure of assets and liabilities, and a liquid asset cushion under various scenarios. To limit liquidity risk, Group members control liquidity gaps and the level of the liquid asset cushion. Subsidiary banks within the Group also forecast and control compliance with mandatory liquidity ratios established by national regulators.

As a part of the liquidity risk management process the Group members perform the following actions limiting the liquidity risk:

- regularly monitor the bank's liquidity situation, supervise the compliance with the established limits and review them;

- maintain a well-balanced maturity and currency structure of assets and liabilities and an optimal liquid asset cushion;

- maintain a diversified structure of funding sources and directions of investments by counterparty;

- develop plans to raise debt funding;

- assess sustained balances on customers' accounts, monitor the level of concentration of balances on customers' accounts in order to prevent an abrupt outflow of funds from customers' accounts;

(in millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

- perform cash flow modeling and supervise liquidity ratios under various scenarios that reflect changes in the macroeconomic and market operating environment;

- perform stress testing of the Bank's exposure to liquidity risk and financial market conditions on a regular basis and as and when significant changes in external and internal factors arise or are expected.

Operational control over liquidity ratios, including liquidity gaps, is performed at the Bank by the Directorate for Currency and Financial Transactions. The subsequent control is performed by the Risk Management Department. Liquidity control results are reported to the Bank's management and used for making management decisions.

In addition, for the purposes of identifying available sources to cover an unexpected deficit of liquid assets, the Bank daily monitors and forecasts the liquidity reserve. The liquidity reserve comprises the following:

- cash on the Bank's correspondent accounts, cash on hand, cash on accounts in stock exchange and clearing centers, and the net balance of the Bank's overnight placements;

- short-term deposits placed with banks considered by the Bank as highly reliable;

- liquid securities measured at fair value less any discount for unexpected losses due to market risk realization that can be promptly converted into cash or used as a collateralized funding.

In order to take into account any possible changes in projected cash flows, the Bank uses a procedure of stress testing liquidity ratios in accordance with scenarios covering both internal factors, specific to the Bank, and external factors:

- non-fulfillment by the Bank's counterparties of transaction, loan and debt obligations (credit risk realization);

- decrease in the market value of the securities portfolio (market risk realization);

- unexpected outflow of funds from customers' accounts;

- reduction in the expected inflow of funds to customers' accounts;
- reduced or closed access to financial market resources;
- reduction in the Bank's credit rating;
- early repayment of the attracted interbank loans due to the breaches of set financial covenants.

The Risk Management Department uses the procedure of liquidity ratios stress testing on a scheduled and unscheduled basis. Scheduled stress testing is carried out on a monthly basis. Unscheduled stress testing is carried out upon decision of an authorized body of the Bank, as well as in case of an indication of potential stress changes in internal and external risk factors, upon initiative of the Bank's functions involved in liquidity control activities. Findings of the analysis of the Bank's liquidity indicators calculated for various scenarios are communicated by the Risk Management Department to the Directorate for Currency and Financial Transactions and the Bank's management and are used in making decisions on measures required for regulating liquidity and planning the Bank's operations.

In case of an emergency the Bank uses the following liquidity support mechanisms:

- selling the portfolio of highly liquid assets (concluding repurchase agreements);
- limiting the volume of transactions with counterparties having a high credit risk level;
- suspending issuance of loans, guarantees and credit lines;
- taking measures to close positions in low liquid securities and to assign loan portfolio-related receivables;
- strengthening cooperation with Bank's customers for the purpose of short-term planning the Bank's liquidity situation and setting the funds withdrawal schedule;
- maintaining transparency of the Bank's operations.

At 31 December 2012 and at 31 December 2011, financial assets and liabilities of the Group, excluding receivables from the Russian Government under London Club arrangements and amounts due to London Club creditors, had the following maturities:

(in millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

	Up to 1 month 2012	1 to 6 months 2012	6 to 12 months 2012	Over 1 year 2012	No stated maturity 2012	Total 2012
Financial assets:						
Cash and cash equivalents	218,885	21,112	–	–	–	**239,997**
Precious metals	570	–	–	–	174	**744**
Financial assets at fair value through profit or loss	30,943	400	368	29,875	10,533	**72,119**
Financial assets at fair value through profit or loss lent and pledged under repurchase agreements	16,184	484	–	–	–	**16,668**
Amounts due from credit institutions	11,388	45,334	30,623	359,072	59	**446,476**
Loans to customers	52,133	167,505	216,239	1,061,362	–	**1,497,239**
Loans to customers pledged under repurchase agreements	–	–	148	–	–	**148**
Investment financial assets:						
available for sale	217,636	–	–	47,562	228,615	**493,813**
held to maturity	15,173	82	592	735	–	**16,582**
Investment financial assets lent and pledged under repurchase agreements	11,340	411	–	–	–	**11,751**
Due from the Russian Government	–	–	–	–	118	**118**
Investments in associates	–	–	–	–	9,510	**9,510**
Income tax assets	–	1,006	–	2,560	–	**3,566**
Other financial assets	4,051	14,622	9,220	14,026	4,619	**46,538**
	578,303	**250,956**	**257,190**	**1,515,192**	**253,628**	**2,855,269**
Financial liabilities:						
Amounts due to credit institutions	172,497	71,347	41,424	284,674	–	**569,942**
Financial liabilities at fair value through profit or loss	241	1,174	455	624	–	**2,494**
Due to the Russian Government and the Bank of Russia	55,030	124,369	198,078	604,391	–	**981,868**
Amounts due to customers	163,598	85,835	51,599	34,795	–	**335,827**
Debt securities issued	7,454	31,364	22,126	327,995	–	**388,939**
Income tax liabilities	–	263	–	1,439	–	**1,702**
Other financial liabilities	4,929	3,309	2,160	5,158	838	**16,394**
	403,749	**317,661**	**315,842**	**1,259,076**	**838**	**2,297,166**
Net position	**174,554**	**(66,705)**	**(58,652)**	**256,116**	**252,790**	**558,103**
Accumulated gap	***174,554***	***107,849***	***49,197***	***305,313***	***558,103***	

	Up to 1 month 2011	1 to 6 months 2011	6 to 12 months 2011	Over 1 year 2011	No stated maturity 2011	Total 2011
Financial assets:						
Cash and cash equivalents	158,896	19,132	–	–	–	**178,028**
Precious metals	93	–	–	–	167	**260**
Financial assets at fair value through profit or loss	42,516	4,042	790	42,365	4,649	**94,362**
Amounts due from credit institutions	11,634	41,004	24,718	380,342	–	**457,698**
Loans to customers	52,632	151,505	168,944	855,842	–	**1,228,923**
Loans to customers pledged under repurchase agreements	–	–	–	–	–	–
Investment financial assets:						
available for sale	209,273	–	–	11,295	233,717	**454,285**
held to maturity	245	1,019	1,009	15,506	–	**17,779**
Investment financial assets pledged under repurchase agreements	1,498	–	3,217	–	–	**4,715**
Due from the Russian Government	–	–	–	–	124	**124**
Investments in associates	–	–	–	–	5,894	**5,894**
Income tax assets	–	595	–	2,737	–	**3,332**
Other financial assets	7,814	19,119	3,222	1,076	2,149	**33,380**
	484,601	**236,416**	**201,900**	**1,309,163**	**246,700**	**2,478,780**
Financial liabilities:						
Amounts due to credit institutions	128,549	36,586	39,691	267,188	–	**472,014**
Financial liabilities at fair value through profit or loss	408	4,181	788	1,568	–	**6,945**
Due to the Russian Government and the Bank of Russia	21,503	65,518	366,125	431,446	–	**884,592**
Amounts due to customers	161,700	94,225	66,785	29,714	–	**352,424**
Debt securities issued	3,621	13,225	14,928	229,256	–	**261,030**
Income tax liabilities	–	167	–	1,718	–	**1,885**
Other financial liabilities	1,820	3,690	663	256	911	**7,340**
	317,601	**217,592**	**488,980**	**961,146**	**911**	**1,986,230**
Net position	**167,000**	**18,824**	**(287,080)**	**348,017**	**245,789**	**492,550**
Accumulated gap	***167,000***	***185,824***	***(101,256)***	***246,761***	***492,550***	

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

While the majority of available-for-sale securities is shown as 'up to 1 month', disposal of such assets upon demand is dependent upon financial market conditions. Significant security positions may not always be liquidated in a short period of time without adverse price effects.

Alternatively, the Group's management believes that the substantial part of the investments in equity investment securities available for sale recognized in 'no stated maturity' can guarantee sig-

(in millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

nificant volumes of liquidity within a short period of time (up to 1 month) upon disposal of these securities on the market or conducting transactions on repurchase agreements.

The negative liquidity gap in '6 to 12 months, 2011' was formed mainly at the expense of interest-bearing deposits of the Bank of Russia, which include special purpose deposits attracted for the program for financial support to Sviaz-Bank and CJSC "GLOBEXBANK", and USD-denominated deposits of the Russian Ministry of Finance attracted to finance investment projects (Note 8). In 2012, the maturity of the deposits of the Bank of Russia (with nominal maturity of 1 year) was extended by 1 year (as in 2009-2011); the maturity of the USD denominated deposits of the Russian Ministry of Finance was extended by 2 years (2011: 1.5 years). As a result of extending the maturity of the deposits of the Russian Ministry of Finance by 2 years, there is no accumulated negative liquidity gap for any of the maturities at 31 December 2012. Given the special purpose-related character of the deposits of the Bank of Russia, the Group's management expects that the maturity of these deposits will be extended in 2013 as well.

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2012 and 31 December 2011 based on contractual undiscounted repayment obligations. Exception is made for derivatives (assets and liabilities), which are shown by amounts payable and receivable as well as the cost of the realizable non-monetary assets and by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities at 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	198,169	93,770	279,342	51,848	**623,129**
Derivative financial instruments settled through delivery of underlying asset					
Contractual amounts payable	71,313	11,186	20,558	60	**103,117**
Fair value of sold underlying assets	1,869	–	14,006	–	**15,875**
Contractual amounts receivable	(72,545)	(10,944)	(47,821)	(36)	**(131,346)**
Due to the Russian Government and the Bank of Russia	117,989	273,745	404,199	455,374	**1,251,307**
Amounts due to customers	205,022	106,124	33,428	989	**345,563**
Debt securities issued	24,929	39,437	214,239	312,563	**591,168**
Other liabilities	4,478	3,799	3,570	2,580	**14,427**
Total undiscounted financial liabilities	**551,224**	**517,117**	**921,521**	**823,378**	**2,813,240**

Financial liabilities At 31 December 2011	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	148,657	61,293	267,916	47,773	**525,639**
Derivative financial instruments settled through delivery of underlying asset					
Contractual amounts payable	68,124	101,834	26,430	367	**196,755**
Fair value of sold underlying assets	6,112	2,022	29,181	–	**37,315**
Contractual amounts receivable	(75,687)	(103,900)	(77,390)	(217)	**(257,194)**
Due to the Russian Government and the Bank of Russia	27,008	444,623	149,389	577,589	**1,198,609**
Amounts due to customers	214,547	116,531	31,409	1,891	**364,378**
Debt securities issued	8,846	25,716	141,215	211,139	**386,916**
Other liabilities	4,651	2,451	344	10	**7,456**
Total undiscounted financial liabilities	**402,258**	**650,570**	**568,494**	**838,552**	**2,459,874**

The maturity analysis of liabilities does not reflect the historical stability of customers' current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in 'less than 3 months' in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor. According to the legislation of the Republic of Belarus and Ukraine, the Group is obliged to repay the amount of these deposits at the first call of the depositor within five days (Note 23).

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies (letters of credit, guarantees, undrawn loan facilities, reimbursement obligations). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

(in millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2012	853,560	9,184	4,008	–	**866,752**
2011	737,122	–	14,783	–	**751,905**

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

At 31 December 2012, credit-related commitments presented in the 'less than 3 months' category include liabilities in the amount of RUB 48,303 million (31 December 2011: RUB 45,231 million) whose maturities are linked to settlements under export contracts.

Market risk

Market risk is the risk of adverse changes in the fair value or future cash flows of financial instruments due to changes in market variables such as interest rates, foreign exchange rates, prices for equities (equity risk) and commodities. The purpose of the Group's market risk management activities is providing a balance between the level of accepted risks and profitability of banking operations.

Group members monitor the market risk level on a daily basis. To control the market risk level and to set its limits the Group uses the sensitivity analysis, calculation based on VaR methodology and stress testing. Consolidated risks of the Group are primarily assessed using the sensitivity analysis.

At the parent entity level interest rate, currency and equity risks are primarily assessed using the VaR methodology which enables assessing maximum unexpected losses from the portfolio of financial instruments that can be incurred during a certain period of time (projection horizon) with a given confidence level. The VaR methodology is a probabilistically statistical approach that takes into account market fluctuations and risks diversification under normal market conditions. The Bank applies the advanced VaR methodology according to which the weighing procedure for statistical data of risk factors depends on their historical distance from the date of calculation. For management and external reporting purposes, the Bank uses VaR calculations with a 99% confidence level and a 10-day projection horizon to assess the price risk of the portfolio of market securities and a 1-day projection horizon to assess the risk of the open currency position of the Bank. The depth of retrospective data used for VaR calculation is 670 working days.

VaR calculation results are assessed by the Bank subject to limitations inherent in the VaR methodology, i.e. possible failure to comply with initial assumptions, namely:

- historical observations used to calculate unexpected losses in the future period might not contain all possible future changes in risk factors, especially in case of any extreme market events;

- usage of a given projection horizon assumes that the Bank's positions in financial instruments can be liquidated or hedged over this period. Should the Bank have large or concentrated positions and/or should the market lose its liquidity, the used period of time might be insufficient for closing or hedging positions but unexpected losses estimated with VaR would remain within set limits;

- applying a 99% confidence level does not permit assessing losses that can be incurred beyond the selected confidence level;

- the VaR methodology assesses the amount of unexpected losses from the portfolio of financial instruments under the assumptions that the volume of positions will remain constant over the projection horizon and the Bank will not perform transactions that change the volume of positions. Should the Bank be engaged in purchase and sale of financial instruments over the projection horizon, VaR estimates can differ from estimates of actual losses.

To control the adequacy of the VaR calculation model, the Bank regularly uses back-testing procedures that enable it to assess differences between estimated and actual losses.

In order to obtain more precise estimates, the Bank is making efforts to enhance inputs used in the current model which provides adequate estimates under normal market conditions. Also, the Bank is making efforts to improve approaches that take into account extraordinary (stress) changes in the market behavior in the process of risk management.

The Bank performs stress testing procedures on regular and unplanned basis that enables the Bank to assess stress losses from realization of unlikely extraordinary events on financial instruments' portfolios and open currency positions, i.e. losses that are out of predictive limits of probabilistically statistical methods. The above approach supplements the risk estimate obtained from the VaR methodology and sensitivity analysis. The Bank uses a wide range of historical and hypothetical (user) scenarios within stress testing procedures. Stress testing results are reported to the Bank's management and used for making management decisions.

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will adversely affect the fair values or future cash flows of financial instruments.

The interest rate policy of Group members refers to maintenance of a balanced structure of claims and obligations sensitive to change in interest rates (interest rate position) that provides limitation of possible unfavorable change in net interest income and/or equity of a Group member at an acceptable level.

The procedures of identification, assessment and control of the level of interest rate risk in Group members are formalized through developed internal regulations and rules as well as requirements of national regulators. Group members perform sensitivity analysis of net interest income and equity using different scenarios of market interest rate changes for the purpose of controlling financial losses arising from unfavorable changes in interest rates.

In addition, banks within the Group forecast and control the capital adequacy ratios subject to the effect of the interest rate risk.

Group members use a number of market instruments, including IRSs, to manage its interest rate sensitivity and repricing gaps related to changes in interest rates of assets and liabilities.

In performing the sensitivity analysis of the net interest income and equity the interest rate gap method is used. The interest rate gap method is used to assess changes in the amount of net interest income and equity by using data on mismatch of claims and obligations sensitive to interest rate changes aggregated at given maturity intervals. A combination of negative scenarios that take into account the effect of internal and external risk factors related to the market situation is used as a part of the analysis. Scenarios are prepared either based on hypothetical events that can occur in the future or based on past events - historical stress scenarios.

Sensitivity analysis is performed on regular and unplanned basis. The basis for an unplanned sensitivity calculation is as follows:

- expected appearance of large or concentrated positions in financial instruments' portfolios or significant changes in their value, which can significantly affect the balance of the interest rate position;

- expectations of significant changes in the market situation as well as socio-political and/or economic events that can have a significant adverse impact on the amount of net interest income/equity.

The Bank uses two approaches in modeling risk factors. The statistical approach is based on the following assumptions:

- the actual structure of volume and maturities of claims and obligations is kept constant in the whole projection horizon;

- changes in the term structure of interest rates occur instantly as of the reporting date and once during the projection horizon.

In addition to the statistical approach to modeling risk factors, the Bank performs the sensitivity analysis by modeling dynamic changes in interest rates and the volume and maturity structure of claims and obligations using a more complex set of assumptions made by the Bank on a case-by-case basis.

The sensitivity of the statement of income is the estimate of the effect of the assumed changes in interest rates on the net interest income before tax for one year calculated for floating rate financial assets and financial liabilities held at 31 December 2012 and at 31 December 2011, as well as the amount of revaluation of fixed rate trading financial assets and derivative financial instruments. The sensitivity of equity to changes in interest rates is calculated as the amount of revaluation of fixed rate available-for-sale financial assets in case of assumed change in interest rates. The effect of revaluation of financial assets was calculated based on the assumption that there are parallel shifts in the yield curve.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates by key reference rates, with all other variables held constant, of the Group's statement of income.

The sensitivity was calculated for instruments within the Group's portfolio, excluding bonds held within the Bank's portfolio. The interest rate risk for this bond portfolio was calculated using the VaR methodology.

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

Rate	Increase in %, 2012	Sensitivity of the statement of income 2012	Sensitivity of equity 2012
3M LIBOR USD	0.50%	(758)	–
3M LIBOR EUR	0.50%	95	–
3M MOSPRIME	1.50%	53	–
3M Ukrainian Interbank	7.00%	(1)	–
3M LIBOR JPY	0.25%	1	–
YTM 5Y USTreasuries	0.80%	298	(176)
RGBEY	3.00%	(1,114)	(3,570)
YTM Ukrainian sovereign bonds	7.50%	–	(199)
Refinancing rate of the Bank of Russia	0.25%	566	–
Refinancing rate of NB RB	10.00%	504	–
Refinancing rate of NBU	0.25%	1	–

Rate	Decrease in %, 2012	Sensitivity of the statement of income 2012	Sensitivity of equity 2012
3M LIBOR USD	-0.05%	76	–
3M LIBOR EUR	-0.05%	(9)	–
3M MOSPRIME	-1.50%	(53)	–
3M Ukrainian Interbank	-13.00%	1	–
3M LIBOR JPY	-0.05%	–	–
YTM 5Y USTreasuries	-0.20%	(74)	44
RGBEY	-1.00%	371	1,190
YTM Ukrainian sovereign bonds	-10.00%	–	265
Refinancing rate of the Bank of Russia	-0.50%	(1,132)	–
Refinancing rate of NB RB	-10.00%	(504)	–
Refinancing rate of NBU	-0.25%	(1)	–

Rate	Increase in %, 2011	Sensitivity of the statement of income 2011	Sensitivity of equity 2011
3M LIBOR USD	0.50%	(977)	–
3M LIBOR EUR	0.50%	186	–
3M MOSPRIME	2.75%	(781)	–
3M Ukrainian Interbank	7.50%	237	–
YTM 5Y German Treasuries	1.50%	(36)	–
YTM 5Y USTreasuries	1.00%	290	(170)
RGBEY	4.50%	(1,771)	(7,206)
YTM Ukrainian sovereign bonds	5.00%	–	(291)

Rate	Increase in %, 2011	Sensitivity of the statement of income 2011	Sensitivity of equity 2011
Belarusian GKO and GDO rates	15.00%	245	–
Refinancing rate of the Bank of Russia	0.50%	632	–
Refinancing rate of NB RB	15.00%	963	–
Refinancing rate of NBU	1.25%	8	–

Rate	Decrease in %, 2011	Sensitivity of the statement of income 2011	Sensitivity of equity 2011
3M LIBOR USD	-0.20%	391	–
3M LIBOR EUR	-0.20%	(74)	–
3M MOSPRIME	-2.75%	781	–
3M Ukrainian Interbank	-10.00%	(316)	–
YTM 5Y German Treasuries	-0.10%	2	–
YTM 5Y USTreasuries	-0.10%	(29)	17
RGBEY	-1.00%	394	1,601
YTM Ukrainian sovereign bonds	-5.00%	–	291
Belarusian GKO and GDO rates	-5.00%	(82)	–
Refinancing rate of the Bank of Russia	-0.25%	(316)	–
Refinancing rate of NB RB	-20.00%	(1,285)	–
Refinancing rate of NBU	-0.25%	(2)	–

Below are VaR measures for the bond portfolio of the Bank at 31 December 2012 and at 31 December 2011:

	2012	2011
VaR	1,592	4,532

Currency risk

Currency risk is the risk that the fair value of a financial instrument or future cash flows will change due to changes in foreign exchange rates.

Group members calculate on a daily basis open currency positions by assets and liabilities recorded in the statement of financial position, and claims and obligations not recorded in the statement of financial position, which are subject to changes in currency and precious metals rates. Banks of the Group set limits on the cumulative open position as well as limits on open positions in each currency and for precious metals based on the requirements of the national regulator.

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

The VaR estimate obtained using the historical modeling method with a 99% confidence level and a 1-day projection horizon is used by the Bank as a currency risk estimate. The aggregate currency risk in respect of the Bank's open currency positions is estimated subject to historical correlation of exchange rates of foreign currencies against the Ruble.

The table below shows open currency positions of the Bank at 31 December 2012 and 31 December 2011, which include items of the statement of financial position and currency positions in derivative financial instruments by currencies against the Russian Ruble (open positions).

Currency	2012	2011
UAH	26,678	28,428
USD	12,865	(50,422)
BYR	4,529	3,378
HKD	202	214
CZK	188	78
Other currencies	152	203
CAD	85	95
EUR	(96)	1,829
CHF	(651)	(647)
JPY	(1,570)	(1,367)

Below is the Bank's VaR measure for open currency positions at 31 December 2012 and 31 December 2011:

	2012	2011
VaR	1,111	1,097

Currency revaluation of the Bank's nominal investments in non-negotiable shares of subsidiaries may not reflect changes in the real economic value of these companies.

In order to assess this factor, the risk related to the adjusted aggregate open currency position was calculated with elimination of positions in UAH and BYR which were based mainly on investments in subsidiary banks.

The Bank's VaR measure for open currency positions at 31 December 2012, except for investments in subsidiaries, was RUB 210 million. The Bank's VaR measure for open currency positions at 31 December 2011, except for investments in subsidiaries, was RUB 1,010 million.

The table below shows the sensitivity of open currency positions of the Group (excluding the Bank) at 31 December 2012 and at 31 December 2011. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Ruble on the statement of income (due to the fair value of currency sensitive financial assets and liabilities). All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of income or equity, while a positive amount reflects a net potential increase.

Currency	Change in currency rate in % 2012	Effect on profit before tax, 2012	Change in currency rate in % 2011	Effect on profit before tax, 2011
UAH	20.95%	1,321	24.42%	1,455
	-20.95%	(1,321)	-24.42%	(1,455)
USD	12.57%	596	12.13%	(597)
	-12.57%	(596)	-12.13%	597
EUR	10.57%	(294)	10.58%	(50)
	-10.57%	294	-10.58%	50
BYR	29.75%	160	29.63%	150
	-29.75%	(160)	-29.63%	(150)
CHF	14.81%	(14)	15.34%	(1)
	-14.81%	14	-15.34%	1
JPY	17.38%	(7)	18.24%	–
	-17.38%	7	-18.24%	–
GBP	12.31%	(1)	12.78%	(1)
	-12.31%	1	-12.78%	1

Operational control over open currency positions is performed by the Directorate for Currency and Financial Transactions. The subsequent control is performed by the Risk Management Department. Results of control over open currency positions are reported to the Bank's management and used for making management decisions.

Equity price risk

Equity price risk is the risk of adverse changes in the fair values or future cash flows of a financial instrument as a result of changes in the levels of equity indices and the value of individual equities.

Group members use the VaR methodology and/or portfolio sensitivity analysis to assess the equity price risk.

BACK TO CONTENTS

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

Below are VaR measures for the equity portfolio of the Bank at 31 December 2012 and at 31 December 2011:

	2012	2011
VaR	26,942	40,952

Together with options that hedge in full certain positions in shares and are included within the Bank's portfolio at the reporting dates, VaR measures for the equity portfolio of the Bank at 31 December 2012 and at 31 December 2011 are as follows:

	2012	2011
VaR	25,723	34,580

The Bank sets aggregate exposure limits for each portfolio by class of securities in order to limit equity price risk. Within a portfolio "risk borrowing" is permitted, i.e. changing the volume of open positions under individual financial instruments subject to compliance with the set limit of the aggregate market risk for the portfolio and with credit risk limits by issuer.

The limits are approved by the Management Board of Vnesheconombank at the suggestion of the Risk Management Department as agreed with Bank's business units. The set limits are reviewed on a regular basis.

The effect on profit before tax and equity of other Group members of reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market index	Change in index in %, 2012	Change in equity price in %, 2012	Effect on profit before tax 2012	Effect on equity 2012
MICEX index	31%	28%	1,915	2,529
	-31%	-28%	(1,915)	(2,529)
Russian Depositary Index USD	41%	21%	326	
	-41%	-21%	(326)	–

Market index	Change in index in %, 2011	Change in equity price in %, 2011	Effect on profit before tax 2011	Effect on equity 2011
MICEX index	47%	53%	742	2,252
	-47%	-53%	(742)	(2,252)
Russian Depositary Index USD	61%	61%	(31)	
	-61%	-61%	31	–

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. Management believes that the Group's exposure to prepayment risk is insignificant.

Operational risk

Operational risk is defined as the risk of losses resulting from using inadequate internal procedures of banking transactions, unintentional or deliberate misconduct (omission to act) of an entity's personnel and unrelated parties, inadequacy and/or failures of technological, IT or other systems applied, or ensuing from the effect of external events.

The Group's operational risk management is aimed at enhanced performance of the Group, loss minimization and the Group's compliance with the laws and regulations as currently in effect.

The Group's operational risks are properly managed through applying unified processes and procedures, including identification of risks faced by the Group, assessment and monitoring the risk levels, and taking measures to control and mitigate the identified risks. All the banks within the Group measure operational risk exposures to estimate the amount of capital required to cover operational risks.

In order to continue as a going concern, discharge all existing obligations and limit the amount of possible losses in case of emergencies that impact business operations, Group members develop business continuity and/or disaster recovery plans ('BC/DR plans') that are aligned with the nature, scope and complexity of each entity's operations. The procedure for developing BC/DR plans is based on identifying processes, systems, items and obligations that are vital to an organization, analyzing various scenarios that Group members may have to deal with, and measuring potential implications of business continuity damage when implementing such scenarios.

(in millions of Russian rubles)

30. Risk management (continued)

Operational risk (continued)

BC/DR plans determine the action strategy that Group members are to follow in case of business continuity damage, and include at least three blocks: tactical response, activities intended to mitigate negative consequences, activities aimed at business activity recovery at the pre-crisis level, and procedures to identify reasons that entailed the crisis situation and develop preventive measures.

31. Fair value of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Trading financial assets (including those lent and pledged under repurchase agreements)	44,963	119	–	**45,082**
Derivative financial instruments	–	15,636	881	**16,517**
Financial assets designated as at fair value through profit or loss	18,417	–	8,771	**27,188**
Investment financial assets available for sale (including those pledged under repurchase agreements)	356,318	83,374	65,872	**505,564**
	419,698	**99,129**	**75,524**	**594,351**
Financial liabilities				
Derivative financial instruments	–	2,494	–	**2,494**
	–	**2,494**	**–**	**2,494**

At 31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Trading financial assets	41,814	–	–	**41,814**
Derivative financial instruments	–	20,887	8,581	**29,468**
Financial assets designated as at fair value through profit or loss	18,314	–	4,766	**23,080**
Investment securities available for sale (including those pledged under repurchase agreements)	422,248	23,917	12,835	**459,000**
	482,376	**44,804**	**26,182**	**553,362**
Financial liabilities				
Derivative financial instruments	–	6,808	137	**6,945**
	–	**6,808**	**137**	**6,945**

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap pricing models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

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

Trading securities and available-for-sale investment securities

Trading securities and available-for-sale investment securities valued using a valuation technique are represented mainly by non-traded equity and debt securities. Such assets are valued using valuation models which incorporate either only observable data or both observable and non-observable data. The non-observable inputs include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(in millions of Russian rubles)

31. Fair value of financial instruments (continued)

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2012	Gains/(losses) recorded in the statement of income	Gains/(losses) recorded in other comprehensive income	Disposals	Purchases	At 31 December 2012
Financial assets						
Derivative financial instruments	8,581	783	–	(9,076)	593	881
Financial assets designated as at fair value through profit or loss	4,766	1,503	–	(2,707)	5,209	8,771
Investment financial assets available for sale	12,835	305	1,620	(794)	51,906	65,872
Total Level 3 financial assets	**26,182**	**2,591**	**1,620**	**(12,577)**	**57,708**	**75,524**
Financial liabilities						
Derivative financial instruments	137	16	–	(153)	–	–
Total Level 3 financial liabilities	**137**	**16**	**–**	**(153)**	**–**	**–**

	At 1 January 2011	Transfers between levels	Gains/(losses) recorded in the statement of income	Gains/(losses) recorded in other comprehensive income	Business combinations	Purchases	At 31 December 2011
Financial assets							
Derivative financial instruments	719	8,132	(270)	–	–	–	8,581
Financial assets designated as at fair value through profit or loss	2,758	–	276	–	–	1,732	4,766
Investment financial assets available for sale	1,120	112	101	9,244	(521)	2,779	12,835
Total Level 3 financial assets	**4,597**	**8,244**	**107**	**9,244**	**(521)**	**4,511**	**26,182**
Financial liabilities							
Derivative financial instruments	–	–	137	–	–	–	137
Total Level 3 financial liabilities	**–**	**–**	**137**	**–**	**–**	**–**	**137**

In 2011, financial assets were transferred to Level 3 as in the reporting period in order to determine the fair value of financial assets the Group started applying techniques, which use inputs that are not based on observable market data.

Gains or losses on Level 3 financial instruments included in the statement of income for the reporting period were as follows:

	2012			2011		
	Realized gains/(losses)	Unrealized gains/(losses)	Total gains/(losses)	Realized gains/(losses)	Unrealized gains/(losses)	Total gains/(losses)
Gains/(losses) recorded in the statement of income	2,876	(301)	2,575	–	(30)	(30)

Transfers between Level 1 and Level 2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value, during the reporting year:

	Transfers from Level 2 to Level 1	
	2012	2011
Financial assets		
Investment financial assets available for sale	3,718	–

	Transfers from Level 1 to Level 2	
	2012	2011
Financial assets		
Trading financial assets	6	–
Investment financial assets available for sale	39,418	1,626

In 2012, the above financial assets were transferred from Level 2 to Level 1 as they became actively traded during the reporting year. There were no transfers from Level 2 to Level 1 in 2011.

In 2012 and 2011, the above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the year and their fair values were consequently obtained through valuation techniques using observable market inputs.

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

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

(in millions of Russian rubles)

31. Fair value of financial instruments (continued)

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

	At 31 December 2012	
	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets		
Derivative financial instruments	881	44
Financial assets designated as at fair value through profit or loss	8,771	(46)
Investment financial assets available for sale	65,872	(2,474)

	At 31 December 2011	
	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets		
Derivative financial instruments	8,581	(232)
Financial assets designated as at fair value through profit or loss	4,766	(6)
Investment financial assets available for sale	12,835	(312)
Financial liabilities		
Derivative financial instruments	(137)	0

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

- for other financial assets as at fair value through profit or loss, the Group adjusted the amount of the assets held by the closed-end mutual fund by decreasing the main pricing adjustments by 3%, as such a change is seen by the Group as a possible alternative change, based on indicators for other items with similar parameters;

- for shares recognized in other financial assets as at fair value through profit or loss, the Group adjusted the value of equity which is an element of calculation of the weighted average cost of capital used for discounting expected cash flows of the issuer by 2%;

- for one of the derivative financial assets, the Group adjusted the amount of the underlying asset comprising units of the closed-end mutual fund by decreasing its main pricing adjustments by 3%, as such a change is seen by the Group as a possible alternative change, based on indicators for other items with similar parameters;

- for another derivative financial asset, the Group adjusted the amount of the underlying asset by changing the value of equity by 2%;

- for shares of the first issuer classified as investment financial assets available for sale, the Group adjusted the risk premium used for discounting expected cash flows of the issuer by 2%;

- for investments in equity instruments of the second issuer classified as investment nancial assets available for sale, the Group adjusted the value of the multiplier *Fair value/Net assets* used for determining the fair value of investments by 5%;

- for the financial instrument of the third issuer classified as an investment financial asset available for sale, the Group adjusted the value of the multiplier *Fair value/Net assets* used for determining the fair value of investments by 2%.

To determine the impacts of possible alternative assumptions relating to investment financial assets available for sale, the Group took a prudent approach and adjusted key unobservable inputs at the lower interval boundary of possible assumptions. If the upper interval boundary of possible assumptions were applied, their positive impacts as at 31 December 2012 would have amounted to RUB 2,292 million.

Financial instruments not recorded at fair value in the statement of financial position

Set out below is a comparison, by class, of the carrying values and fair values of the Group's financial instruments that are not recorded at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2012	Fair value 2012	Unrecognized gain/(loss) 2012	Carrying value 2011	Fair value 2011	Unrecognized gain/(loss) 2011
Financial assets						
Cash and cash equivalents	239,997	239,997	–	178,028	178,028	–
Amounts due from credit institutions	446,476	446,707	231	457,698	459,280	1,582
Loans to customers	1,497,387	1,486,717	(10,670)	1,228,923	1,221,641	(7,282)
Investment securities held to maturity	16,582	16,553	(29)	17,779	17,466	(313)
Financial liabilities						
Amounts due to credit institutions	569,942	566,804	3,138	472,014	467,672	4,342

(in millions of Russian rubles)

31. Fair value of financial instruments (continued))

Financial instruments not recorded at fair value in the statement of financial position (continued)

	Carrying value 2012	Fair value 2012	Unrecognized gain/(loss) 2012	Carrying value 2011	Fair value 2011	Unrecognized gain/(loss) 2011
Due to the Russian Government and the Bank of Russia	981,868	981,950	(82)	884,592	884,606	(14)
Amounts due to customers	335,827	333,985	1,842	352,424	352,021	403
Debt securities issued	388,939	414,842	(25,903)	261,030	262,468	(1,438)
Total unrecognized change in unrealized fair value			**(31,473)**			**(2,720)**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that their carrying value approximates their fair value. This assumption also applies to demand deposits and assets without a specific maturity.

Fixed and floating rate financial instruments

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

32. Transferred financial assets and assets held or pledged as collateral

Transferred financial assets that are not derecognised in their entirety

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

	Transferred financial asset	Trading securities: Other debt securities 2012	Trading securities: Equity securities 2012	Financial assets available for sale: Other debt securities 2012	Loans to customers: Other loans 2012	Total 2012
Carrying amount of assets	Repurchase agreements	16,165	–	11,751	148	**28,064**
	Other	–	503	–	–	**503**
Total		**16,165**	**503**	**11,751**	**148**	**28,567**
Carrying amount of associated liabilities	Repurchase agreements with the Bank of Russia	13,529	–	8,825	77	**22,431**
	Repurchase agreements with credit institutions	–	–	376	–	**376**
	Other	–	505	–	–	**505**
Total		**13,529**	**505**	**9,201**	**77**	**23,312**

	Transferred financial asset	Financial assets available for sale: Other debt securities 2011	Financial assets available for sale: Equity securities 2011	Total 2011
Carrying amount of assets	Repurchase agreements	3,879	836	**4,715**
Total		**3,879**	**836**	**4,715**
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	3,203	–	**3,203**
	Repurchase agreements with customers	662	654	**1,316**
Total		**3,865**	**654**	**4,519**

Repurchase agreements

The securities sold under repurchase agreements are transferred to a third party while the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, country risk and operational risk, and therefore has not derecognised them. In addition, it recognises a financial liability for cash received.

Similarly the Group may sell or re-pledge securities borrowed or purchased under reverse repurchase agreements, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by the Group, which instead records a separate asset for any possible cash given.

(in millions of Russian rubles)

32. Transferred financial assets and assets held or pledged as collateral (continued)

Transferred financial assets that are not derecognised in their entirety (continued)

Under the contracts, the counterparty is allowed to sell or repledge the securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract.

Assets pledged as collateral

The Group pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. The Group pledged securities as collateral in repurchase agreements for RUB 28,064 million (31 December 2011: RUB 4,715 million) – *"Transferred financial assets that are not derecognised in their entirety"*.

Assets held as collateral

The Group holds certain assets as collateral which it is permitted to sell or repledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements. The Group received securities as collateral in reverse repurchase agreements with credit institutions up to 90 days with a fair value of RUB 6,315 million (31 December 2011: RUB 3,003 million). Besides, the Group received securities as collateral in reverse repurchase agreements with customers with a fair value of RUB 16,081 million (31 December 2011: RUB 24,629 million).

Of these, securities with a fair value of RUB 2,747 million have been sold under agreements with the Bank of Russia to repurchase and securities with a fair value of RUB 1,131 million have been sold under agreements with customers to repurchase under the usual terms and conditions applying to such agreements (31 December 2011: RUB 4,035 million under agreements with credit institutions to repurchase).

In addition, the Group holds RUB 128 million under Amounts due from credit institutions (Note 22), RUB 8,469 million under Amounts due to customers (31 December 2011: RUB 3,841 million) (Note 23) and RUB 834 million of promissory notes issued by the Group (31 December 2011: RUB 1,289 million) (Note 24) as collateral for letters of credit and issued guarantees. The Group is obliged to return the collateral at maturity of the letters of credit and issued guarantees.

33. Related party transactions

In accordance with IAS 24 *Related Party Disclosures,* parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties include the state, key management of the Group and associated companies. Since Vnesheconombank is a state corporation, all state-controlled entities or entities on which the state has a significant influence (collectively – state-related entities) are considered to be related parties of the Group.

Transactions with associates and key management personnel

The volumes of transactions with associates and key management personnel, outstanding balances at the year end, and related expense and income for the year are as follows:

	2012		2011	
	Associates	Key management personnel	Associates	Key management personnel
Loans to customers at 1 January	149,380	119	147,035	17
Loans granted during the year	4,761	83	10,562	132
Proceeds related to changes in the Group	–	–	–	8
Loans repaid during the year	(1,749)	(96)	(10,981)	(24)
Other changes	(203)	(8)	2,764	1
Hyperinflation effect	–	(2)	–	(15)
Loans to customers at 31 December	**152,189**	**96**	**149,380**	**119**
Less allowance for impairment	(35,591)	0	(35,686)	(1)
Loans to customers at 31 December, net	**116,598**	**96**	**113,694**	**118**
Interest income on loans to customers	**7,790**	**10**	**7,498**	**8**
Charge of provision for impairment of loans to customers	**(3,600)**	**0**	**(698)**	**(0)**
Other assets	**419**	**0**	**236**	**0**

(in millions of Russian rubles)

33. Related party transactions (continued)

Transactions with associates and key management personnel (continued)

	2012		2011	
	Associates	Key management personnel	Associates	Key management personnel
Current customer accounts	**504**	**108**	**373**	**96**
Customer deposits at 1 January	1,992	1,233	1,389	952
Deposits received during the year	483	3,680	1,845	1,996
Proceeds related to changes in the Group	–	–	671	762
Deposits repaid during the year	(930)	(1,783)	(1,895)	(2,427)
Other changes	(59)	(1,020)	(18)	(29)
Hyperinflation effect	–	(6)	–	(21)
Customer deposits at 31 December	**1,486**	**2,104**	**1,992**	**1,233**
Interest expense on amounts due to customers	**(53)**	**(102)**	**(73)**	**(75)**
Debt securities issued at 1 January	–	–	–	–
Debt securities issued during the year	–	11	–	50
Debt securities redeemed during the year	–	(11)	–	(50)
Other changes	–	–	–	–
Debt securities issued at 31 December	–	–	–	–
Interest expense on debt securities issued	–	0	–	(9)
Other liabilities	**17**	**159**	**32**	**25**
Guarantees issued and undrawn loan commitments	**5,216**	**8**	**6,567**	**2**
Fee and commission income/(expense), net	**(4)**	**0**	**6**	**0**
Other operating income	**217**	–	211	–
Other operating expenses	**(0)**	**(75)**	**(1)**	**(63)**

Compensation to key management personnel comprises the following:

	2012	2011
Salaries and other short-term benefits	2,213	1,889
Social security contributions	195	85
Total compensation to key management personnel	**2,408**	**1,974**

Transactions with the state, state institutions and state-related entities

The information about transactions with the Russian Government, its authorized institutions and the Bank of Russia is provided in Note 8.

The Bank is servicing, in an agency capacity, the foreign debt of the former USSR and the Russian Federation until the date determined by the Russian Government (Note 9).

In addition, at 31 December 2012 transactions with state-related entities include the Group's deposits with the Bank of Russia that mature within 90 days totaling RUB 300 million (31 December 2011: RUB 120 million) (Note 10) and cash non-interest-bearing deposits (obligatory reserves) maintained by the Group's subsidiary banks with the Bank of Russia in the amount of RUB 3,589 million (31 December 2011: RUB 4,001 million) (Note 12).

In the normal course of its business the Bank and Group's subsidiaries grant loans to state-related credit institutions, as well as raise financing and issue guarantees in regard to these institutions (the list of transactions with the credit institutions is not complete). These transactions are carried out primarily under market conditions. Transactions with state-related credit institutions account for the major portion of all Group's operations on granting loans to credit institutions and the minor portion of financing raised from credit institutions and guarantees issued. Balances of significant transactions with state-related credit institutions at 31 December 2012 and 31 December 2011 are stated in the table below:

Credit institution	Types of transactions	Amounts due from credit institutions	
		At 31 December 2012	At 31 December 2011
Credit institution 1	Subordinated loans	183,839	182,140
Credit institution 2	Subordinated loans	38,872	86,318
Credit institution 3	Subordinated loans	22,980	22,767
Credit institution 4	Interbank loans and term interest-bearing deposits with credit institutions	21,327	22,565
Credit institution 1	Interest-bearing loans and deposits with credit institutions maturing within 90 days	15,004	14,006
Credit institution 5	Subordinated loans	10,228	10,135
Credit institution 6	Interbank loans and term interest-bearing deposits with credit institutions	8,482	5,745
Credit institution 7	Interest-bearing loans and deposits with credit institutions maturing within 90 days	7,944	3,300
Credit institution 2	Interbank loans and term interest-bearing deposits with credit institutions	5,369	2,893
Credit institution 8	Interest-bearing loans and deposits with credit institutions maturing within 90 days	4,202	–
Credit institution 3	Interbank loans and term interest-bearing deposits with credit institutions	3,929	3,861

(in millions of Russian rubles)

33. Related party transactions (continued)

Transactions with the state, state institutions and state-related entities (continued)

Credit institution	Types of transactions	Amounts due from credit institutions	
		At 31 December 2012	At 31 December 2011
Credit institution 9	Interest-bearing loans and deposits with credit institutions maturing within 90 days	–	3,866
		322,176	**357,596**

Credit institution	Types of transactions	Amounts due to credit institutions	
		At 31 December 2012	At 31 December 2011
Credit institution 7	Loans and other placements from Russian credit institutions	67,774	28,971
Credit institution 10	Loans and other placements from Russian credit institutions	30,042	5,954
Credit institution 2	Loans and other placements from Russian credit institutions	20,012	19,093
Credit institution 8	Loans and other placements from Russian credit institutions	4,537	4,522
Credit institution 11	Loans and other placements from OECD-based credit institutions	3,070	4,423
Credit institution 1	Loans and other placements from Russian credit institutions	0	22,106
Credit institution 12	Loans and other placements from non-resident banks	0	3,220
		125,435	**88,289**

At 31 December 2012, the Group's significant commitments to extend loans to credit institutions 2 and 7 amounted to RUB 4,584 million and RUB 8,629 million, respectively. At 31 December 2011, significant commitments to extend loans to the same credit institutions amounted to RUB 7,000 million and RUB 10,000 million, respectively. These credit lines were opened under Vnesheconombank's Investment Program to support affordable housing construction and mortgage projects.

In the normal course of business the Bank and Group's subsidiaries grant loans to state-related customers, as well as issue guarantees to these customers, maintain their current accounts and raise deposits from them (the list of transactions with the customers is not complete). These transactions are carried out primarily under market conditions. Transactions with state-related customers account for the major portion of all Group's operations with customers. Balances of significant transactions with state-related institutions and entities at 31 December 2012 and at 31 December 2011 are stated in the tables below:

Borrower	Industry	Loans to customers	Undrawn loan commitments	Loans to customers	Undrawn loan commitments
		At 31 December 2012		At 31 December 2011	
Customer 1	Finance	36,523	–	35,081	–
Customer 2	Energy	20,387	8,171	10,448	17,563
Customer 3	Transport/Real estate and construction[1]	16,856	–	20,613	–
Customer 4	Energy	15,115	4,822	11,870	7,813
Customer 5	Real estate and construction	14,889	52,018	–	–
Customer 6	Oil and gas	14,777	–	14,452	7,914
Customer 7	Manufacturing, heavy machinery and military-related goods production	14,494	31,573	4,653	17,816
Customer 8	Manufacturing, heavy machinery and military-related goods production	14,237	18,109	1,409	–
Customer 9	Manufacturing, heavy machinery and military-related goods production	11,209	38,544	6,925	46,210
Customer 10	Transport	10,626	–	0	–
Customer 11	Telecommunications	7,436	1,652	12,381	2,379
Customer 12	Energy	6,780	–	7,392	–
Customer 13	Finance	6,508	3,490	5,820	1,343
Customer 14	Manufacturing, heavy machinery and military-related goods production	6,196	2,312	2,954	3,484
Customer 15	Energy	6,000	–	4,944	1,000
Customer 16	Transport	5,748	–	–	–
Customer 17	Energy	5,463	0	1,500	–
Customer 18	Telecommunications	4,992	–	0	2,199
Customer 19	Manufacturing, heavy machinery and military-related goods production	4,591	–	1,621	–
Customer 20	Manufacturing, heavy machinery and military-related goods production	4,495	0	3,140	2,248
Customer 21	Transport	4,261	5,705	–	10,000
Customer 22	Energy	4,161	7,739	–	12,000
Customer 23	Manufacturing, heavy machinery and military-related goods production	3,864	1,925	1,472	4,107
Customer 24	Transport	3,241	–	3,558	–
Customer 25	Transport	3,220	–	3,541	–
Customer 26	Energy	2,116	–	0	4,687
Customer 27	Energy	1,301	9,119	–	–
Customer 28	Other	0	4,088	–	–

[1] In 2012, the borrower has merged with a transport company.

(in millions of Russian rubles)

33. Related party transactions (continued)

Transactions with the state, state institutions and state-related entities (continued)

Borrower	Industry	Loans to customers	Undrawn loan commitments	Loans to customers	Undrawn loan commitments
		At 31 December 2012		At 31 December 2011	
Customer 29	Manufacturing, heavy machinery and military-related goods production	–	25,000	–	–
		249,486	**214,267**	**153,774**	**140,763**

Customer	Industry	Amounts due to customers	
		At 31 December 2012	At 31 December 2011
Customer 30	Telecommunications	37,383	36,369
Customer 31	Manufacturing, heavy machinery and military-related goods production	21,116	2,618
Customer 1	Finance	9,216	15,961
Customer 32	Infrastructure development	5,070	32,002
Customer 33	Manufacturing, heavy machinery and military-related goods production	4,418	4,439
Customer 34	Finance	4,154	–
Customer 35	Telecommunications	3,494	0
Customer 36	Finance	3,047	2,972
Customer 37	Energy	–	8,293
Customer 38	Transport	–	4,294
Customer 39	Manufacturing, heavy machinery and military-related goods production	0	3,000
		87,898	**109,948**

Customer	Industry	Guarantees issued	
		At 31 December 2012	At 31 December 2011
Customer 31	Manufacturing, heavy machinery and military-related goods production	40,321	33,846
Customer 40	Manufacturing, heavy machinery and military-related goods production	4,267	8,902
		44,588	**42,748**

As at 31 December 2012 and at 31 December 2011, the Group's investments in debt securities issued by the Russian Government comprised:

	At 31 December 2012	At 31 December 2011
Financial assets at fair value through profit or loss	1,528	11,490
Investment financial assets:		
available for sale	6,201	25,230
held to maturity	761	1,322
Investment financial assets available for sale and pledged under repurchase agreements	409	–

As at 31 December 2012 and 31 December 2011, there were no transactions involving derivative financial instruments with the Russian Government.

In the normal course of business the Group invests in securities issued by state-related issuers and enters into derivative contracts with such counterparties. As at 31 December 2012 and 31 December 2011, the Group's investments into securities issued by state-related issuers, as well as derivative transactions with such counterparties comprised:

	At 31 December 2012			At 31 December 2011		
	Equity securities	Debt securities	Derivative financial instruments	Equity securities	Debt securities	Derivative financial instruments
Financial assets at fair value through profit or loss	25,742	9,574	13,621	30,636	8,487	15,238
Financial assets at fair value through profit or loss lent and pledged under repurchase agreements	503	4,529	–	–	–	–
Investment financial assets						
available for sale	147,115	137,198	–	172,072	119,571	–
held to maturity	–	650	–	–	725	–
Investment financial assets available for sale pledged under repurchase agreements	–	966	–	649	–	–
Financial liabilities at fair value through profit or loss	–	–	9	–	–	152

At 31 December 2012, investment financial assets available for sale also include a financial asset issued by a state-related credit institution with fair value of RUB 47,134 million.

Significant financial results related to transactions with the state are presented below:

	2012	2011
Interest expense:		
Amounts due to the Bank of Russia	(19,396)	(12,248)
Amounts due to the Russian Government	(44,459)	(39,277)

(in millions of Russian rubles)

34. Capital adequacy

The capital adequacy ratio is one of the most important indicators characterizing the level of risks accepted by the Bank and, therefore, determining its financial stability. To comply with a minimum level of 10% set out in the Memorandum on Financial Policies and to maintain a high credit rating, the Bank monitors its capital adequacy ratio on an ongoing basis.

The methods of computing the capital adequacy ratio are elaborated on the basis of regulations issued by the Bank of Russia and with regard to the generally acceptable international practices of computing capital adequacy ratios, and approved by the Supervisory Board of the Bank.

In 2012 and 2011, the Bank complied with capital adequacy ratio requirements.

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

	2012	2011
Main capital	504,290	484,505
Additional capital	62,618	62,618
Less: deductions from capital	(252,940)	(210,363)
Total capital	**313,968**	**336,760**
Risk-weighted assets	**2,889,129**	**2,315,833**
Capital adequacy ratio	**10.9%**	**14.5%**

In order to maintain or adjust the capital structure and in accordance with Federal law, the charter capital of the Bank may be increased pursuant to a resolution of the Russian Government on the account of additional monetary contribution of the Russian Federation or income of Vnesheconombank. Proposals regarding income distribution are drafted by the Management Board of the Bank and further approved by the Supervisory Board.

35. Subsequent events

On the basis of Resolution of the Russian Government No. 08-r dated 15 January 2013, the Russian Government decided to transfer 1.1278% of the state-owned shares in the international and domestic long-distance electrical communication operator Open Joint-Stock Company "Rostelecom" as an additional asset contribution to the charter capital of Vnesheconombank.

In January 2013, the Bank raised a 2-year syndicated loan in the amount of USD 800 million (equivalent to RUB 24,022 million as at the date of the loan extension) with the floating interest rate. The funds are earmarked for financing the current investment projects of the Bank.

In January 2013, Vnesheconombank used the subsidy (grant) of RUB 62,000 million (Note 21) to purchase 60,218 additionally issued units of Mutual Fund RDIF. The Bank's share in assets of its subsidiary remained unchanged at 100%.

In January 2013, the Bank raised from a foreign bank a 6-year loan in the amount of RUB 2,005 million with the fixed interest rate. The funds are earmarked for financing the real sector of the economy.

On 4 January 2013 the Group's subsidiary fund – Closed-end Mutual Equity Fund "Bazis" (Note 6) – acquired 37,000,000 of common shares or 22.6% of the developer company for the sum of USD 78 million (equivalent to RUB 2,360 million, at the exchange rate effective on the date of the acquisition). In March 2013 the Fund made an additional acquisition of common shares for the sum of USD 99 million (equivalent to RUB 3,041 million, at the exchange rate effective on the date of the acquisition) or increased its interest in the above company up to 51.4%. Currently, the Group assesses the fair value of the assets, liabilities and contingent liabilities of the acquired company.

In February 2013, the Bank placed Eurobonds with a nominal value of EUR 1,000 million (the equivalent of RUB 40,339 million at the date of placement) maturing in 5 years, and Eurobonds with a nominal value of EUR 500 million (the equivalent of RUB 20,170 million at the date of placement) maturing in 10 years.

In February 2013, the Bank purchased 2,000,000 ordinary registered shares additionally issued by OJSC "Federal Center for Project Finance" in the amount of RUB 2,000 million. The Bank's share in the equity of its subsidiary remained unchanged at 100%.

In February 2013, the Bank received a loan from a foreign bank in the amount of USD 150 million (RUB 4,502 million at the date of issue). The loan bears a floating interest rate and matures in 7 years. The funds will be used to finance the real sector.

On 6 February 2013 the Bank's subsidiary acquired 100% of the LLC Trade-Industrial Company Orskie Zavodi. Currently, the Group assesses the fair value of the assets, liabilities and contingent liabilities of the acquired company. The core activity of the acquired company is wholesale trade in household wares. LLC TIC Orskie Zavodi was acquired with a view to increasing its market value.

(in millions of Russian rubles)

35. Subsequent events (continued)

In March 2013, Vnesheconombank used the subsidy (grant) of RUB 15,000 million (Note 21) as payment for the additionally issued 15,000,000 shares of OJSC "The Far East and the Baikal region Development Fund". The Bank's share in the equity of its subsidiary remained unchanged at 100%.

In March 2013, the Republic of Cyprus faced deterioration in the financial and economic areas. The Bank and its subsidiaries have funds placed for the most part with the Cyprus subsidiary bank of a large Russian banking group. The Group's management believes that the financial and economic crisis in Cyprus will not have a material adverse effect on the Group's financial position or performance.

In March 2013 the leasing company of the Group made two issues of non-convertible interest-bearing documentary bonds (Series 10 and 11), nominal value of each issue RUB 5,000 million maturing in 5 years.

In April 2013, VEB Asia Limited was registered in Hong Kong, with Vnesheconombank holding a 100% interest in its share capital which is equivalent to USD 30 million. The company will liaise with Hong Kong financial institutions and will operate to encourage Asian investors to finance large-scale projects implemented in the Russian Federation.

Representative Offices Addresses and Telephones

Representative Offices Abroad

Great Britain, London
Representative Office
of Vnesheconombank in the UK
101 St. Martin's Lane,
London WC2N 4 AZ, UK
Tel.: +44 20 7395 58 41
Fax: +44 20 7240 13 45
E-mail: vebuk@veb.ru

India, New-Delhi
Representative Office
of Vnesheconombank in India, New-Delhi
Plot EP-15, Dr. Jose P. Rizal Marg,
Chanakyapuri, New-Delhi-110021, India
Tel.: +91 11 2412 12 82
Fax:+ 91 11 2412 15 77
E-mail: vebindia@veb.ru

India, Mumbai
Representative Office
of Vnesheconombank in India, Mumbai
World Trade Center, Cuffee Parade, Colaba,
Mumbai 400005, India
Tel.: +91 22 2218 27 05
Fax:+ 91 22 2218 58 45
E-mail: vebmumbai@veb.ru

Italy, Milan
Representative Office
of Vnesheconombank in Italy
8, Piazzale Principessa Clotilde,
Milano, 20121, Italy
Tel.: +39 02 65 36 25
Fax: +39 02 655 16 97
E-mail: vebitaly@veb.ru

China, Beijing
Representative Office
of Vnesheconombank in China
20A, CITIC Building, 19,
Jianguomenwai dajie,
Beijing, 100004, China
Tel.: +86 10 6592 89 05
Fax: +86 10 6592 89 04
E-mail: vebchina@veb.ru

USA, New York
Representative Office
of Vnesheconombank in the USA
777 Third Avenue, Suite 29B,
NY 10017, New York, USA
Tel.: +1 212 421 86 60
Fax: +1 212 346 77 80
E-mail: vebusa@veb.ru

Germany, Frankfurt-am-Main
Representative Office
of Vnesheconombank in Germany
Taunusanlage 1, 60329,
Frankfurt, Germany
Tel.: +49 69 272 21 97 00
Fax: +49 69 272 21 97 29
E-mail: vebgermany@veb.ru

France, Paris
Representative Office
of Vnesheconombank in France
24, Rue Tronchet,
75008 Paris, France
Tel.: +33 140 07 19 76
Fax: +33 140 07 07 18
E-mail: vebfrance@veb.ru

RSA, Johannesburg
Representative Office
of Vnesheconombank in South Africa
2024, 2nd fl., Chelsea Place,
138 West Street, Sandton,
Johannesburg, RSA
Tel. +27 11 783 34 25
Fax: +27 11 784 46 88
E-mail: vebsar@veb.ru

Swiss Confederation, Zurich
(opened in 2011)
Representative Office
of Vnesheconombank in Switzerland
31A, Drekonigstrasse, 8002,
Zurich, Switzerland
Tel.: +41 044 208 38 06
Fax: +41 044 208 35 00

Representative Offices in the Russian Federation

Representative Office in St. Petersburg
Area of Responsibility —
Northwestern Federal District
Shpalernaya Street 60,
St. Petersburg, 191015
Tel.: +7 (812) 331 51 01
Fax: +7 (812) 331 51 02
E-mail: reprf@veb.ru

Representative Office in Khabarovsk
Area of Responsibility —
Far Eastern Federal District
Kim Yu Chen Street 7, letter B,
Khabarovsk, 680000
Tel.: +7 (4212) 42 05 30, 42 05 31
Fax: +7 (4212) 42 05 33
E-mail: reprf@veb.ru

Representative Office in Yekaterinburg
Area of Responsibility —
Ural Federal District
Karl Libknecht Street 4, letter A,
Yekaterinburg, 620075
Tel./Fax: +7 (343) 359 04 36
E-mail: reprf@veb.ru

Representative Office in Pyatigorsk

Area of Responsibility —
North Caucasian Federal District
Krayniy Street 49,
Pyatigorsk, 357500
Tel.: +7 (928) 493 16 60
E-mail: reprf@veb.ru

Representative Office in Krasnoyarsk

(opened in 2011)
Area of Responsibility —
Siberian Federal District
Vesna Street 3 “A”,
Krasnoyarsk, 660135
Tel./Fax: +7 (391) 276 16 70
E-mail: reprf@veb.ru

Representative Office in Rostov-on-Don

Area of Responsibility —
Southern Federal District
B.Sadovaya street, 83/48, letter A
Rostov-on-Don, 344006
Tel.: +7 (863) 299 40 99
Fax: +7 (863) 299 41 15
E-mail: yufo@veb.

Representative Office in Nizhniy Novgorod

Area of Responsibility —
Volga Federal District
Bolshaya Pecherskaya street, 5/9
Nizhniy Novgorod, 603005
Tel.: +7 (831) 436 79 84
Tel./Fax: +7 (831) 436 19 44
E-mail : pfo@veb.ru

www.veb.ru