VNESHECONOMBANK

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

Annual Report 2011

Bank for Development

VNESHECONOMBANK

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

2011

Annual Report

→ BANK FOR DEVELOPMENT IS AN EFFICIENT VEHICLE FOR ADOPTING INVESTMENT DECISIONS THAT ARE CRITICALLY IMPORTANT FOR IMPLEMENTING LARGE-SCALE PROJECTS IN THE REAL SECTOR OF THE ECONOMY. THESE DECISIONS COULD DEFINE THE COUNTRY'S FUTURE AND ARE INSTRUMENTAL IN ACCOMPLISHING THE GOALS IRRESPECTIVE OF THE ECONOMIC ENVIRONMENT. VEB'S PROJECTS SERVE AS THE BEST ILLUSTRATION OF HOW THE MECHANISM WORKS AND WHAT VALUE IT DELIVERS.

CONTENTS

Chairman's Statement

Honorable colleagues and partners!

Essentially, 2011 was the first year when Vnesheconombank started operating as a full-fledged development bank without having to tackle the financial crisis challenges. That enabled us to focus efforts on resolving the major tasks related to the Bank's participation in investment projects that are materially important for the Russian economy, as well as on performing other functions associated with the status of a development institution. The Bank's endeavors had noticeable effect. Indeed, the past year, just as the previous ones, witnessed a rich array of events. But I do not think it would be reasonable to prioritize the importance of the events. The matter is that each event was a stage in our rise to new heights not only in terms of the scope of the tasks addressed, but also in terms of efficient fulfillment of functions delegated to the Bank. However I would like to single out the defining moments and summarize the major results of the Bank's activities in 2011.

Let me give you a brief overview of the past year. In 2011, Vnesheconombank devised a new Development Strategy for the period of up to 2015. The Strategy is aiming to help fully unleash Vnesheconombank's potential as a bank for development. Though the key parameters of the document were repeatedly unveiled, their significance and scope are such that they deserve mentioning once again.

Thus, the target performance indicators formulated in the Strategy for the end of 2015 are as follows:

- projected aggregate amount of support for Russia's economy will approximate to RUB 1.9 trillion or 2.4% of GDP;
- the amount of the Bank's loan portfolio — RUB 850 bn;
- the amount of support for SMEs — RUB 150 bn;
- the amount of support for exports — no less than RUB 90 bn;
- the share of innovative projects in the Bank's loan portfolio — 20%.

The VEB Group banks and companies are the key instruments to deliver on these ambitious goals. Actually, VEB Group was established in the past year and admittedly it was another milestone event for the Bank that helped reinforce the institutional platform for development.

By now, the Bank has become the core element of what could be described as an extensive multifunctional development-oriented infrastructure, since it is hard to find a sector of economy, in which the Bank's subsidiaries would not be engaged.

In 2011, the newly established Russian Direct Investment Fund (RDIF), the Far East and Baikal Region Developoment Fund, the VEB-Innovations Fund and the Russian Agency for Export Credit and Investment Insurance (OJSC EXIAR) joined the VEB Group.

It is these institutions that are charged with the challenging tasks of raising FDI for the Russian economy, developing most economically and geo-strategically important Russian territories, attracting venture investment in innovation-focused Russian companies and assisting to promotion of Russian high-tech products to foreign markets.

The year saw the continuation of work to lay the financial foundations for Vnesheconombank's participation in new large-scale projects in industry and infrastructure. These projects could help develop new sources of growth for the domestic economy.

In 2011, the loan portfolio of the Bank for Development increased by more than 40% to exceed RUB 0.5 trillion. The number of investment projects, which underwent expert evaluation, more than doubled and financing for more than 20 projects was commenced.

To illustrate: a project on construction of an integrated complex for producing mineral fertilizers in Mendeleevsk (Republic of Tatarstan), the Taishet aluminum plant, a project on establishing a car-making Ford-Sollers Joint Venture, a project for construction of a central segment of the "Western High-Speed Diameter" in St.Petersburgh, provision of a credit facility to CJSC Sukhoy Civil Aircraft for the Sukhoy Superjet 100 project. It is worth noting that Vnesheconombank's commitment in each of the projects is no less than RUB 25 bn.

We recognize that commencement of commercial operation of a serial Sukhoi Superjet 100 aircraft was a hallmark event of 2011.

Despite the volatility and certain predicaments in the global financial markets, Vnesheconombank managed to fully fulfill the task of raising investment for key industry sectors. Admittedly, launching in 2011 of a 3-year USD 2.45 bn syndicated loan facility under the respective Agreement was a culminating event in this business line. The terms and conditions of the loan facility, including its amount, as at the date of signing the Agreement, were most competitive and record high for the Russian market of syndicated loans.

SMEs that are called to become the backbone of the domestic economy, especially in high-tech industries, remain in the focus of the VEB Group banks' attention.

OJSC Russian Bank for Small and Medium Enterprises Support (SME Bank), formerly known as the Russian Development Bank, which has been operating under the new name since mid 2011, is our key instrument in delivering the SME support agenda.

Remarkably, the amount of SME support channeled through this bank has been dynamically growing. At the end of 2011, the respective amount exceeded RUB 161 bn, while the amount of support allocated specifically for the SME industrial sector increased by more than 1/3. In order to maintain SME Bank's capabilities to satisfy the demand of small- and mid-sized businesses for long-term and cheap loans, which are badly needed, a decision was made by Vnesheconombank to annually allocate 10% of the profit for capitalization of the subsidiary.

The rebranding of the SME Bank is not just a name change. It means a simultaneous change in ideology and in the quality of support parameters. Though the geographical and sector reach of SME Bank is as wide as ever, support is becoming much more concrete and targeted. Priorities are seen to shift in favor of SME projects in innovation, modernization and energy efficiency. Apart from it, SME Bank has been increasingly benefiting from the capabilities of infrastructure support organizations (leasing and factoring companies, regional funds and micro-finance organizations).

SME support comes top of the agenda of the newly established specialized VEB-Innovations Fund (RUB 1bn). We hope the Fund will serve as a powerful magnet for Russian and foreign businesses, which demonstrate interest in commercialization of SME projects.

VEB's other subsidiaries, namely, Svyaz-Bank, GLOBEXBANK, OJSC VEB-Leasing also actively engage in lending to SMEs. The aggregate amount of support that they rendered to SME projects in 2011 exceeded RUB 200 bn.

This year, EXIAR is going to launch a project for insuring SME exporters so that by 2014 the insurance safety net will be provided for 3 000 companies.

The past year saw an increase in the range of Vnesheconombank's Russian and foreign partners in SME support. The parties are jointly seeking to deliver the best value for SME development in Russia.

In particular, the Bank intends: to cooperate with the Agency of Strategic Initiatives for Promotion of New Projects in facilitating implementation of business projects of medium-sized enterprises; to seek to identify and overcome barriers to development; to disseminate the best entrepreneurship support practices in the Russian Federation constituent entities.

In cooperation with the KfW German develo-pment bank we agreed to establish a EURO 1 bn International SME Support Fund. Investors from other countries could also join the Fund.

We very much hope that the Fund for Capitalization of Russian Banks (capital — USD 550 mn) established by Vnesheconombank, the Russian Federation Ministry of Finance and the IFC will serve as an efficient leverage for SME modernization.

Overall, the international reach of Vnesheconombank's activities has become wider and more diversified.

Close engagement with our SCO IBC partners was deepening and we were co-developing a new quality institutional platform. Now, we cannot but express satisfaction that the Strategy for the SCO mid-term development (2012-2016) initiated by VEB a year ago was successfully approved in November 2011.

Vnesheconombank subscribed to the UN Global Compact, a major international initiative in the area of sustainable development, thereby confirming its intent to secure a more sustainable and open global economy and assist sustainability. Consequently, one of the major principles that guides Vnesheconombank in its activities, i.e. environmental responsibility, has acquired an international context.

Working within the frameworks of the Bank's cooperation with leading foreign development banks, Vnesheconombank participated in establishing the International Development Finance Club. I would like to remind you that we have already joined a well-respected International Long-term Investors' Club.

An enhanced role of Vnesheconombank as the Russian key financial institution for development motivated changes in the Bank's corporate life.

A new, more fair pay and remuneration system, based on achievement of key performance indicators (KPIs) was put in place. Obviously, the introduction of the new pay system raised employee awareness of interdependence between individual efficiency and the performance efficiency demonstrated by the entire Bank. I am fairly confident that these measures will not only serve to drive forward our business efficiency, but will also strengthen the corporate team spirit strong as it is.

In 2011, Vnesheconombank continued dedicated work of integrating the CSR principles in its business practices. The recognition of Vnesheconombank's Sustainability Report for 2009 as the winner of the Best Debut of 2010 in Non-Financial Reporting and Sustainability Reporting in the contest held by the Russian Union of Industrialists and Entrepreneurs was a prominent event. Remarkably, that means that the principles that guide Vnesheconombank's activities in natural resource utilization, assessment of environmental components of projects, promotion of PPPs and investment in socially responsible projects fully comply with the best global standards of business conduct and respond to objective expectations and the needs of society.

Overall, Vnesheconombank's activities in 2011 were quite robust and intensive. I would like to express gratitude to Vnesheconombank's partners and staff, whose professional expertise and knowledge let us address the tasks we were facing at a new quality level. Management recognizes that eventually it enabled us to deliver reasonably good value.

For Vnesheconombank as a bank for development, 2012 is a very special year. Whatever we succeeded in accomplishing in the first 5 years of operating as a development institution evidences that we have chosen the right and sustainable model for the establishment of the Bank for Development in Russia. The way we see it, nobody would doubt now that Vnesheconombank has firmly established itself as a key and multifunctional institution aspiring to drive the Russian economy forward.

I am absolutely confident that we will be able to meet all the new challenges. To conclude, I would like to wish you a benign business climate, effective and fruitful work to secure the country's economic development and prosperity for our people.

V. Dmitriev
Chairman of Vnesheconombank

Vnesheconombank's Supervisory Board

(as at 01.01.2012)

CHAIRMAN OF THE SUPERVISORY BOARD:

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

MEMBERS OF THE SUPERVISORY BOARD:

V. A. Zubkov	First Deputy Chairman of the Russian Federation Government
S.B. Ivanov	Deputy Chairman of the Russian Federation Government
D. N. Kozak	Deputy Chairman of the Russian Federation Government
I.E. Levitin	Minister of Transport
E. S. Nabiullina	Minister of Economic Development
A. G. Siluanov	Minister of Finance
V.B. Khristenko	Chairman of the Board, Eurasian Economic Commission
V. A. Dmitriev	Chairman of Vnesheconombank

Vnesheconombank's Board

(as at 01.01.2012)

V. A. Dmitriev	Chairman of Vnesheconombank
N. N. Kosov	First Deputy Chairman
A. V. Tikhonov	First Deputy Chairman
A. B. Ballo	Deputy Chairman
S. A. Vasilyev	Deputy Chairman
M. Yu. Kopeikin	Deputy Chairman
S. P. Lykov	Deputy Chairman
P. M. Fradkov	Deputy Chairman
V. D. Shaprinskiy	Chief Accountant

The Bank's Profile

MEMORANDUM ON FINANCIAL POLICIES OF VNESHECONOMBANK

FEDERAL LAW NO. 82-FZ DD. 17 MAY 2007 "ON BANK FOR DEVELOPMENT"

VNESHECONOMBANK'S DEVELOPMENT STRATEGY FOR 2011-2015

MISSION

Support for the state social and economic policy, enhancing competitive edge of the national economy and its innovative-based modernization

SUPPORT FOR MAJOR INVESTMENT PROJECTS OF NATIONAL SIGNIFICANCE AND DEVELOPMENT PROGRAMMES OF RUSSIA'S INDUSTRIES AND REGIONS

- Credit, investment and guarantee support for investment projects
- Russian Direct Investment Fund
- Integrated territorial development
- Support for single-industry towns

SUPPORT FOR HI-TECH EXPORTS

- Credits and guarantees to promote Russian exports to external markets (defense industry, aircraft building, transport, special-purpose and power machine-engineering)
- OJSC EXIAR — Russian Agency for Export Credit and Investment Insurance

DEVELOPMENT OF SME INNOVATIVE AND INDUSTRIAL POTENTIAL

- SME Support Programme implemented through OJSC SME Bank
- VEB Innovations Fund — promoting innovative projects of Skolkovo Fund
- The base bank for the Agency of Strategic I nitiatives

AGENT FOR THE RUSSIAN FEDERATION GOVERNMENT

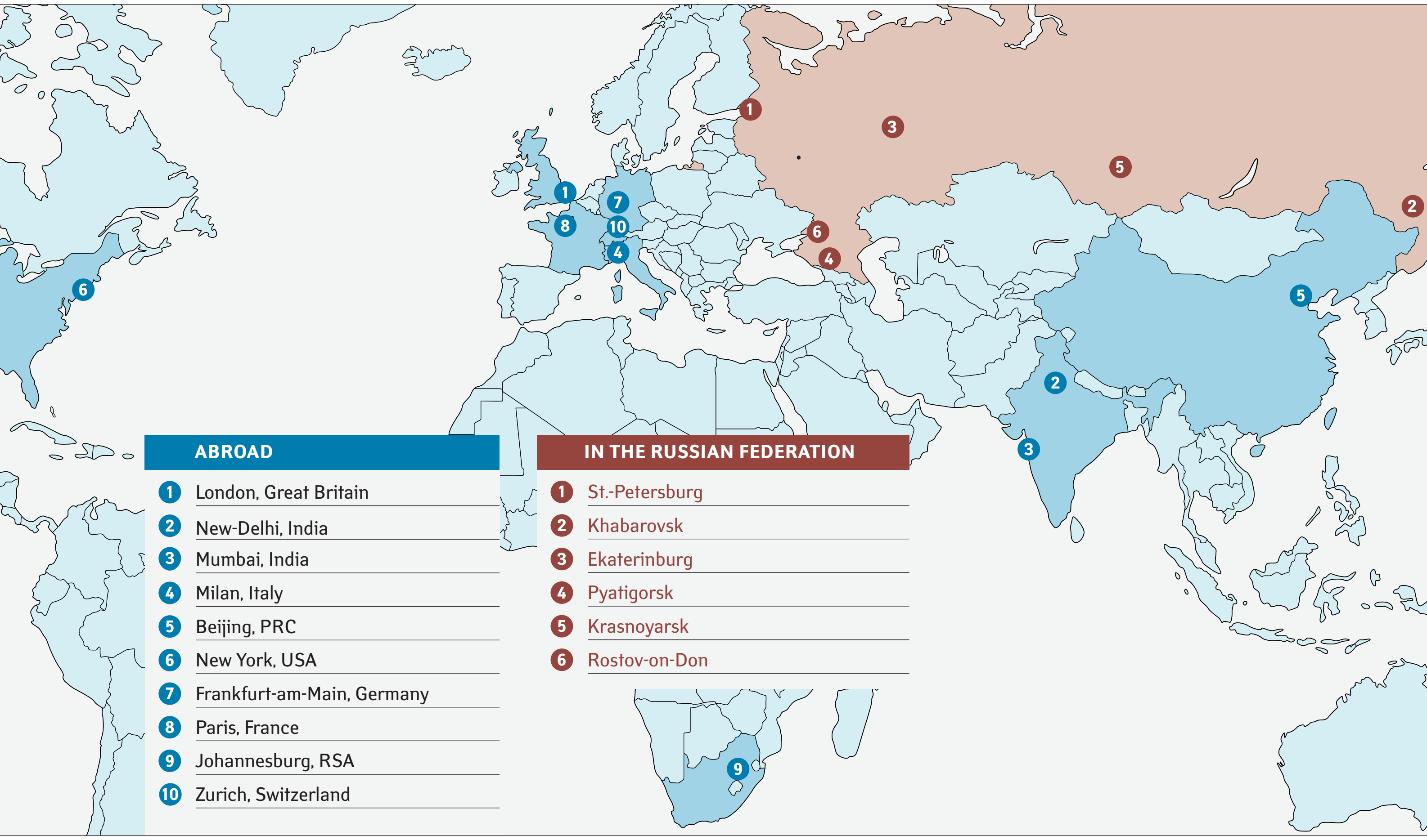
- Servicing sovereign debt and state external financial assets
- Settling bad debts under loans and credits extended from the federal budget
- Issuing and executing state guarantees

STATE TRUST COMPANY TO MANAGE PENSION SAVINGS

PROMOTION OF PUBLIC-PRIVATE PARTNERSHIP MECHANISMS

- Programme of financial assistance to regional and municipal project development implemented through OJSC FCPF
- Investment consulting
- Donor Fund in cooperation with UNDP
- PPP Chair at the Financial University under the Russian Federation Government

Vnesheconombank's Representative Offices



ABROAD

1. London, Great Britain
2. New-Delhi, India
3. Mumbai, India
4. Milan, Italy
5. Beijing, PRC
6. New York, USA
7. Frankfurt-am-Main, Germany
8. Paris, France
9. Johannesburg, RSA
10. Zurich, Switzerland

IN THE RUSSIAN FEDERATION

1. St.-Petersburg
2. Khabarovsk
3. Ekaterinburg
4. Pyatigorsk
5. Krasnoyarsk
6. Rostov-on-Don

Group of Vnesheconombank

SUBSIDIARIES
OJSC SME Bank
CJSC ROSEXIMBANK
OJSC Bank BelVEB (Belarus)
PJSC Prominvestbank (Ukraine)
OJSC AKB Svyaz-Bank
CJSC Globexbank

LLC RUSSIAN DIRECT INVESTMENT FUND MANAGING COMPANY
LLC Russian Direct Investment Fund Managing Company
OJSC Russian Agency for Export Credit and Investment Insurance
LLC VEB Capital
OJSC VEB-Leasing
LLC VEB-Engineering
OJSC Federal Centre for Project Finance
OJSC North Caucasus Development Corporation
OJSC Far East and Baikal Region Development Fund

BACK TO CONTENTS

Vnesheconombank's Ratings

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

Vnesheconombank:
a 5-Year Long Path of Achievements

In 2012, Vnesheconombank summarizes the results of the first 5 years of activities in the capacity of a bank for development.

In 2012, Vnesheconombank summarizes the results of the first 5 years of activities in the capacity of a bank for development.

In 2007 and early 2008, Vnesheconombank was actively positioning itself as a development institution. In this period, the Bank focused efforts on identifying new and developing the existing business areas, in particular, expert evaluation and financing of major investment projects, national export support, development of small- and medium-sized enterprises (SMEs) and public-private partnership (PPP) mechanisms.

During the first wave of the global financial crisis (second half of 2008-2009), the Bank actively participated in the Government's bailout package through supporting national producers and the Russian financial system.

Having succeeded in objectives set by the Government, Vnesheconombank in the past two years concentrated on developing its core business lines such as promotion of the economy modernization and ensuring prerequisites for Russia's sustainable social and economic development. The Bank substantially increased support for the economy and achieved impressive results in the key business areas.

2007 — H1 2008

INCEPTION AND ACTIVE START-UP PERIOD

- June 2007 — registration as a bank for development
- approval of Vnesheconombank's Memorandum on Financial Policies
- approval of the Supervisory Board and Management Board
- development of SME support programme
- RUB 180 bn asset contribution to the Bank's charter capital by the Russian Federation

H2 2008 — 2009

SPEARHEADING ANTI-CRISIS EFFORTS

- subordinated loans to Russian banks
- loans to Russian companies to refinance their obligations to foreign creditors
- support for the Russian stock market
- acting as a financial consultant to the Russian Federation Government on investment projects seeking financing from the Russian Federation Investment Fund
- measures to financially rehabilitate OJSC AKB Svyaz-Bank and CJSC GLOBEXBANK
- debut issue of domestic currency bonds
- Russian Federation made a RUB 75 bn additional contribution to the Bank's charter capital and transferred 100% of shares in OJSC RosBR (subsequently renamed OJSC SME Bank) and 5.226% of shares in CJSC ROSEXIMBANK

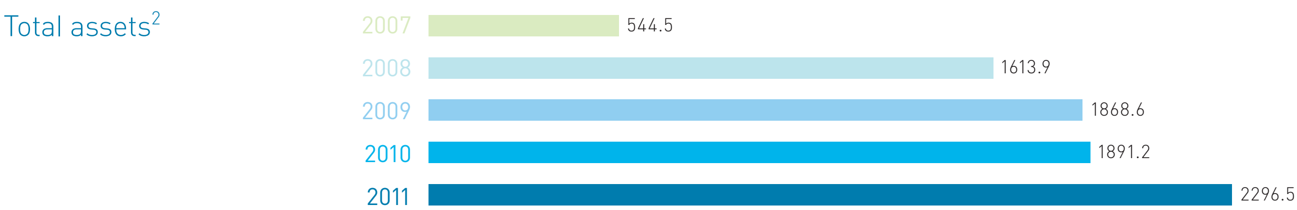
2010 —2011

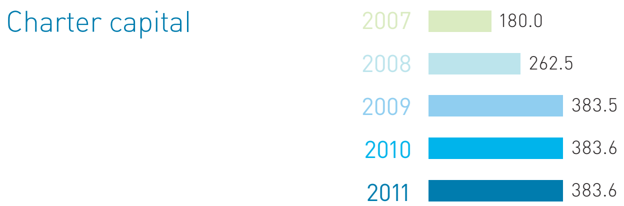
AT STRATEGIC FOREFRONT OF NATIONAL ECONOMIC DEVELOPMENT

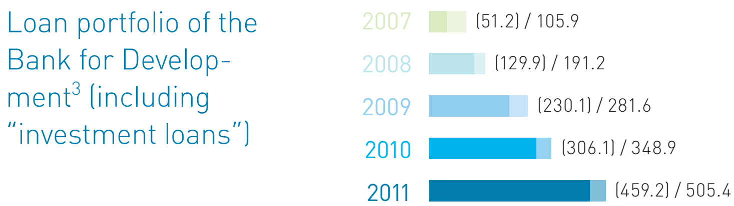
- focus on functions of a national development bank, support for innovative projects, construction of new and modernization of the existing industrial production and major infrastructure facilities (including the Olympic ones)
- entering foreign capital markets: issuance of Eurobonds
- increased borrowings in domestic market
- VEB nominated as the sole investment consultant to Russian Federation constituent entities for PPP projects
- approval of the programme of financial assistance to regional and municipal project development
- launch of a programme on investing in affordable housing construction and mortgage projects
- approval of the Bank's Development Strategy for 2011-2015
- completion of a programme for refinancing Russian corporate debt to foreign creditors
- developing of a representative network and establishing regional subsidiaries
- Russian Federation made additional monetary contributions to the Bank's charter capital in the total amount of RUB 121 bn and transferred 100% of shares in OJSC Federal Centre for Project Finance

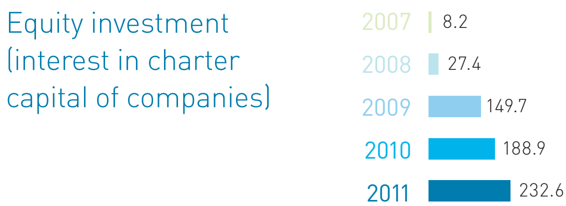
Major Operating Results[1] for 2007–2011

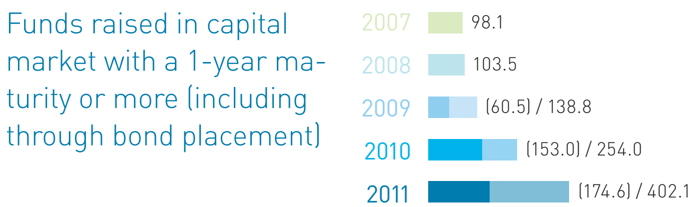
RUB, billion











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

2. With consideration for consolidated financial statements, as well as positive and negative revaluation of securities available for sale ("analytical" total balance).

3. Portfolio of loans extended by Vnesheconombank to non-credit institutions, public executive bodies and municipalities for investment projects and export support, excluding loans extended using the CBR's funds as part of anti-crisis measures in accordance with Article 1 of Federal Law No. 173-FZ dd. 13.10.2008, loans extended using funds of the CBR and NWF, other loans including those obtained under claim assignment agreements.

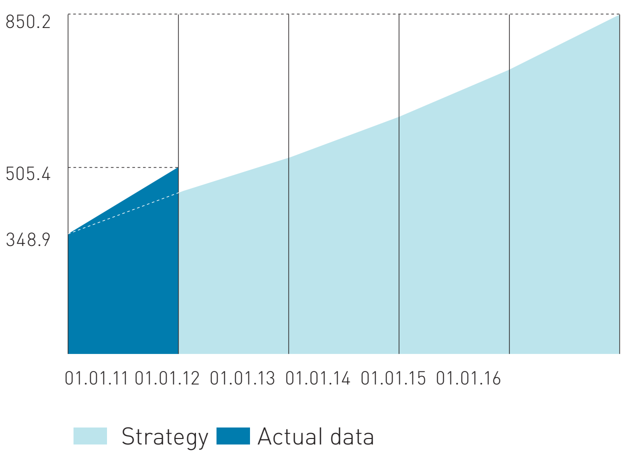
Vnesheconombank's Development Strategy 2011–2015[4]: Progress in 2011

As at 01.01.2012, **the Bank for Development's loan portfolio** exceeded the Strategy's projected indicator by 11%: RUB 505.4 bn against RUB 454.1 bn.

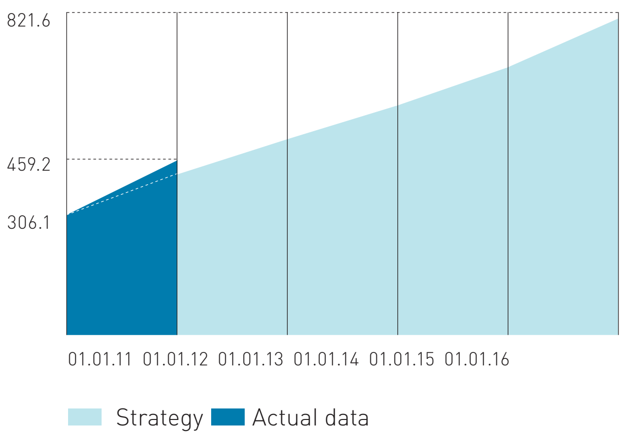
The share of innovative projects in the Bank's loan portfolio reached 36%, whereas according to the Strategy it was to reach at least 20% by the end of 2015.

In general, the sectoral structure of the **Bank's loan portfolio** as at the end of the reporting period is in line with that stipulated by the Strategy for the end of 2015.

Loan Portfolio of the Bank for Development, RUB billion



Investment Credits, RUB billion



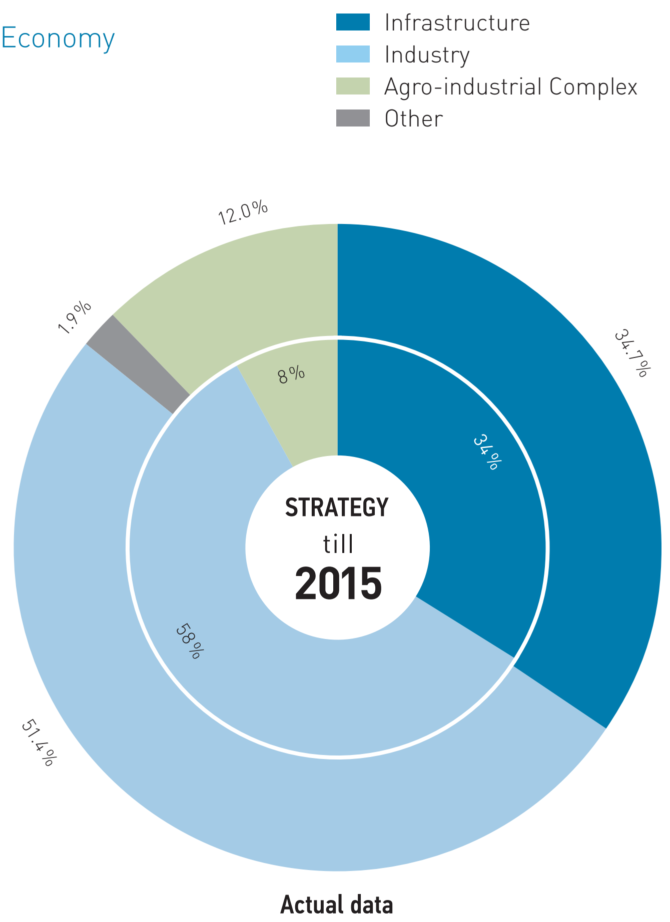
Loans extended to deliver investment projects amounted to RUB 459.2 bn, which is a 10% increase on the amount set forth by the Strategy for the end of 2011 (RUB 416.1 bn).

According to the Strategy, the Bank is geared to promoting credit and investment activities by priority lines of economic modernization. As at 01.01.2012, the Bank was financing 29 projects, with the respective loans standing at RUB 110.6 bn. Projects that aim to increase energy efficiency accounted for the bulk of the loans.

Vnesheconombank's major strategic goal for 2011–2015 is to intensify its activities as a bank for development to ensure sustainable innovative social and economic development of the Russian Federation based on modernization and enhanced competitive advantage of the national economy.

4. Hereinafter — the Strategy.

Loan Portfolio by Sector of Economy



As at 01.01.2012, the portfolio of loans extended and guarantees issued to support exports amounted to RUB 7.3 bn and RUB 15.2 bn, respectively (in the Strategy — RUB 11 bn and RUB 19.8 bn, respectively).

In 2011, Vnesheconombank viewed promotion of innovative activities as one of its key priorities. Along with increased financial support for innovation projects, the Bank resorted to new forms to encourage innovations. In the year under review, the Bank provided financial support to the Agency of Strategic Initiatives for Promotion of New Projects, a non-commercial institution, thus enabling the latter to organize its activities. Furthermore, Vnesheconombank began practical interaction with the Agency.

In 2011, to facilitate the creation of the Skolkovo innovation centre in Russia (Vnesheconombank is a co-founder the Skolkovo Fund), the Bank established a non-commercial organization "Fund to Operate the Programme of Financial Support for the Skolkovo Fund's Innovation Projects" (Vnesheconombank-Innovations Fund).

The setting up by Vnesheconombank in 2011 of the Russian Agency for Export Credit and Investment Insurance (OJSC EXIAR) designed to become an efficient tool to promote Russian hi-tech exports to the global market was an event of immense significance for the Russian economic development.

With a view to establishing direct investment funds and industry-specific investment funds to encourage foreign investment in the Russian economy, the reporting year witnessed the establishment of the Russian Direct Investment Fund (RDIF) and RDIF Management Company.

In compliance with regional investment priorities set forth in the Strategy, Vnesheconombank founded CJSC Far East and Baikal Region Development Fund. Besides, the Bank continued intense activities in the North Caucasus, in particular, using CJSC North Caucasus Development Corporation (a subsidiary established in 2010), the Bank's representative office in Pyatigorsk, and working with CJSC North Caucasus Resorts (the Bank is a co-founder and shareholder).

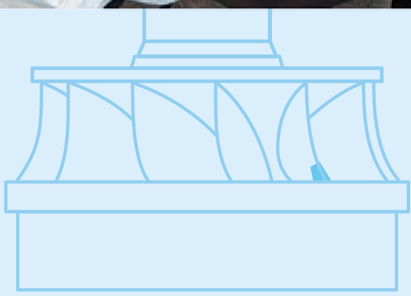
The Strategy prioritizes support for SMEs delivering innovation projects and those aimed at production facilities modernization and increased energy efficiency. By the end of 2011, support for such SMEs amounted to RUB 26.5 bn as compared to RUB 11.4 bn posted earlier in the year.

Vnesheconombank succeeds in increasing its medium- and long-term resource potential. The amount of funds raised in the capital markets (with maturities exceeding 1 year) in the form of bonds issued and loans raised from foreign financial institutions reached RUB 402.1 bn against RUB 257.4 bn at the beginning of the year.

More detailed information on Vnesheconombank's priority activities identified in the Strategy, as well as on the progress made in 2011 is to be found in the respective sections of the Report.

Efficient system of making investment decisions

GOALS



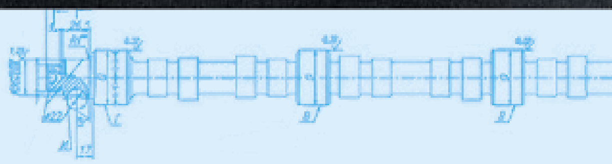
Vnesheconombank ensures financial support for investment projects, which respond to the Bank's priority business lines, including:

- infrastructure development,
- innovation development,
- efficient natural resource utilization,
- energy saving technologies,
- support for high-tech exports,
- SME support.

1

PROJECT PROPOSAL

CAPABILITIES



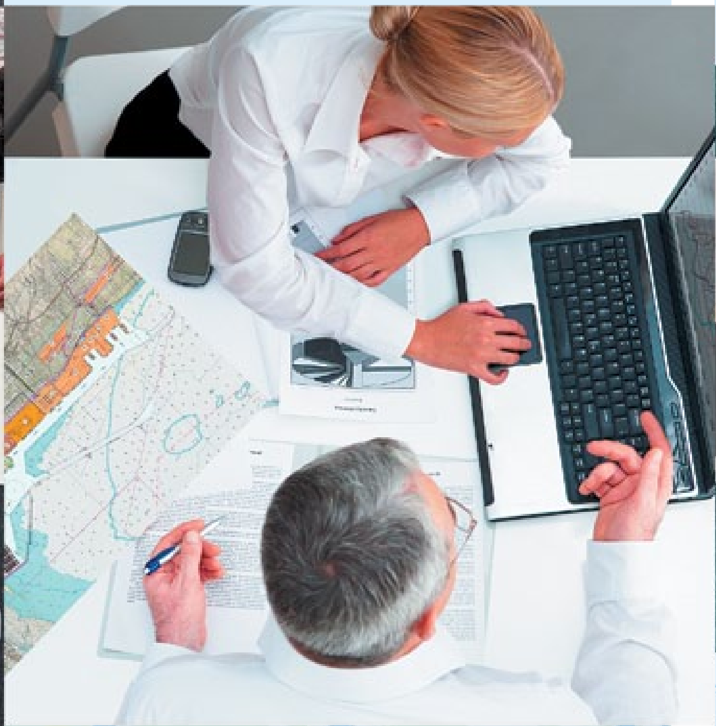
Selection of investment projects is based on the following financial criteria:

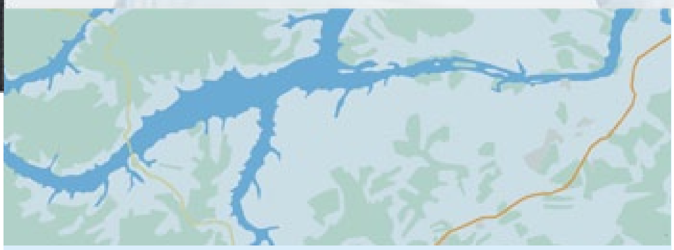
- payback period — above 5 years,
- total project value — above RUB 2 bn,
- the Bank's minimum commitment — RUB 1 bn

2

PRELIMINARY PROJECT EVALUATION

RESOURCES



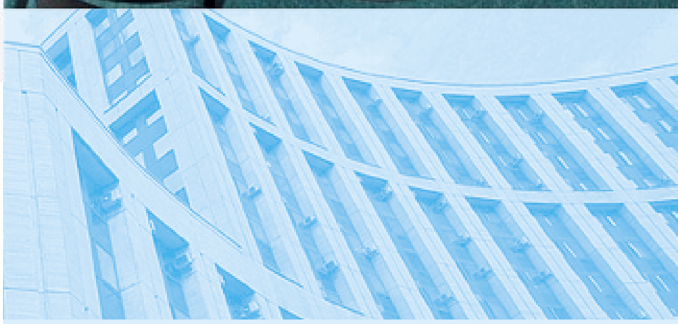


Complex project evaluation includes: analysis of the business plan, financial model and investment project development stage. Due consideration is given to project expediency for potential borrowers and the market advantages it delivers.

3

COMPLEX PROJECT EVALUATION

IMPLEMENTATION



An investment project is financed in line with the loan plan timed to the project implementation phases and is subject to adjustment during the project implementation and financial model update.

4

FINANCING

DELIVERABLES

5

PROJECT MONITORING AND ADMINISTERING

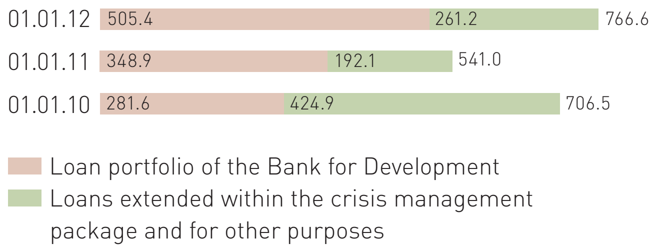
IN ALL PHASES OF AN INVESTMENT PROJECT FINANCED BY VNESHECONOMBANK, THE BANK MONITORS PROGRESS IN MEETING THE INVESTMENT, SOCIAL AND ECONOMIC OBJECTIVES AND EXERCISES ORGANIZATIONAL AND FINANCIAL CONTROL, INCLUDING INDEPENDENT EXPERT EVALUATION IN ACCORDANCE WITH INTERNATIONAL STANDARDS.

1

Development Dynamics: Major Financial Highlights

Total Assets, RUB billion

Loan Portfolio, RUB billion



Capital, RUB billion

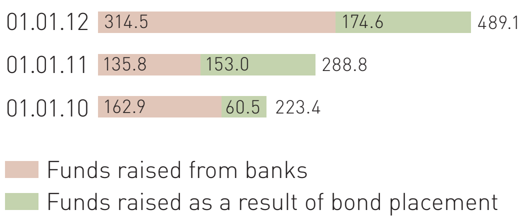
Equity Investment in Companies (Interest in Charter Capital), RUB billion

Income, RUB billion

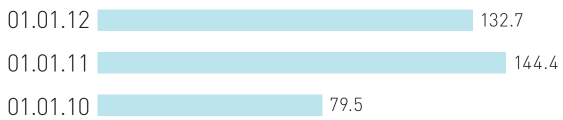
Securities Portfolio[5], RUB billion

5. Debt securities (including notes) and equity securities (including investments in funds, but excluding equity investments)

Term Resources Raised from Banks and as a Result of Bond Placement, RUB billion



Portfolio of Guarantees and Sureties, RUB billion



Among the top 10 Russian banks (in terms of total assets) as at 01.01.2012, **Vnesheconombank ranked:**

- **4th** in terms of total assets;
- **5th** in terms of income before income tax;
- **3rd** in terms of capital;
- **5th** in terms of the amount of loans extended to non-financial organizations;
- **4th** in terms of deposits and other funds raised from non-credit institutions;
- **3rd** in terms of the amount of loans, deposits and other funds raised from credit organizations.

2 Support for the Real Sector of the National Economy

Economic stabilization and progress in overcoming the aftereffects of the global financial crisis in 2010 enabled the Bank to actively address the major tasks of the Bank for Development, i.e. providing financial and other forms of support for investment projects that are of high significance for the Russian economy. The past year saw further continuation of these efforts.

In conformity with Vnesheconombank's Strategy 2011–2015, a tight focus was placed on accomplishing the following tasks:

- increasing support for projects aiming to develop infrastructure and construct new industrial facilities,
- enhancing the list of instruments of the Bank's participation in investment projects,
- encouraging investment activities in regions adopting a PPP solution,
- implementing a set of measures designed to facilitate SME development,
- developing financial instruments of state support for exports.

In 2011, Vnesheconombank was actively engaged in investing in the selected strategic areas of the Russian economy modernization. Alongside infrastructure projects that are traditionally a priority job for the Bank, top of Vnesheconombank's agenda came projects intended for increasing energy efficiency and resource saving, constructing and modernizing industrial facilities that produce medical equipment, developing and producing new types of pharmaceuticals, developing and introducing strategic IT technologies.

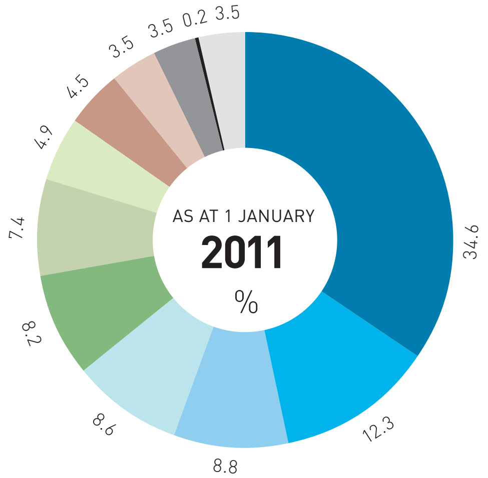
At the same time, the Bank participated in financing projects in major industries of the economy, such as aircraft and automobile building, petrochemicals, etc. The agro-industrial complex also remained in the focus of the Bank's activities.

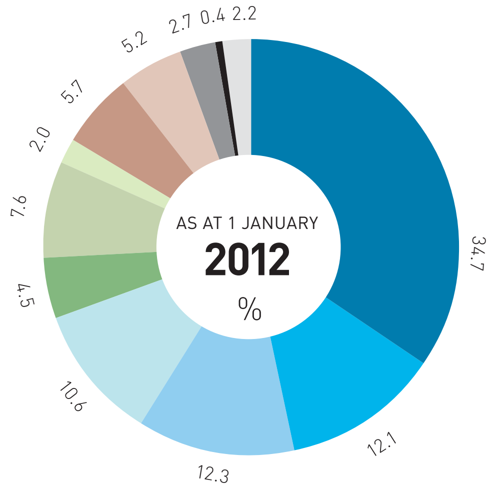
Special emphasis was placed on projects delivering innovative value to Russia's economy.

Just as before, extension of credit resources is a major form of financing investment projects. At the same time, to ease the debt pressures the Bank engages in co-financing of projects, as well as issues guarantees to secure fulfillment of commitments on repayment of funds raised for investment projects.

In 2011, the sectoral structure of Vnesheconombank's loan portfolio did not undergo any drastic changes and in general complied with the activity priorities stipulated in the Bank's Memorandum on Financial Policies.

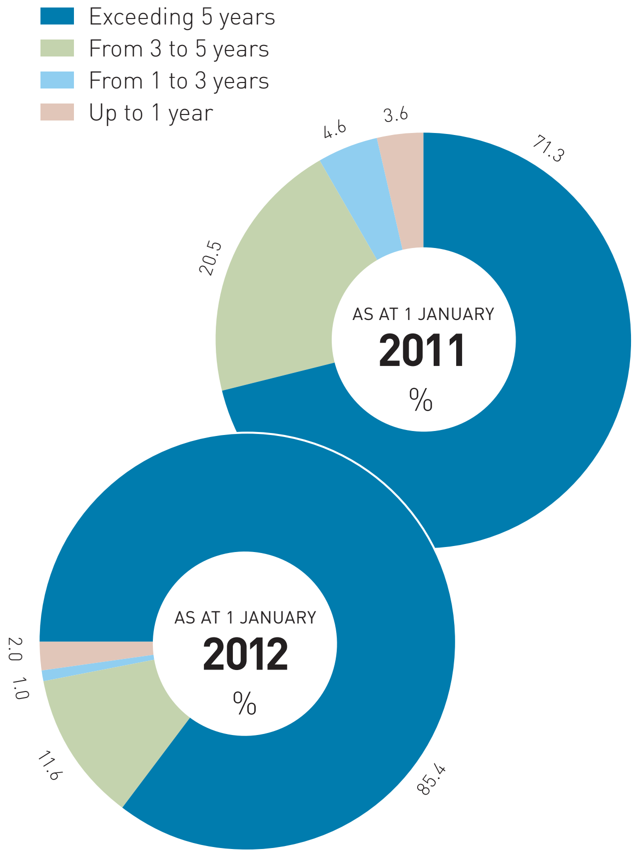
Loans to Customers (by industry/sector of economy)





- 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
- Medical equipment and pharmaceuticals
- Other

Loans to Customers (by maturity)



Also important is that for some branches/ sectors of economy the amounts of extended resources were considerably increased. The highlights in the sectoral policies were as follows:

- infrastructure project financing (transport, energy and social infrastructure) grew by RUB 55 bn;
- credit resources extended to enterprises operating in the chemical and petrochemical industries increased by approximately RUB 32 bn;
- additional funds extended to machine-building[6] enterprises totaled RUB 23.7 bn.

The structure of the Bank's loan portfolio, in terms of maturity, was considerably adjusted, with loans extended for a term exceeding 5 years making the bulk of the portfolio and the share of loans with maturities of 1-3 years seeing a serious decrease.

During 2011, the amount of funds extended to non-financial organizations reached RUB 185.6 bn that by far exceeded the similar indicator posted in 2010 (RUB 145.6 bn), with 95% of the funds or Rub 175.8 bn provided for financing investment projects (86% or RUB 125.5 bn — 2010).

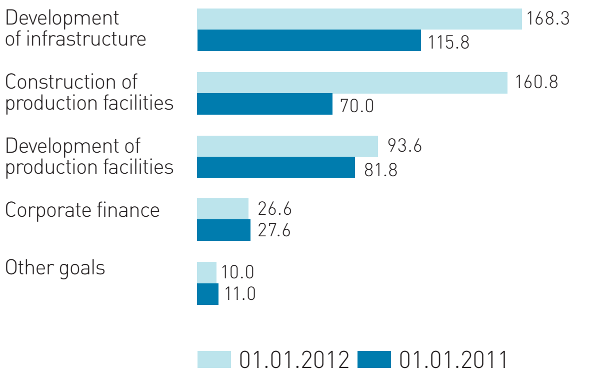
6. Excluding aircraft building.

2.1. Participation in Investment Projects

At the end of the reporting period, Vnesheconombank participated in 112 investment projects (at the beginning of the year — 95 projects[7]).

As at 01.01.2012, the portfolio of investment projects amounted to RUB 459.2 bn, which is a 1.5-time increase on the start of the year (RUB 306.1 bn).

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



At the end of the period under review, the amount of Vnesheconombank's investment in shares (equity investment in charter capital) made to finance investment projects totaled RUB 25.8 bn.

Apart from it, the Bank provided guarantee support for 3 investment projects (moreover, credit resources were provided for the 2 of them). As at the reporting date, the amount of the portfolio of guarantees issued with a view to financing investment projects was running at RUB 11.1 bn.

In 2011, Vnesheconombank started to finance 20 investment projects (the social and economic deliverables on project completion are as follows: RUB 132.2 bn — revenues for the budgets of all levels, as well as creation of 9 570 new jobs). More importantly, 13 of the projects are focused on innovation introduction (overall, as at 01.01.2012, the Bank participated in 42 projects aiming to develop innovation, with the amount of the respective credits totaling RUB 182.7 bn).

Vnesheconombank devotes special attention to providing the Russian population with domestically produced pharmaceuticals required for treatment of most serious diseases. To address the goal, the Bank finances development of new medicines and construction of new facilities for producing pharmaceuticals that could substitute the imported costly ones or even surpass them in treatment quality.

In 2011, the Bank started financing 2 of these projects:

PROJECT ON CREATION OF AN INNOVATIVE COMPLEX FOR DEVELOPMENT, INTEGRATION AND PRODUCTION OF PHARMACEUTICALS ON THE BASIS OF BIO- AND NANOTECHNOLOGIES

The project is aimed at creating a pharmaceutical production facility meeting the GMP

7. The number of projects at the beginning of the year is presented with full consideration for decisions adopted in 2011 on expediency of combining some projects within their lifecycle into a single project

Standards. Total project value — RUB 4.8 bn, Vnesheconombank's commitment — RUB 4.4 bn (including RUB 100 mn allocated to purchase an equity stake in the project operator company).

The project envisages a complete cycle of producing original innovative medications, starting from the API (active pharmaceutical ingredients) production stage and ending with the FPP (finished pharmaceutical products) production. The facility will produce 14 types of pharmaceutical products, including vaccines, probiotics, bacteriophages, drugs for treating multiple sclerosis, renal and prostate diseases, degenerative joint diseases, leukemia, B and C hepatitis. The medications will either be produced by applying fundamentally new production technologies, or have innovative ingredients and pharmacological effect. Partially, the medications will be domestic equivalents of the respective imported costly drugs holding 100% of the Russian market share.

The project will result in more than 500 jobs. The budgetary effect will amount to RUB 5 bn.

PROJECT ON CONSTRUCTING A PLANT FOR PRODUCTION OF INFUSION SOLUTIONS AND PARENTERAL NUTRITION MEETING THE GMP STANDARDS

The project is designed to construct a plant in Naro-Fominsk District of Moscow Region to produce infusion solutions and parenteral nutrition meeting the GMP Standards. Total project value — RUB 2.1 bn, Vnesheconombank's commitment — RUB 1.6 bn.

The project plans to produce simple and compounded infusion solutions, aminoacids for parenteral nutrition, as well as solutions for peritoneal dialysis (blood purification). Project innovation is ensured through the use of high-tech equipment: machines with BFS (Blow-Fill-Seal) and FFS (Form-Fill-Seal) technologies are intended to combine the processes of blowing/forming-filling-sealing of plastic containers excluding product contamination. The production equipment makes it possible to secure transition from production of one product to another within 2 hours. A maximum automation level minimizes the human factor impact. The project envisages the market launch of specialized infusion solutions (for children, patients with disorders involving heart malfunction, liver and kidney failures) to be developed by an integrated research laboratory. The project is supported by the Government of Moscow Region and Administration of Naro-Fominsk District of Moscow Region.

Upon reaching the designed output, the annual production volumes will make 19.35 mn individual packages; 228 new jobs will be created. The budgetary effect will amount to RUB 1.0 bn;

The major projects launched by the Bank in 2011 include:

PROJECT ON INDUSTRIAL PRODUCTION OF THERMAL-INSULATING PRODUCTS ON THE BASIS OF NEOPORM FOAM GLASS IN VLADIMIR

The project aims to create innovative industrial production of thermal-insulating products on the basis of NEOPORM foam glass. Total project value — RUB 5.0 bn, the Bank's commitment — RUB 2.0 bn and EUR 51.0 mn. The project will take advantage of the patented domestic technology for producing thermal-insulating pro-ducts having higher quality than the best world analogues. The highly effective thermal-insulating material produced will combine unique cha-racteristics: operating stability over the whole operation period, endurance capability, complete incombustibility, environmental friendliness, water, vapor and heat resistance, operation within a temperature range of −260 to +480 degree Celsius, high strength at low density, multipurpose use and recycling.

The plant will produce ecologically clean products and will be able to safely and efficiently dispose of inorganic waste using glass cullet as the basic raw material.

The project is supported by the Government of Vladimir Region (it is included in the Strategy on Developing the Construction Sector of Vladimir Region for 2007-2015) and by the Russian Ministry of Regional Development.

The project will result in increased tax revenue channeled to the budgets of all levels (overall, RUB 5.8 bn up to 2023); 300 new jobs will be created.

The end of 2011 witnessed creation of an integrated manufacturing and experimental base and an integrated specialized research laboratory equipped with state-of-the-art equipment and exercising control over the quality of raw materials and output products, as well as elaboration of design documentation for constructing the plant in Vladimir. The project received a positive state expert assessment of design documentation and a favourable environmental opinion on project compliance with environmental requirements, as well as a building permit. Industrial process regulations for each type of products were elaborated.

PROJECT ON ESTABLISHING OF FORD-SOLLERS JOINT VENTURE

The project envisages large-scale production in the Russian Federation of Ford branded light motor, commercial and off-road vehicles (approximately 350 000 per annum, with a minimum target of 60% local content), as well as 180 000 engines. Project initiators — OJSC SOLLERS and FORD MOTOR COMPANY (USA). Total project value — RUB 79.6 bn, the Bank's commitment — RUB 39 bn.

The project foresees modernization of the existing production facilities of 3 automotive plants in Naberezhnye Chelny, Elabuga and Vsevolozhsk, as well as erection of new facilities for engine production (180 000), development of a logistic centre and an engineering and technical centre to support and develop automotive products and meet the vehicle local content targets. The project complies with the Strategy on Development of Automotive Industry in the Russian Federation up to 2020.

The projected budgetary effect will exceed RUB 38 bn.

At the end of 2011, Ford Sollers plant in Elabuga launched production of Ford Transit vehicles.

PROJECT ON CREATION OF AN AGRO-INDUSTRIAL COMPLEX IN CHECHEN REPUBLIC

The project is aimed at restoration and development of an agro-industrial complex in Chechen Republic, including the following areas: beef and poultry farming, meat processing, crop production and processing. Project initiator — the Government of Chechen Republic, project deliverer — OJSC Chechenagroholding. Total project value — RUB 2.5 bn, Vnesheconombank's commitment — RUB 2.3 bn.

As at 01.01.2012, the project was fully financed. In 2011, a fattening centre for a 10 thousand-head herd of beef breed, a slaughtering department (60 heads per shift), a meat processing plant and a granary (capacity — 4.5 thousand tons of grain) were commissioned. Construction and assembly work was completed, equipment is being delivered and installed at the following facilities: a complex poultry farm (200 thousand heads of poultry), a vegetable canning plant and a greenhouse complex. Besides, 8.7 thousand heads of beef breed and agricultural equipment for outdoor plant growing were purchased. In the previous year, the project provided 29 new jobs. Tax revenue channeled to the budgets of all levels totaled RUB 12.0 mn, revenues from agricultural sales approximated to RUB 50 mn.

The Bank considers financing the 2nd project stage that provides for the revival of winegrowing industry in the region. Total project value — RUB 1.9 bn, including debt financing — RUB 1.3 bn.

PPP Projects

Since the moment of its establishment, the Bank for Development has taken decisions on financing 20 PPP projects, with the total project value reaching RUB 744.1 bn and Vnesheconombank's commitment — RUB 379.2 bn.

As at 01.01.2012, the Bank was financing 14 PPP projects (as at the start of 2011 — 12 PPP projects), the amount of the PPP loan portfolio increased by more than RUB 7 bn reaching RUB 98.6 bn. In 2011, the Bank channeled about RUB 6.8 bn to finance a project on construction of an integrated complex for producing ammonia, methanol and granulated carbamide in Mendeleevsk (Republic of Tatarstan). The project will result in construction of the 1st integrated complex in Russia and CIS countries to produce ammonia and methanol permitting to flexibly regulate product output depending on market demand. Commissioning of the complex built with the use of state-of-the-art global technologies will considerably enhance the competitiveness of the Russian nitrogen fertilizer industry and will help provide Russian agriculture manufacturers with quality nitrogen fertilizers. The project envisages a neglegible negative environmental impact, including absence of carbon emissions.

Integrated Territorial Development

Vnesheconombank actively engages in securing sustainable integrated territorial development.

In the reporting year, aiming to establish strategic partnership and develop long-term and effective investment interaction, the Bank concluded 5 cooperation agreements with constituent entities of the Russian Federation, including 3 with North-Caucasian Federal District: Republic of Ingushetia, Karachaevo-Cherkessk Republic and Republic of Northern Ossetia — Alania, as well as agreements with Republic of Sakha (Yakutia) and Belgorod Region.

Totally, at the end of 2011, Vnesheconombank signed cooperation agreements with 51 constituent entities of the Russian Federation.

INTEGRATED DEVELOPMENT OF KALUGA REGION

In 2011, Kaluga Region was defined as a pilot project on integrated territorial development.

In October, VEB Group and the Government of Kaluga Region signed a collective action plan on integrated development of Kaluga Region for 2011–2013.

The plan contemplates joint activities of VEB Group and the Government of Kaluga Region on integrated development of the region, support for innovative projects (including through OJSC Kaluga Region Development Corporation) delivered in its territory, development of SMEs, application of PPP mechanisms. Schemes of interaction between Kaluga region and the Agency of Strategic Initiatives, RDIF and OJSC EXIAR are planned to be worked out.

A project on construction of a cement plant in Kaluga Region may serve as an illustrative example of the above interaction. The project is designed to create up-to-date, ecofriendly and highly effective cement production applying dry mix process (capacity — 3.5 mn tons per annum) on the territory of an industrial park in Duminichsk District of Kaluga Region. Total project value — Euro 651 mn, Vnesheconombank's commitment — a ruble equivalent of EUR 517.5 mn.

The project is supported by the Russian Ministry of Economic Development, Ministry of Regional Development and the Government of Kaluga Region. Cooperation agreement between the Government of Kaluga Region and the project initiator envisages financing the construction of a motorway from M-3 Ukraine federal highway to the plant site drawing on budgetary funds.

THE BANK'S ACTIVITIES IN NORTH-CAUCASIAN FEDERAL DISTRICT

In 2011, Vnesheconombank continued its activities in North-Caucasian Federal District (NCFD). 5 projects co-implemented by the Bank involved loans totaling RUB 6.1 bn (a 3.8-time rise on 2010).

The projects launched in 2011 include the project on construction of an agro-industrial complex in Chechen Republic (beef and poultry farming, meat processing, crop production and processing) and the project on erection of a plant to produce float glass with the capacity of 600 tons per day in Republic of Dagestan.

Apart from it, in 2011, the Bank's participation in a project on construction of the first startup facility at the Arkhyz year-round mountain resort in Karachaevo-Cherkessk Republic was approved. The project involves construction of 4 housing complexes to accommodate more than 25 thousand people, and a network of power lifts and aerial cableways (in total, 69) with the carrying capacity of 140 thousand people per hour, and total piste length exceeding 270 km.

The project is delivered in pursuance of the programme on establishing a tourism cluster in NCFD, Krasnodar Region and Republic of Adygea, as approved by the Russian President and the resolution of the Russian Government.

Vnesheconombank is a co-founder of OJSC North Caucasus Resorts — a management company for the above tourism cluster.

The construction of external engineering infrastructure is financed out of federal and republican budgets within the Federal Target Programme named "South of Russia (2008-2013)". The Government of Karachaevo-Cherkessk Republic and the tourism cluster management company entered into an agreement on joint investment activities to complete the construction of external infrastructure of the Arkhyz resort.

In 2010, to administer the NCFD investment projects, Vnesheconombank founded a subsidiary — OJSC North Caucasus Development Corporation. As at 01.01.2012, the company's management board made decisions on participating in 10 NCFD investment projects with total project value of RUB 80.7 bn (company's projected commitment — RUB 8.5 bn).

OJSC North Caucasus Development Corporation has commenced financing of the above Arkhyz project. Alongside that, it is involved in pre-procurement activities under the projects on creating a national aerosol cluster in Nevinnomyssk (Stavropol Territory), the Kazbek innovation construction technopark in Chechen Republic and a multi-functional expo center in Caucasian Mineral Waters resort.

In 2011, Vnesheconombank's representative office in Pyatigorsk selected and prepared for expert evaluation 9 NCFD investment projects totaling RUB 42.4 bn (Vnesheconombank's projected commitment — RUB 29.8 bn). The Bank's representatives in Pyatigorsk are members of 8 consultancies for regional public authorities engaged in enhancing social and economic development of the region and improving the quality of the investment climate.

Support for Single-Industry Towns

In the reporting period, Vnesheconombank was actively involved in modernizing the economy of single-industry settlements. To implement the complex of measures aimed at facilitating the development of single-industry municipal entities in 2011-2012 (approved by Igor Shuvalov, First Deputy Chairman of the Russian Government, Chairman of Governmental Commission on Economic Development and Integration), Vnesheconombank formed a pipeline of 37 respective projects. Total project value exceeds RUB 360 bn, the Bank's commitment — above RUB 260 bn.

As at 01.01.2012, the Bank was financing 10 investment projects in single-industry towns (total project value — RUB 209.5 bn, the Bank's commitment — RUB 145.2 bn). At the end of the year, the amount of the respective loan portfolio exceeded RUB 35.9 bn.

The projects are being delivered in Republic of Bashkortostan, Republic of Tatarstan, Chuvash Republic, Primorsk Territory, Arkhangelsk, Leningrad, Voronezh and Yaroslavl regions.

Furthermore, the Bank financed the current activities of 3 enterprises located in single-industry towns.

The major socially important projects, which the Bank commenced to finance in 2011, include:

- construction of FORD-SOLLERS auto joint venture (Naberezhnye Chelny, Republic of Tatarstan);
- construction of a new integrated complex for producing ammonia, methanol and granulated carbamide in Mendeleevsk (Republic of Tatarstan);
- reconstruction of a boiler-house into a thermoelectric power station in Tutaev (Yaroslavl Region);
- construction of an up-to-date pig-breeding complex in Pavlovsk (Voronezh Region).

As at the beginning of 2012, 23 projects were passing through different stages of expert evaluation. A positive financing decision was made on 1 more project (in addition to those already approved).

2.2. Promoting Investment Activities

Fostering Innovations

Central to Vnesheconombank's activities aimed at fostering economic innovations is cooperation with a non-profit institution named Agency of Strategic Initiatives for Promotion of New Projects (hereinafter — the Agency).

The Agency was launched in a relatively short time due to the Bank's financial support. Its activities are targeted at supporting unique socially important projects, medium business initiatives and new professional teams.

Within the Sochi-2011 X International Investment Forum, Vnesheconombank and the Agency concluded a Memorandum of Cooperation providing for delivery of New Business Projects. The parties intend to promote and implement unique business projects, improve entrepreneurial climate, identify and remove constraints to the development of medium businesses, disseminate best practices of entrepreneurial support among the Russian Federation constituent entities, create a positive image of New Business Projects for the Russian investment community.

In 2011, Vnesheconombank prepared and submitted to the Agency proposals for the procedure of selecting and administering the Agency's projects and initiatives. The Bank's specialized structural units scrutinized and monitored business reputation of some project initiators and prepared the respective monitoring conclusions.

Vnesheconombank also plans to offer the Agency investment consultancy services.

In 2011, in the context of Vnesheconombank's enhanced participation in the project on creating the Skolkovo Innovation Center (co-founded by the Bank in 2010), the Bank established the "Fund to Operate the Programme of Financial Support for the Skolkovo Fund's Innovation Projects" (VEB-Innovations Fund). VEB-Innovations Fund aims to facilitate projects by the Skolkovo Fund residents through financing (in the form of equity investment and loans) of the pre-investment stage of the respective innovative projects.

VEB-Innovations Fund is targeted at encouraging innovation programmes of the Russian Government, forming Russian innovation infrastructure, raising high-risk (venture) investment for Russian innovative companies, bringing foreign high technologies to Russia and promoting Russian innovative developments.

The resources allocated by VEB-Innovations Fund (totaling RUB 1 bn) will be channeled to finance the required scientific and technical expertise, elaboration of qualified business plans for commercialization of innovative developments and preparation of project documentation.

Vnesheconombank initiated the creation of a financial instrument to support dynamic medium innovation businesses — an international fund for entrepreneurship support. In July 2011, within the Russian-German intergovernmental consultations, Vnesheconombank signed a Memorandum of Understanding (MoU) with Kreditanstalt für Wiederaufbau (KfW) with regard to creating the above fund.

Vnesheconombank plans joint establishment of the fund together with the KfW. It is expected that foreign institutional investors will participate in forming the fund.

Cooperation Agreements on Modernizing Priority Sectors of Economy

Russia's rise to a new technological level is primarily contingent on the level of modernization of key national industries.

Vnesheconombank has signed a number of agreements reflecting the parties' intentions to participate in projects on development of space and rocket complex:

- Cooperation Agreement with the Federal Space Agency on the parties' interaction in developing new space technologies, elaborating and producing rocket and space equipment, enhancing energy efficiency and energy saving at the industry enterprises;

- Cooperation Agreement with OJSC Korolev Rocket and Space Corporation Energia envisaging interaction in investment projects and programmes in the rocket and space industry. The Agreement aims to reinforce cooperation ties between the participants in international space activities;

- Memorandum of Cooperation with OJSC Gazprom Space Systems on delivering an innovative project on building an orbiting group of Arktika-R radar satellites designed to develop the national satellite building and ground space infrastructure facilities.

In summer 2011, within the frameworks of St. Petersburg International Economic Forum, Vnesheconombank and the Russian Ministry of Energy concluded a Memorandum of Intent to establish an *Energy Finance Agency.* In line with the Memorandum, the parties intend to promote cooperation in creating in Russia an effective mechanism of raising off-budget funds for projects aimed at enhancing energy efficiency and energy saving.

In June 2011, Vnesheconombank and Renova Group of Companies entered into a cooperation agreement on implementing investment projects and programmes in biotechnologies, medicine and pharmaceuticals.

The Agreement expresses the parties' intention to cooperate in procuring and financing of projects and programmes on producing medical equipment and products, pharmaceutical raw materials and products, developing innovative biological and pharmaceutical technologies. The Agreement will result in reduced imports, development of high-tech products having no analogues in Russia, creation of new jobs and increased tax revenues channeled to the budgets of all levels.

To support the Partnership for Modernization initiated by the European Union and the Russian Federation, Vnesheconombank signed MoUs with the EBRD and European Investment Bank. The Memorandums reflect intentions of the financial institutions to give priority to projects hosted in Russia and related to *energy efficiency and telecommunications, as well as environmental, transport and SME support projects aimed at commercialization of innovations in the above industries.*

Expanding the Range of Instruments for Developing Investment Activities

In compliance with the Development Strategy, one of the key tasks facing Vnesheconombank is expanding the range of instruments for participating in investment projects. In 2011, to fulfill the task, the Bank established:

OJSC Far East and Baikal Region Development Fund — a development institution aiming to support projects on regional and municipal development and enhance investment attractiveness of the Far East and Zabaykalie Territory (12 constituent entities of the Russian Federation). Vnesheconombank is the sole founder of the Fund with charter capital of RUB 500 mn.

The Fund plans to focus on projects intended for removing infrastructure constraints to economic development of the region, including major projects on integrated social and economic development of the Far East and Baikal Region.

LLC RDIF Management Company — a company managing the funds of a closed mutual fund of long-term direct investment — *Russian Direct Investment Fund (RDIF)*. Vnesheconombank is the sole equity investor in the RDIF Management Company with charter capital of RUB 300 mn.

RDIF (hereinafter also the Fund) concentrates on raising foreign investor funds for projects on developing and modernizing the existing and constructing new production facilities in the key Russian industries. Foreign co-investment is one of the key criteria when making investment decisions.

Construction of Boguchansk HPP

GOALS

Increasing energy security of Siberia and ensuring uninterrupted power supplies for aluminum production through construction of a major in the history of post-Soviet Russia hydroelectric power plant (HPP)

Financing request for the project on construction of the Boguchansk HPP (within the investment project for integrated development of Nizhnee Priangarie approved by the RF Government Resolution No. 1708-r dd. 30.11.2006) is subject to consideration. Public resources from the Russian Investment Fund are to be procured.

1 PROJECT PROPOSAL

CAPABILITIES

Borrower — OJSC Boguchansk HPP. Project initiators — OJSC RusHydro and UC Rusal.

The Bank's Committee for Development of Investment Operations adopted a decision on expediency of a complex expert evaluation. The project is in the pipeline for VEB's funding consideration.

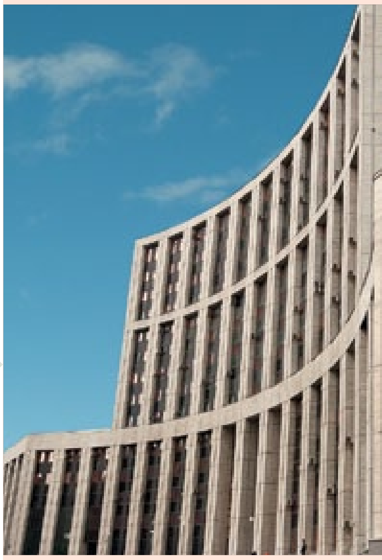
2 PRELIMINARY PROJECT EVALUATION

RESOURCES

Total project value, *RUB bn*	**72.5**
VEB's commitment, *RUB bn*	**28.1**

The Credit Committee produced a positive opinion in respect of the Bank's participation in financing the project.

The financing request was submitted to the governing bodies for consideration and approval.



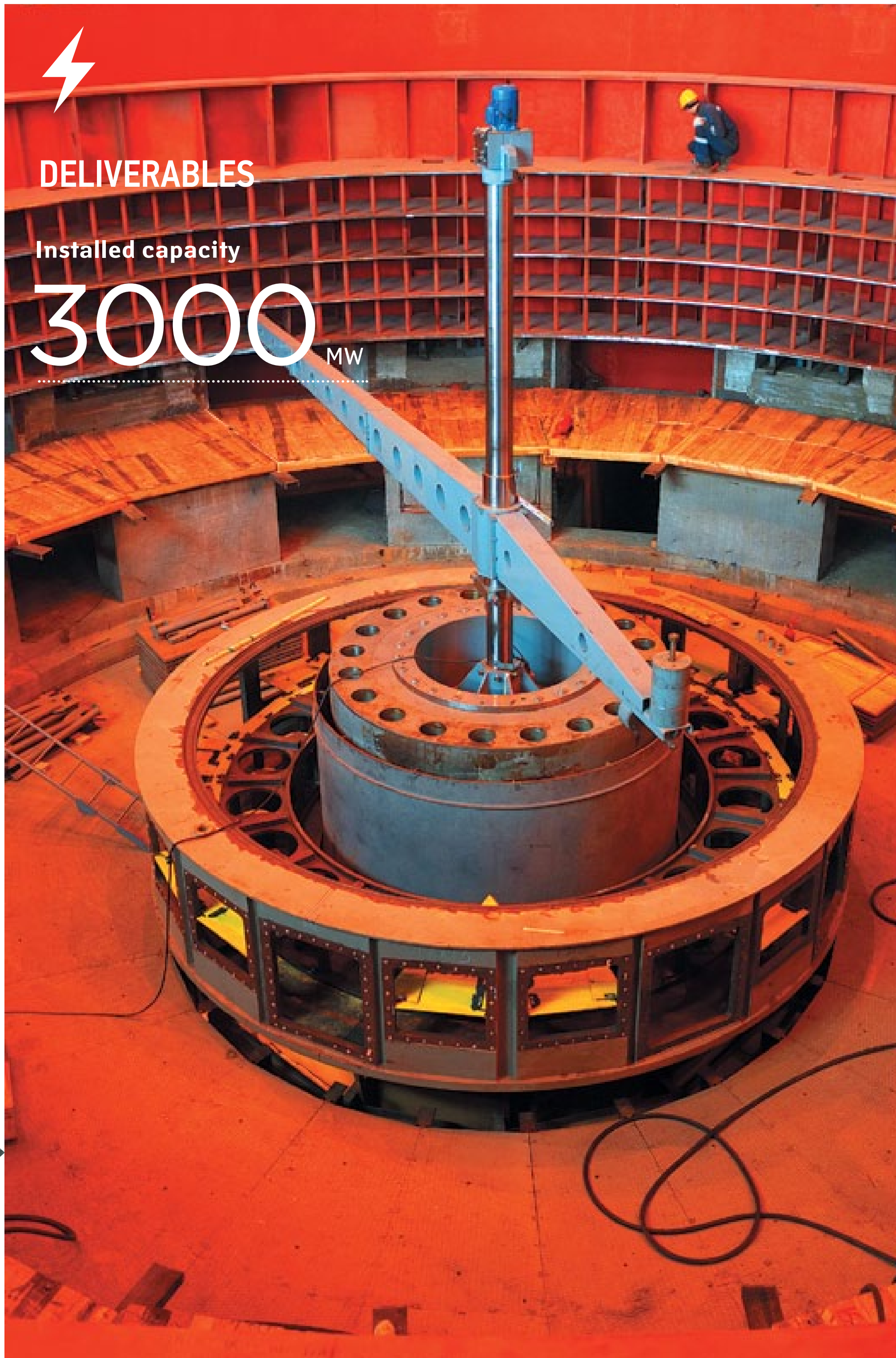
3 COMPLEX PROJECT EVALUATION

IMPLEMENTATION

Concrete dam	height	96 m
	length	828 m
Normal banked-up water level		208 m

The Bank's governing bodies approved financing of the project. On 1 December 2010, a loan agreement was concluded.

Continuous project monitoring by the Bank is ensured. In 2011, works were in progress to commission the first unit of the HPP (1000 MW) by the end of 2012.



DELIVERABLES

Installed capacity

3000 MW

4

FINANCING

5

PROJECT MONITORING AND ADMINISTERING

The target volume of the Fund amounts to USD 10 bn. The Fund will be formed using annual budgetary allocations amounting to USD 2 bn during 5 years.

In December 2011, Vnesheconombank made equity investment in RDIF totaling RUB 62.6 bn. The funds were allocated to the Bank as an additional asset contribution in the form of a subsidy (the federal budget funds).

At G20 summits, APEC and RABC forums, the leading foreign investors expressed considerable interest in projects implemented drawing on RDIF's resources.

In October 2011, RDIF Management Company, Vnesheconombank and Chinese Investment Corporation (CIC) signed a memorandum of cooperation in establishing a Russian-Chinese investment fund. RDIF and CIC plan to allocate USD 1 bn each at the establishment stage.

OJSC Russian Agency for Export Credit and Investment Insurance (OJSC EXIAR) — a financial institution engaged in insuring entrepreneurial and political risks of Russian exporters and investors. The Bank is the sole shareholder in OJSC EXIAR having charter capital amounting to RUB 30 bn.

OJSC EXIAR will be the 1st ECA in Russia's history. Exploring international practices worked out by specialized ECAs, OJSC EXIAR will insure against those risks that are not covered by private insurance companies, including transactional risks of the countries without credit ratings.

The Agency concentrates on supporting high-tech exports, innovation and high value-added industries.

At the end of 2011, OJSC EXIAR started its operational activities with signing insurance agreements related to exports of Russian machinery to China, India and Indonesia, with the total insurance limit standing at USD 15 mn.

Promoting Public-Private Partnership

A well-developed infrastructure, primarily in the energy, transport and social sectors, is an essential precondition for a progressive economic development.

The Bank views PPPs as one of the key instruments that help promptly remove infrastructure constraints to economic growth and ensure effective interaction between state and business in delivering state significant projects.

Over the past years, PPP development and practice dissemination have been central to the Bank's activities.

Programme of Financial Assistance to Regional and Municipal Project Development

In December 2010, Vnesheconombank's Supervisory Board adopted the Programme of Financial Assistance to Regional and Municipal Project Development (FARMPD) for 2011-2015. The Programme provides for annual target allocations amounting to RUB 2 bn. In January 2011, the Programme limit was increased from RUB 10 bn to RUB 10.9 bn.

The Programme will support project companies established by public and/or local authorities and engaged in procuring PPP projects in the social infrastructure (including legal documentation, feasibility study, design and estimate documentation).

Project operator is OJSC Federal Center of Project Finance (OJSC FCPF), a 100% subsidiary of Vnesheconombank. In December 2011, within the framework of the Programme, Vnesheconombank made an equity investment in charter capital of OJSC FCPF amounting to RUB 2.9 bn.

In 2011, the Bank formed a prospective portfolio of 16 projects. The project initiators expressed their interest in participating in the FARMPD Programme.

Investment Consulting to Meet State Needs of the Russian Federation Constituent Entities in Procuring PPP Investment Projects

In 2011, Vnesheconombank rendered investment consulting services for the projects on:

- construction and operation of municipal complexes for water and sewage treatment in Republic of Karelia. The Bank prepared an investment memorandum, a set of contract documentation and a project financial model, tender documentation;

- construction of general and preschool education facilities in Khanty-Mansiysk Autonomous District — Yugra. The Bank prepared an investment memorandum with a set of contract documentation and a project financial model enclosed, tender documentation; conducted market research to identify the range of potential investors.

In the reporting period, the Bank concluded the following contracts for rendering investment consulting services to meet state needs in procuring investment projects:

- construction of water and sanitation facilities for municipal entities (Chelyabinsk Region);

- construction and PPP operation of immovable and movable assets of a solid waste treatment plant (St. Petersburg);

- construction of kindergartens using the PPP solutions (Astrakhan Region);

- construction of a crossover bridge on the Volga river in Podnovie (Nizhny Novgorod Region).

At the end of 2011, Vnesheconombank was scrutinizing 96 investment consulting applications with regard to the projects to be delivered in 47 constituent entities of the Russian Federation and 2 Ukrainian administrative-territorial entities.

The Bank entered into agreements with administrations of Krasnoyarsk Territory, Saratov and Sverdlovsk Regions on cooperation in procuring 6 concession projects in water, sanitation and municipal heating infrastructures of the regions.

Vnesheconombank signed an agreement with the Government of Chechen Republic and Administration of Grozny on cooperation in preparing a project on modernizing and developing the infrastructure of Grozny agglomeration applying the PPP mechanisms.

The Bank signed a Memorandum of Intent with Administrations of Republic of Komi, Perm Territory, Arkhangelsk Region envisaging Vnesheconombank's participation in PPP structuring of a project on construction of a Belkomur trunk (Arkhangelsk — Syktyvkar — Perm (Solikamsk)).

Performing the Functions of a Financial Consultant to the Russian Federation Government for Projects Eligible for State Support out of the Russian Federation Investment Fund Resources

In performing its functions of a financial consultant to the Russian Federation Government[8], Vnesheconombank issued positive opinions on 11 applications for co-financing of investment projects eligible for budgetary allocations of the Russian Federation Investment Fund.

The Bank conducted quarterly monitoring of obligations under investment agreements within the framework of projects supported by the Investment Fund money and reported the results to the Russian Ministry of Regional Development.

Fostering Regional PPPs

Aiming to encourage investment activities and promote PPPs in the Russian regions, Vnesheconombank renders methodological and organizational assistance for the public authorities of Russian constituent entities in establishing the regional PPP centres and building their capacities.

8. Resolution of the Government of the Russian Federation No. 134 dated 01.03.2008.

In 2011, the Bank took part in establishing regional PPP centres in 7 Russian constituent entities. On the whole, at the end of the reporting period, 25 regional PPP centres were established.

Vnesheconombank's representatives participated in 30 regional conferences on PPP promotion and procurement with a view to increasing PPP information awareness of conference participants.

The Bank carried out expert evaluation of PPP regulatory frameworks of 20 Russian Federation constituent entities and participated in drafting laws governing the entities' PPP activities, with 17 of the above laws in effect at the end of 2011.

Within the joint project of Vnesheconombank and the UN Development Programme entitled "Development of Public-Private Partnership in Russia", the Bank drew up a new version of a model regional law on participation of an Russian Federation constituent entity in public-private partnership and formulated requirements for the respective regulatory framework.

Donor Fund

At the end of 2011, within the framework of the joint project between Vnesheconombank and the UN Development Programme[9], a decision on setting up a donor fund was taken.

9. The UN Development Programme (UNDP) is a leading UN organization engaged in providing international technical assistance to developing nations and countries with transition economies.

The Fund is supposed to be created with participation of Russian and foreign companies, Russian and international financial institutions, charity funds.

The Fund's resources will be allocated for:

- technical support for PPP project procurement by Russian constituent entities with low fiscal capacities;

- co-financing of PPP educational programmes and providing grants to civil and municipal employees for PPP training programmes;

- co-financing of research activities to upgrade the PPP regulatory base of the Russian Federation and its constituent entities;

- elaborating new PPP finance models and instruments and upgrading the existing ones.

PPP Training Activities

In May 2011, a PPP Chair started to operate at the Finance University under the Russian Federation Government. The Chair was established with the Bank's participation.

Alongside with educational programmes (student training), the Chair will offer seminars for public and municipal authorities and business entities' employees, as well as methodological guidance and scientific PPP research.

In 2011, an advanced professional training programme "Formation and Development of Public-Private Partnership in Russian Regions" was launched. In the year under review, the Programme was attended by 60 participants.

Besides, the Chair plans to launch the "Public-Private Partnership" Master Programme for 2012–2013 academic year.

In December 2011, Vnesheconombank signed an agreement on its participation in the UNECE International PPP Centre of Excellence designed as a platform to develop educational programmes and share the experience of PPP project procurement.

Activities of Representative Offices

Vnesheconombank is actively expanding its activities in the Russian regions and opens its representative offices depending on regional priorities.

Each representative office has its area of responsibility that covers the territory of several constituent entities of the Russian Federation.

At the beginning of 2011, Vnesheconombank had representative offices in St. Petersburg, Ekaterinburg, Pyatigorsk and Khabarovsk.

In 2011, the Bank opened its representative offices in Krasnoyarsk and Rostov-on-Don and made a decision on opening an office in Nizhny Novgorod.

The Bank's representative offices cover over 51 Russian constituent entities.

The offices focus on:

- identification and preliminary selection of investment projects, customer consultations on preparation of documents required by the Bank for project expert evaluation;

- participation in monitoring of investment projects financed by Vnesheconombank;

- representation of the Bank's interests when interacting with public authorities of the Russian Federation constituent entities and the business community;

- representation of Vnesheconombank subsidiaries' interests in the Russian regions to enhance their operating efficiency;

- participation in commissions, councils and working groups established by public authorities to increase business activities in the regions and identify investment projects;

- support for activities of regional development institutions.

In 2011, within the framework of activities envisaging identification and preliminary selection of investment projects eligible for financing in line with Vnesheconombank's Memorandum on Financial Policies, the Bank's representative offices assisted project initiators in preparing 21 applications for financing of investment projects totaling RUB 110.2 bn, with Vnesheconombank's projected commitment of RUB 79.5 bn.

To ensure sustainable integrated territorial development, create new sources of economic growth and improve the investment climate, the Bank's representative offices play a role as a "single window" in encouraging cooperation and coordinating interaction between VEB Group and the business community in the Russian regions.

2.3. Support for Small- and Medium-Sized Enterprises

For Vnesheconombank as a national development institution, assisting the state in delivering the SME support agenda is a priority task.

Vnesheconombank applies various SME support instruments and mechanisms. Actually, the SME Support Programme (hereinafter referred to as the "Programme") implemented through OJSC SME Bank — VEB's 100% subsidiary — has a key role to play. The Programme envisages lending to SMEs through the SME Bank's network of partners that include both partner-banks and organizations that form the SME support infrastructure (leasing, factoring and microfinance companies).

Vnesheconombank's strategic priority in delivering the SME support agenda is assisting SMEs engaged in innovative projects and those aimed at modernizing industrial production and enhancing energy efficiency. Priority is given to financing projects related to manufacturing new advanced competitive industrial goods, as well as projects that aim to improve, augment and replace basic models of industrial production.

To support the above projects, loans are extended to SMEs at the rate that is lower than the average one used within the entire Programme. As at 01.01.2012, the average weighted interest rate on loans extended within the Programme "Financing for Modernization and Innovation" reached 10.6%.

The Bank seeks to expand activities in regions characterized by an unfavorable eco-

SME Support Programme

"2008" programme implementation is being completed, planned amortization of the portfolio is underway	Crediting through partner-banks of SMEs engaged in industrial production for the purposes of acquiring, maintenance and modernization of fixed assets, expanding operating production facilities, further developing export operations and import-substitution.
"Refinancing"	Financing SMEs and SME infrastructure organizations through partner-banks (that, among other things, envisages extending loans to SMEs by the respective banks that use their own resources).
"Financing for Modernization and Innovation"	Financing of SME projects intended for creating and introducing innovation and technological modernization of production facilities

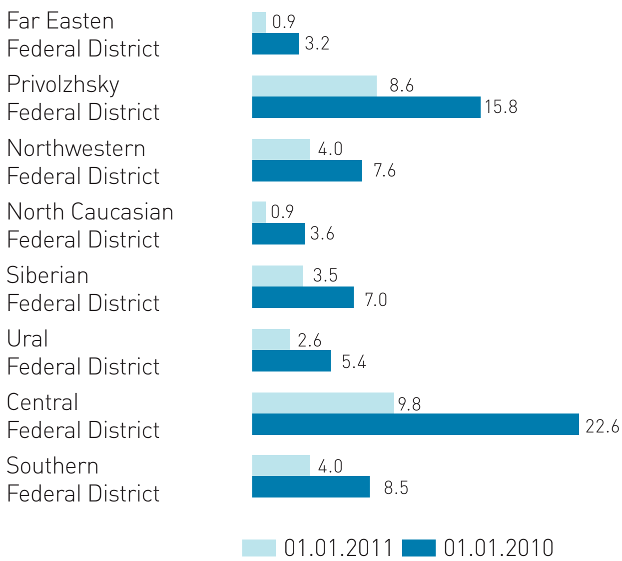
nomic climate, an underdeveloped SME support system and weak entrepreneurship activities. Thus, throughout 2011, the amount of credits extended by partner-banks to SMEs of the North Caucasian Federal District increased by 4 times.

The total amount of SME support rendered by Vnesheconombank for the purpose of the Programme implementation reached RUB 49 bn. The funds include a RUB 10 bn equity investment in the OJSC SME Bank's charter capital and long-term credits amounting to RUB 39 bn. These include RUB 30 bn — 8 year-term credits, with the NWF's resources serving as a source of funding (extended with a zero margin for Vnesheconombank), as well as a 10 year-term subordinated credit amounting to RUB 9 bn (the interest rate — 2/3 of the CBR refinancing rate fixed as at the date of the credit extension).

Vnesheconombank continued efforts to implement the Agreement concluded in 2010 on interaction between development institutions and stakeholders to ensure continuous financing of innovative projects at all the phases of the innovation cycle[10]. The participants in the Agreement include Vnesheconombank (the initiator), OJSC SME Bank, GK Rosnanotech, OJSC Russian Venture Company, the Fund for Assistance to SME Development in Scientific and Technical Sphere, the Russian Association of Venture Investment, CJSC Moscow Interbank Currency Exchange, the all-Russia public organization of small and medium entrepreneurship "OPORA Rossii" and the Federal Agency for Youth Affairs.

10. The respective Agreement was concluded on April 6, 2010.

Loans Extended to SMEs by Partner-banks and Infrastructure Organizations (by regions), RUB billion



Major Outcomes of the Programme[11]	As at 01.01.2012, 229 partners, including 111 banks and 118 infrastructure organizations that had loan agreements with OJSC SME Bank effective as at that date (as at the beginning of 2011 — 216), participated in the Programme.
	The total amount of SME financing under the loan agreements with partner-banks (effective as at 01.01.2012) totaled RUB 121.3 bn. Apart from this, in conformity with the terms of the agreements, the partners' commitment to SME support amounted to RUB 44.0 bn.
	Throughout 2011, the amount of SME support rendered by partner-banks and infrastructure organizations more than doubled: the amount of indebtedness under credits extended to SMEs as at 01.01.2012 totaled RUB 73.7 bn (01.01.2011 — RUB 34.3 bn).
	The amount of loans extended by partners of OJSC SME Bank for a term exceeding 3 years reached RUB 30.2 bn (as at 01.01.2011 — RUB 8.7 bn), with the respective share in the overall amount of loans increasing from 25.2% to 40.9%.
	As at 01.01.2012, the average weighted interest rate on the SME Bank credit portfolio in the reporting period decreased from 13.7% to 12.33% per annum.
	In the sectoral structure of credits to SMEs extended within the Programme through the OJSC SME Bank, credits extended to the non-trading sector accounted for the bulk of financing — 58%, inclusive of credits extended to SMEs operating in the industrial production — 20%.
	As at 01.01.2012, the geographic reach of the Programme embraced all the 83 constituent entities of the Russian Federation
Major outcomes of SME support for companies involved in innovation and modernization projects	The amount of funds extended for innovation and modernization projects over the reported period increased by 2.3 times and, as at 01.01.2012, reached RUB 26.5 bn (01.01.2011 — RUB 11.4 bn)
	The aggregate share of credits extended to SMEs operating in this area amounted to 36.0% (01.01.2011 — 33.2%)

In 2011, the Skolkovo Fund joined the Agreement. Joint work of the participants in the Agreement with the Agency of Strategic Initiatives and the Russian Fund for Technological Development was arranged.

Vnesheconombank came up with the initiative to create a financial instrument to support dynamically developing medium-sized innovative enterprises — an international fund for entrepreneurship support. The Fund is planned to be established in cooperation with the KfW and with participation of foreign institutional investors. In July 2011, in the course of Russian-German intergovernmental consultations, a MoU with KfW to identify opportunities for the establishment of the respective fund was signed.

Management recognizes that in encouraging enhanced scale and scope of SME support, Vnesheconombank's cooperation with international and foreign financial institutions, including KfW, the European Bank for Reconstruction and Development (EBRD), Intesa Sanpaulo SPA

11. The results are given based on the OJSC SME Bank data.

Outcomes of Activities in 2011	As at 01.01.2012, more than 100 projects approximating to RUB 25 bn were at various stages of delivery;
	Schemes of joint support for projects by the Agreement participants with the use of various investment instruments were worked out and tested;
	In accordance with the instruction of Dmitry Medvedev, the then President of the Russian Federation, a comprehensive programme designed to emphasize the importance of innovation and invention for 2012 and 2013 was devised.

and UBI Banka (Italy), Zuercher Kantonalbank (Switzerland) and Export-Import Bank of India was most instrumental.

The agreements envisage extension by the respective financial institutions of long-term credits amounting to EUR 1 bn under Vnesheconombank's guarantees to Russian commercial banks for subsequent financing of SMEs, including those engaged in export-import operations with counteragents from Europe and India.

As at 01.01.2012, largely due to these efforts, the amount of guarantees extended by Vnesheconombank to Russian banks in favor of KfW reached USD 60.4 mn.

SME Development Agreements Concluded by Vnesheconombank in 2011

- An agreement with esterreichische Kontrollbank Aktiengesellschaft (an Austrian development bank) that concerns extension of guarantees, sureties and credits to credit organizations and legal entities engaged in rendering SME support in the Russian Federation for the purpose of developing industry, innovations, enhancing energy efficiency and creating new jobs;

- A MoU with the French state agency OSEO intended for establishing long-term cooperation in rendering support to SMEs, including those engaged in innovative activities;

- A MoU that concerns the creation of Montreal Group of development institutions with participation of financial development institutions of Brazil, Canada, China, Germany, Mexico, France and India. The major goal of the document is facilitating the development of micro-, small- and medium-sized enterprises, as well as establishment of a global platform for exchange of advanced experience in the respective area;

- An Agreement on cooperation in SME support between Vnesheconombank, OJSC SME Bank and the Ukrainian Union of Industrialists and Entrepreneurs to bolster SME support in Russia and Ukraine by way of introduction of advanced SME support mechanisms drawing on the experience of both states.

In 2011, arranging training seminars for Russian entrepreneurs based on the methodology AMPRETEK within the framework of Vnesheconombank's cooperation with the UN Conference on Trade and Development (UNCTAD) was an important move forward in non-financial SME support.

2.4. Vnesheconombank's Programme of Investments in Affordable Housing Construction and Mortgage Projects

In 2011, the Bank proceeded with implementation of the Programme of Investments in Affordable Housing Construction and Mortgage Projects (the Programme), which aims to boost mortgage lending and increase its affordability for broader segments of population.

The Programme provides for RUB 250 bn worth of total investments to include:

- up to RUB 150 bn, (up to RUB 50 bn worth of Vnesheconombank's own resources and up to RUB 100 bn worth of pension savings managed by Vnesheconombank as the state trust management company (hereinafter, STMC's funds)) — in mortgage-backed bonds;
- up to RUB 60 bn (STMC's funds) — in state-guaranteed bonds of OJSC AHML;
- up to RUB 40 bn — NWF's resources allocated to Vnesheconombank in compliance with Federal Law No. 173-FZ to finance OJSC AHML.

Furthermore, Vnesheconombank's Supervisory Board approved a concept to stimulate the construction of affordable housing (hereinafter, the Concept). The Concept provides for the Bank's refinancing of loans extended to developers of economy class housing at the rate not exceeding 10% p.a. by credit institutions participating in the Programme. Loans for such purposes are to be extended at the rate of 3% p.a. for the period of up to 31.12.2013 in the amount not exceeding 1/3 of the resources made available to a credit institution under the Programme.

Over 2011, Vnesheconombank:

- acquired mortgage-backed bonds for the amount of RUB 2.8 bn using its own funds and RUB 5.6 bn using pension savings;
- acquired bonds of OJSC AHML guaranteed by the Russian Federation, for the amount of RUB 19.7 bn using pension savings;
- extended a loan to OJSC AHML in the amount of RUB 37 bn at the rate of 6.5% p.a. (overall, Vnesheconombank has extended RUB 40 bn since the launch of the Programme). The source of financing — NWF;
- issued guarantees for the total amount of RUB 75 bn valid till the end of 2013 in favour of the mortgage-backed bond issuers to secure obligations of LLC VEB Capital under agreements on services related to placement of bond issues;
- made available to OJSC Gazprombank monetary funds totaling RUB 3.0 bn at the rate of 3% p.a. (maturing in 2012–2013) to refinance loans extended to developers of economy class housing.

In accordance with the decision made on depositing pension savings with commercial banks that comply with the applicable legal requirements for pension savings investment and participate in the Programme, as at 01.01.2012, Vnesheconombank deposited RUB 11 bn worth of pension savings with two Russian banks.

2.5. Vnesheconombank's Educational Projects on Investments

To improve training quality and increase qualifications of investment specialists, Vnesheconombank goes ahead with the project on training participants in investment projects supported by development institutions. The year 2011 witnessed 12 educational events that provided training for more than 800 representatives of the Russian public authorities, companies and the expert community. The major events include:

- regional practical seminars: "Vnesheconombank: Far East Development Projects"; "Vnesheconombank: Siberian Federal District Development Projects"; "Vnesheconombank: Urals Federal District Development Projects"; and "Vnesheconombank: Northwestern Federal District Development Projects" intended for a wide range of businesses operating in these districts;

- professional development courses "Investments in Development Projects" using the facilities of the Russian Presidential Academy of National Economy and Public Administration. The course participants comprised employees of enterprises, consulting firms, as well as public and municipal authorities from various Russian regions;

- work of Vnesheconombank's consulting centre at the Seliger-2011 All-Union Educational Forum and arrangement of the best innovation project contest for participants in the Innovation and Technical Creativity shift;

- work of the educational service "How to Procure and Effectively Manage an Investment Project: Vnesheconombank and its Partners' Successful Practice" within the framework of the "Engineers of the Future 2011" First International Youth Industrial Forum in Irkutsk Region. The aim of the service was to teach investment management basics to young engineers, engineering and technical students and postgraduates.

The Bank implemented a number of educational projects in cooperation with foreign development and financial institutions.

With a view to implementing the Agreement on cooperation in HR training and experience exchange between SCO IBC member-banks, the Bank held training for heads and specialists from JSC Development Bank of Kazakhstan and National Bank for Foreign Economic Activity of Republic of Uzbekistan. During the training, Vnesheconombank detailed the participants on its priority business lines, major investment projects implemented with its participation, as well as on selection principles and criteria applied to investment projects by Vnesheconombank.

Furthermore, Vnesheconombank organized a seminar on banking risks management for a delegation from the China Development Bank. The seminar was designed to encourage cooperation between the banks both on a bilateral basis and within SCO IBC and BRICS framework.

2.6. Support for Russian Exports

Production of commercially viable goods and their promotion in the global markets is one of

BACK TO CONTENTS

the essential prerequisites for successful economic development.

Today, only 0.5% of the Russian companies are exporters, with oil and petrochemicals accounting for 61% of the Russian exports and high value-added goods — for only 5% .

In the global hi-tech exports, Russia's share does not exceed 0.3%–0.4%.

Traditionally, much of Vnesheconombank's attention is given to supporting exports of enterprises of the military and defence complex, aircraft, transport, special and power engineering industries.

The Bank uses various tools to support Russian exports. In particular, it extends loans for pre-export financing of the Russian hi-tech production and export credits to foreign borrowers, issues guarantees, draws and confirms letters of credit.

As at 01.01.2012, the Bank granted RUB 7.0 bn in loans to promote Russian production in foreign markets and issued RUB 44.6 bn worth of guarantees.

In 2011, to acquire the Russian made equipment and other products, the Bank extended a number of loans, in particular:

- in the amount of USD 1.2 mn under a syndicated loan facility to HIDROTOAPI E.P. (Republic of Ecuador) to finance the Ecuadorian party's expenses associated with purchasing Russian power engineering equipment under a foreign trade contract between the said company and OJSC INTER RAO UES. The contract for the delivery of Russian products is associated with the Toachi-Pilaton project to be delivered in Republic of Ecuador. The syndicated loan was arranged by CJSC ROSEXIMBANK. Other participants in the loan syndication include OJSC Gazprombank, Gazprombank (Switzerland) Ltd, Russian Commercial Bank (Cyprus) Ltd.;

- in the amount of USD 8.9 mn under a loan facility to OJSC Belvnesheconombank to finance expenses of Brestenergo, a republican unitary enterprise (Republic of Belarus), associated with purchasing Russian power engineering equipment under a foreign trade contract with OJSC Teploenergoservis (Russian Federation).

A major export credit with Vnesheconombank's participation is the one to be extended to the Ministry of Telecommunications and Information Technologies of Republic of Angola to finance the project on construction in Angola of the national satellite telecommunication system (Angosat project). The system is produced by OJSC Korolev Rocket and Space Corporation "Energia".

In the reporting period, the Bank also negotiated the financing of Sukhoi Superjet 100 export deliveries to Armenia, Indonesia, Mexico, Laos and Italy. Alongside that, Vnesheconombank scrutinized projects involving export credits for delivery of the An-148/158-family aircraft produced in cooperation with Ukrainian manufacturers to Nicaragua and Cuba, as well as transport machine-building products — to Ukraine and Kazakhstan.

Establishment by Vnesheconombank in 2011 of the Russian Agency for Export Credit and Investment Insurance (OJSC EXIAR) is the event, the importance of which for the Russian economy could hardly be overestimated.

The Agency was established in compliance with the Major Guidelines for the Russian Foreign Economic Policy up to 2020, Russian Government's Action Plan to Implement in 2009-2012 Major Guidelines for the Russian Foreign Economic Policy up to 2020, and in pursuance of the Instruction by Russian President Dmitry Medvedev as to Creation of Export Credit and Investment Insurance System.

The major objective of OJSC EXIAR is to insure Russian exporters and investors against business and political risks. The Agency offers customers an option of insuring both a seller and a buyer and the banks that finance delivery on the part of both the exporter and the importer. In fact, the project support will be ensured at every phase of the project life cycle.

At the end of 2011, OJSC EXIAR concluded insurance contracts related to the Russian machine-building exports with the total insurance limit of some USD 15 mn.

In order to promote international cooperation and experience exchange on the exports support, Vnesheconombank actively interacts with a number of leading export credit agencies, as well as international institutions, unions and associations engaged in export credit insurance.

In the reporting period, Vnesheconombank took part in the meeting of Prague Club of Export Credit and Investment Insurers (November 2011, Muskat, Oman), OECD Working Group on Export Credits and Guarantees (April 2011, November 2011, Paris, France). These events comprised the presentation of OJSC EXIAR and discussions about Vnesheconombank's role and place in the export support system.

During the G20 Conference on Export Financing (June 2011, Paris, France) organized by the French Ministry of Economy, Finance and Industry, Vnesheconombank, COFACE (France) and SACE (Italy) signed a trilateral Cooperation Agreement. The Agreement is designed to help create an integrated system to finance international sales of Sukhoi Superjet 100 aircraft using a credit leasing financial structure against COFACE and SACE insurance coverage.

2.7. Borrowings in Capital Markets

During 2011, Vnesheconombank continued dedicated efforts to build up its long-term resource base.

To this end, Vnesheconombank was borrowing in the capital markets both through raising loans from foreign banks and issuing debt securities as major sources to replenish and increase the resource base.

The amount of mid- and long-term loans (with maturities exceeding 1 year) raised in the period under review reached RUB 182.4 bn.

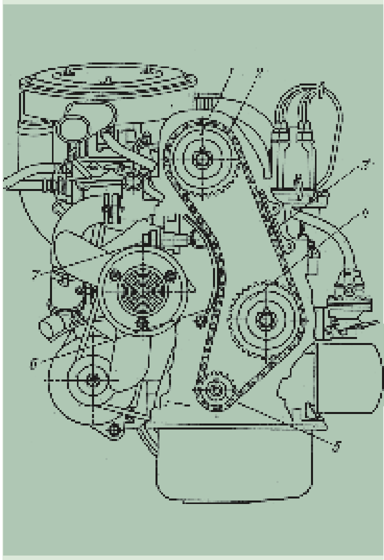
As at 01.01.2012, the amount of mid- and long-term resources (with maturities of 1 year

Creating and organizing the production of a new YAMZ-530 engine family

GOALS

Fostering innovations through the development of a new competitive family of diesel engines adopting the advanced world experience in product design and testing

Financing request for the project on organizing the production of a new family of YAMZ-530 diesel engines is subject to consideration.



1

PROJECT PROPOSAL

CAPABILITIES

Borrower — OJSC Avtodizel (GAZ Group).
Project initiator — OJSC Russian Machines

The Bank's Committee for Development of Investment Operations adopted a decision on expediency of a complex expert evaluation. The project is in the pipeline for VEB's funding consideration.

2

PRELIMINARY PROJECT EVALUATION

RESOURCES

Total project value, *RUB bn*	**9.99**
The Bank's commitment, *RUB bn*	**5.8**

The Credit Committee produced a positive opinion in respect of the Bank's participation in financing the project. The financing request was submitted to the governing bodies for consideration and approval.

3

COMPLEX PROJECT EVALUATION

IMPLEMENTATION

Advanced equipment of world's leading technology companies

Thyssen Krupp Krause

JW Froehlich

Grob Werke

The Bank's governing bodies made a decision on financing the project. On 12 October 2010, a loan agreement was concluded. Continuous project monitoring by the Bank is ensured. In November 2011, the construction of the industrial site was completed.

DELIVERABLES

Increased resource up to

900 thousand km

Compliance with

Euro-4 and **Euro-5** standards

4

FINANCING

5

PROJECT MONITORING AND ADMINISTERING

Equivalent to RUB, bn	01.01.2011	01.01.2012
Funds raised through placements of debt securities, total	153.0	174.6
Including:		
Amount of Eurobonds issued (maturity — 5, 7, 10 and 15 years)	97.5	119.6
Amount of domestic foreign currency-denominated bonds (maturity — 1 year)	30.5	–
Amount of domestic ruble-denominated bonds (maturity — 10 years, with 3-, 5- and 7-year blackout periods)	25.0	55.0
Amount of credits obtained from banks (maturity — over 1 year)	104.4	227.5
Amount of resources raised in capital markets, total	257.4	402.1

and exceeding 1 year) totaled RUB 402.1 bn (+56% on the same indicator as at the start of the reporting period). At the same time, the amount of funds raised (with maturities exceeding 5 years) grew by 1.7 times as compared to the start of 2011 to reach RUB 289.8 bn.

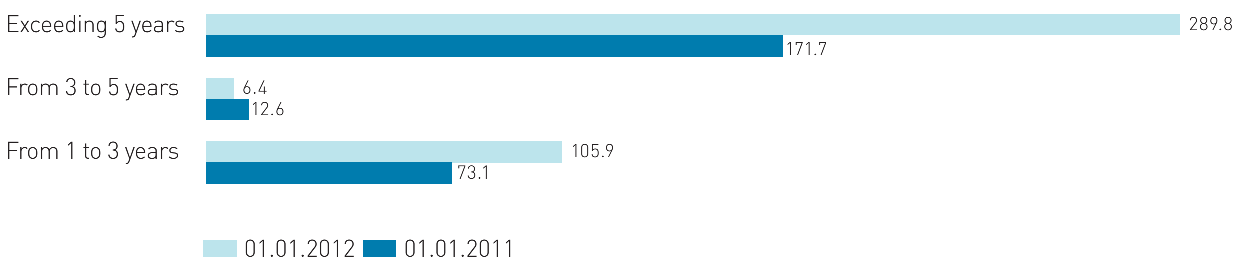
Raising Resources with the Use of Securities Market Instruments

Vnesheconombank's borrowing portfolio includes the Russian rouble-, US dollar- and Swiss franc-denominated debt securities issued in the domestic and foreign capital markets.

In February 2011, Vnesheconombank placed CHF 500 mn worth of 5-year Eurobonds (the coupon rate — 3.75% p.a.). Barclays Capital and BNP Paribas acted as joint lead managers. Thus, having placed the *"longest" Swiss franc-denominated Eurobond issue*, Vnesheconombank sets a new benchmark (minimum coupon rate) in the capital market for borrowers representing emerging nations.

Fitch Ratings and Standard&Poor's, international rating agencies, assigned the issue BBB/BBB ratings respectively, with the Eurobonds

Structure of Funds Borrowed in Capital Markets by Maturity, RUB billion



placed among a wide range of prime rate institutional long-term investors.

Also, in 2011, the Bank placed in the domestic market 2 issues of 10-year ruble-denominated bonds with the nominal value of RUB 15 bn each (the blackout period — 5 years, the coupon rate 7.9% and 8.5% p.a. respectively).

December 2011 saw the registration of 5 Series of domestic foreign currency-denominated Vnesheconombank's bonds with the total nominal value of USD 3 bn maturing in 3 years.

Raising Resources from Foreign Banks

As at 01.01.2012, the amount of funds borrowed in the form of loans with maturities exceeding 1 year reached an equivalent of RUB 227.5 bn (RUB 104.4 bn — 01.01.2011).

Admittedly, launching in April 2011 the *biggest in the Bank's history syndicated loan facility* (USD 2.45 bn; Libor (6m) + 1.3%) in the format of a Club Deal became a hallmark event of the year. Remarkably, 19 banks acted as creditors.

Apart from it, in the year under review, within the framework of bilateral agreements and club deals with a number of foreign banks in order to finance investment projects, Vnesheconombank raised the sum equivalent to RUB 70.5 bn of mid- and long-term "tied" credits that is a 9-time rise on the similar indicator of 2010 (RUB 7.8 bn).

The major "tied" deals of 2011 comprised credit agreements with:

- Japan Bank for International Cooperation (USD 1.0 bn, tenor — 14 years); with a club of foreign banks headed by Sumitomo Mitsui Banking Corporation (USD 0.5 bn, tenor — 5 years) to finance a project for construction of an integrated complex to produce ammonia, methanol and granulated carbamide in Mendeleevsk, Republic of Tatarstan;

- HSBC Bank plc (RUB 6.7 bn, tenor — 10 years) to finance a project for construction of a cement plant with the capacity of 3.5 mn tons), Kaluga Region

- Deutsche Bank AG (RUB 601 mn, tenor — 7 years) to finance a project for construction of a pig breeding complex in Voronezh Region.

Overall, the year 2011 witnessed the signing of loan agreements that stipulated raising by Vnesheconombank from foreign banks of mid- and long-term credit resources (including those under the cover provided by ECAs) in the total amount equivalent to USD 2.9 bn.

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

The documents regulating Vnesheconombank's activities stipulate engagement in operations in the domestic and foreign financial markets with a view to placing temporary idle funds and managing risks. Annually, Vnesheconombank's Supervisory Board sets the limits for temporary idle funds (liquidity) management.

To this end, Vnesheconombank performs operations in the FX, interbank money markets and securities markets: places and raises short-term ruble and foreign currency-denominated loans, engages in FX operations and deals to manage its securities portfolio, effects REPO deals, as well as those with 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 careful analysis of the current and forecast market environment.

3.1. FX and Interbank Money Market

In 2011, just as in 2010, Vnesheconombank engaged in activities in the FX and interbank money markets against the backdrop of high volatility of exchange rates of major global currencies.

In H1 2011, in the circumstances of a temporary stabilization of the European crisis, the euro was gaining against the dollar from 1.29 to 1.49. But starting from August 2011, the deepening crisis in some of the Eurozone countries brought about the weakening of the euro to the level of EUR/USD 1.295.

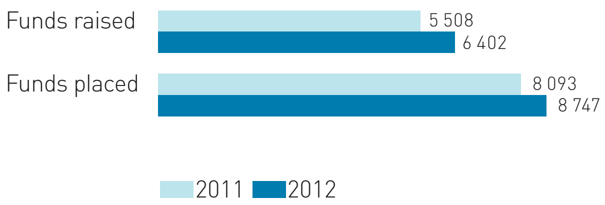
Over the year, the range of the USD/RUB exchange rate fluctuation demonstrated similar dynamics. Gains for the ruble against the dollar from 30.48 to 27.26 witnessed in H1 of the year were followed by the ruble weakening against the dollar to 32.67 to finally stand at 32.20 at the end of 2011. Actually, September 2011 saw the worst weakening of the ruble (1 EUR = RUB 43.86). But thanks to the gradual rouble gains at the end of the reporting period EUR/RUB was eventually standing at 41.67.

The Bank's committed efforts to raise resources in the capital markets and a well-thought-out approach to replenishing the resource base (in terms of currencies) motivated a decrease in the volumes of Vnesheconombank's FX operations.

In 2011, the overall turnover under the Bank's FX operations was posted at RUB 6 719 bn (RUB 11 000 bn — 2010), including a decline in "currency swap" operations to RUB 4 050 bn (RUB 8 417 bn — 2010).

As a matter of fact, placement of ruble- and foreign currency-denominated funds for a term of 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.

Turnover of Money Market Operations
(short-term interbank loans)



Notably, at the end of the year, the overall turnover of funds placement in the interbank market totalled RUB 8 093 bn, while the overall volume of funds raised (less long-term and "tied" credits) reached RUB 5 508 bn.

Major Russian banks were Vnesheconombank's counterparts in the interbank money market.

3.2. Managing Securities Portfolio

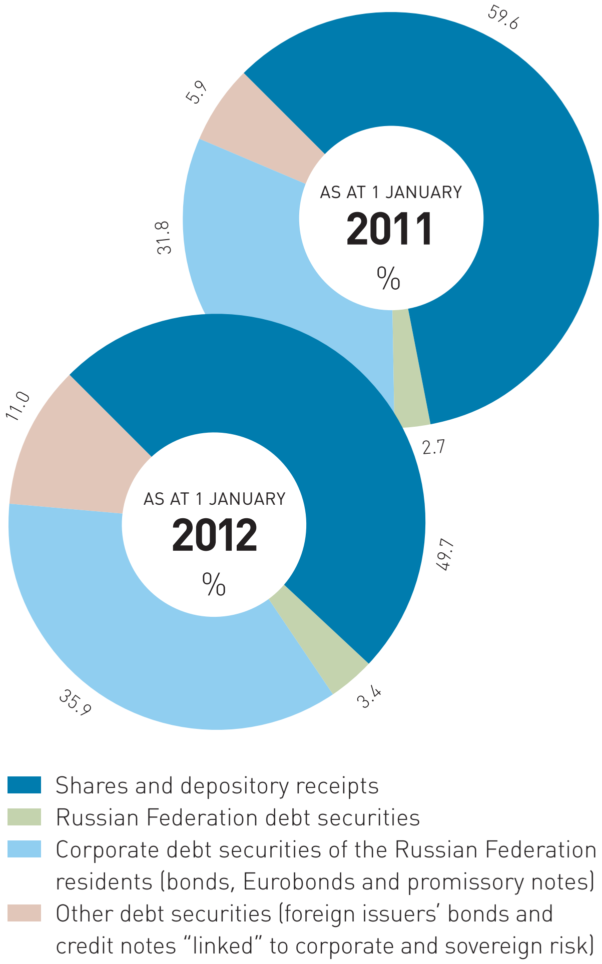
Over 2011, the price dynamics in the Russian stock market was negative following the major trends witnessed in the global stock markets. In the circumstances of the risk aversion sentiment demonstrated by investors and the withdrawal, among other things, from the stock markets of the emerging nations, the Russian Trading System (RTS) index posted a 22% decrease from 1770 to 1380 points, with the index hitting its maximum value (2134 points) in April and dropping to a minimum one (1200 points) in October 2011.

In this situation, the structure of the Bank's securities portfolio was adjusted in favor of reduced investment in shares and depository receipts and increased investment in debt securities deemed to be most credible instruments.

The portfolio is diversified by types of securities and issuers, with the liquid instruments of most credible Russian issuers making the bulk of investments. Vnesheconombank's securities portfolio includes debt and equity securities: the Russian Federation government bonds, corporate debt securities of the Russian residents (bonds, Eurobonds and promissory notes) and foreign issuers' bonds, sovereign and corporate risk-linked notes, shares and depository receipts.

As at 01.01.2012, the amount of the securities portfolio totaled RUB 474.1 bn.

Securities Portfolio
(by instruments)



4 Depository Activities

VNESHECONOMBANK'S DEPOSITORY IS NOTED FOR:

- a high level of automation of processes;
- convenient time of payment order acceptance;
- speedy instruction execution;
- a wide range of client report formats;
- a system of client manager in place;
- electronic communication through SWIFT;
- "Bank-Client-Depo" system in place

Since 1999, Vnesheconombank has been providing a universal range of depository and settlement services to securities market participants in respect of securities that are traded in the Russian market and in the markets of more that a 100 countries globally.

Vnesheconombank opened direct interdepository accounts with Euroclear Bank and Clearstream Banking (international depositories), the Bank of New YorkMellon (a major global custodian bank), with the leading Russian depositories.

Also, the accounts of a nominal holder were opened for the Bank with shareholders' registers that are maintained with 23 registrar companies. The Bank has its own certified vault for safekeeping certificates of documentary securities.

Vnesheconombank's Depository (hereinafter — the Depository) opens various category depo accounts for the clients: owner accounts, trustee accounts, pledge holder accounts, inter-depository accounts, issuance accounts.

The Depository carries out electronic online communication with other depositories that perform the function of a vault for securities safekeeping ensuring thereby speedy and reliable settlements and document turnover.

As at 01.01.2012, the overall number of client depo accounts maintained by the Depository was running at 885. In 2011, 48 new client depo accounts were opened. The number of depository operations over the client accounts in 2011 made 19 941 (in 2010 — 17 703).

Vnesheconombank's Depository acts as a designated depository and the payment agent for the Russian Federation Ministry of Finance in the market of MinFins and the Russian Federation Eurobonds.

A NEW SERVICE PROVIDED BY THE DEPOSITORY SINCE 2011

Conversion of foreign issuers' securities into the Russian depositary certificates and a reverse conversion.

In May 2011, in accordance with the terms of the domestic government currency-denominated bond issue (hereinafter referred to as Minfin bonds issue) Vnesheconombank, acting as the agent for the Russian Federation Ministry of Finance, made a redemption of the last remaining in circulation VII Tranche of Minfin bonds in the amount of USD 1.75 bn at par value, as well as paid out yield on the last coupon of the respective bonds.

Over the period under review, Vnesheconombank, drawing on the federal budget funds, made coupon payments, as well as payments of principal amounts under the IV-V Tranche Minfin bonds, when the bonds were presented to Vnesheconombank by 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 MinFins in 2011 reached USD 1.28 mn.

Vnesheconombank acts as a payment agent under corporate bond issues that are backed by the sovereign guarantees of the Russian Federation.

In 2011, Vnesheconombank acting as the payment agent to service bonds of OJSC AHML, effected payments under the bonds of the issuer amounting to RUB 5.0 bn. OJSC AHML's bonds are guaranteed by the Russian Ministry of Finance.

Also, the Depository effects a wide spectrum of operations with securities that serve as a collateral under credits and guarantees extended by the Bank. Apart from that, Vnesheconombank's professionals keep depository records of the Bank's proprietary operations with securities and Vnesheconombank's operations as the STMC to manage the pension savings.

5 Agent for the Government of the Russian Federation

In 2011, 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 external state 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.

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

In the period under review, the Bank developed and prepared analytical opinions on settlement of the sovereign foreign debt and management of the state external financial assets. Proposals on trade-economic and scientific-technical cooperation of the Russian Federation with foreign countries for inclusion into the agenda of 23 meetings and sessions of intergovernmental bodies (or committees and subcommittees established within their framework) were worked out.

The Bank's specialists were directly involved in the international negotiation process. Also, the Bank's representatives participated in the work of the Russian delegation at all the 9 sessions of the Paris Club of creditors, in the annual Club meeting with a number of sovereign creditors and the representatives of the private sector, as well as in multilateral negotiations of the Paris Club with Guinea Bissau and Cote d'Ivoire. Based on the results of the negotiations, multilateral protocols of the Club with the debtors were signed. In 2011, Vnesheconombank, acting on the instructions of the Russian Federation Ministry of Finance, headed the Russian delegation at 4 sessions of the Paris Club of creditors.

5.1. Servicing the Sovereign Foreign Debt of the Russian Federation

As at January 1, 2012, the amount of the foreign sovereign debt of the Russian Federation recorded on Vnesheconombank's books totaled USD 32.3 bn (as at 01.01.11 — USD 36.0 bn).

Over the reporting period, Vnesheconombank in due time effected payments totaling USD 5.1 bn (drawing on the Russian Federation budget funds) in redemption and servicing of the Russian Federation sovereign foreign debt. In particular, the Bank made payments totaling USD 3.6 bn in redemption of the principal amounts, as well as coupon payments under the Russian Federation Eurobonds.

In 2011, the Bank's professionals kept records, carried out servicing and made payments in redemption of the indebtedness under 33 "tied" credits (foreign trade contracts under which the Russian organisations were importers of goods and services) extended by foreign counteragents under the Russian Federation Government guarantees after January 1, 1992. Payments amounting to USD 159.3 mn in favour of creditors of Germany, Turkey, France and Japan were effected. In 2011, settlements under the credits extended by French banks were fully completed.

Also, scheduled payments totaling USD 119.1 mn under the financial credit raised from Japan Bank for International Cooperation, Tokyo, were made.

Within the framework of the 3rd closing stage of the exchange of the former USSR commercial debt for foreign currency-denominated bonds of the Russian Federation, which were recorded on Vnesheconombank's books, as a result of the reconciliation procedure a number of creditors' claims filed against the Russian Federation and Vnesheconombank were not recognized as eligible for settlements and were accordingly submitted for court consideration. In 2011, Vnesheconombank's professionals duly provided the Russian Federation Ministry of Finance with all the documentation required for presenting a well-motivated legal position to advocate the interests of the Russian Federation and Vnesheconombank during the respective court proceedings.

In accordance with the instructions of the Russian Federation Ministry of Finance and the Russian Federation Government Executive Office, Vnesheconombank's professionals participated in agreeing the draft Directive of the Russian Federation Government on completion in 2012 of settlements with holders of debt claims that were recognized as compliant to the criteria of the former USSR commercial indebtedness and are eligible for restructuring. The Russian Federation Government approved the respective Directive in December 2011 (No. 2418-r dd. 28.12.2011).

In conformity with the Russian-Finnish agreement on repayment of debt previously settled within the framework of arrangements with the Paris Club of creditors by way of effecting "debt-for-goods-swap" operations, the redemption of indebtedness continued through the goods delivery schemes.

Alongside that, record-keeping/settlement support was provided for operations related to redemption of Russia's debt towards creditor-countries beyond the framework of the Paris Club. Overall, USD 401.5 mn worth of this foreign debt category was redeemed.

In 2011, expertise of 5 intergovernmental draft agreements/supplements on debt settlement (the Czech Republic, Thailand, Kuwait, Montenegro and Malta) was carried out, with the respective expert opinions duly presented. Also, the signing of 3 interbank agreements/supplements on the procedure for book-keeping/settlements of indebtedness was ensured (People's Republic of China, Thailand, Montenegro).

As a result of a set of payment/settlement measures undertaken in 2011, the indebtedness of the former USSR and the Russian Federation towards Thailand, Republic of Croatia and Oriental Republic of Uruguay was fully redeemed.

In the reporting period, after the settlement of the former USSR debt towards foreign creditors — the London Club member-states was completed, the respective obligations amounting to USD 17.5 mn were written off Vnesheconombank's books.

At the end of the period under review, Vnesheconombank's indebtedness under the restructured principal notes (PRINs) was fully written off the Bank's books. The indebtedness under interest arrears notes (IANs) was written off the Bank's books in the amount of USD 0.6 mn and as at 01.01.2012 totaled USD 32.9 mn.

During the period under review, the Bank continued work to settle the former USSR domestic foreign currency-denominated debt owed to legal entities of the CIS countries and the Baltic States.

5.2. Managing State External Financial Assets of the Russian Federation

The funds transferred to the federal budget in 2011 as a result of the Bank's operations to manage state external financial assets included payments by foreign borrowers to redeem and service the debt, as well as proceeds delivered through realization of clearing and blocked currency-denominated debts.

Vnesheconombank keeps records and effects settlements related to debts owed to Russia by 55 debtor-countries under state loans extended by the Russian Federation in accordance with 284 loan agreements.

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

- 8 trilateral agreements between the Russian Federation Ministry of Finance, Vnesheconombank and Russian organisations on the procedure for providing budget financing to Russian exporters that supply goods and render services utilizing state credits;

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

Apart from this, 8 intergovernmental draft agreements/supplements on extending new state loans and on debt settlement were agreed.

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

In an agency capacity, Vnesheconombank also places a tight focus on resolving issues related to the settlement of bad debts owed by legal entities, the constituent entities of the Russian Federation and municipalities under the federal budget loans, as well as to settlement of indebtedness under targeted financing provided for Russian legal entities in exchange for equities transferred into the Russian Federation ownership.

In 2011, the total amount of the settled indebtedness owed to the federal budget approximated to USD 785 mn.

Within the period from 2007 to 2011, the total amount of the settled indebtedness owed to the federal budget approximated to USD 5 320 mn

Within the in- and out-of-court procedure of debt settlement, more than USD 294 mn was transferred to the federal budget, inclusive of USD 221 mn transferred under amicable agreements and debt restructuring agreements concluded earlier.

Vnesheconombank's specialists participated in 158 court hearings with respect to 44 lawsuits.

In the reported period, 4 amicable agreements amounting to USD 90.9 mn that settle indebtedness towards the federal budget were concluded.

5.4. Issuance and Execution of the Russian Federation State Guarantees

In conformity with Federal Law No. 357-FZ dd. 13.12.2010 "On Federal Budget for 2011 and the Planned Period of 2012 and 2013" and the Russian Federation Government Directives[12], Vnesheconombank performed the functions of the Agent for the Russian Federation

12. Directives of the Russian Government No. 103 dated 14.02.2009, No. 104 dated 14.02.2009, No. 128 dated 05.03.2010, No. 223 dated 12.04.2010, No. 709 dated 10.09.2010, No. 721 dated 13.09.2010, No. 722 dated 13.09.2010, No. 786 dated 05.10.2010, No. 1017 dated 14.12.2010, No. 1215 dated 31.12.2010, No. 338 dated 04.05.2011.

Government in issuing and executing the Russian Federation state guarantees.

The Bank made a thorough scrutiny of applications for state guarantees, prepared the relevant conclusions, ensured analysis/record keeping of the Russian Federation state guarantees, which were extended, and of the respective organizations' commitments:

- under credits raised by:
  - organizations that were selected in accordance with the procedure set forth by the Russian Federation Government;
  - strategic companies representing the defense industry;
  - legal entities that are registered in the Chechen Republic and carry out their core statutory activities in the Chechen Republic for delivery of investment projects in the Chechen Republic;
  - companies representing the defense industry that were selected in accordance with the procedure set forth by the Russian Federation Government to implement the defense industry state order;
  - legal entities that are registered and carry out their core statutory activities in the North Caucasian Federal District for delivery of investment projects in the North Caucasian Federal District;

- under credits or bond loans raised by:
  - legal entities that were selected in accordance with the procedure set forth by the Russian Federation Government for delivery of investment projects;
  - state corporation Russian Corporation of Nanotechnologies;
  - state company OJSC Russian Highways;

- under a bond loan raised by OJSC United Aircraft Building Corporation;

- under a bond loan raised by OJSC United Industrial Corporation Oboronprom;

Overall, over the reporting period, positive opinions in respect of 39 applications for provision of the Russian Federation state guarantees totaling USD 6.0 bn were produced. The year 2011 witnessed preparation of 90 conclusions to agree amendments/supplements to loan agreements and contracts on securing commitment fulfillment, which, among other things, are covered by the Russian Federation state guarantees.

Alongside that, Vnesheconombank reviewed the financial standing of 67 principals, as well as evaluated the liquidity of collaterals offered under the loan agreements secured by state guarantees.

Overall, Vnesheconombank keeps analytical records of 184 state guarantees of the Russian Federation approximating to USD 18.2 bn (as at 01.01.2011 — 148 state guarantees amounting to USD 13.2 bn).

Construction of Yanino transport-logistics park

GOALS

Modernization of Russia's transport infrastructure through creating in the North-Western region of a major "dry port" for trans-shipment of container export-import freight.

Financing request for the project on construction of Yanino Transport-Logistics Park is subject to consideration.

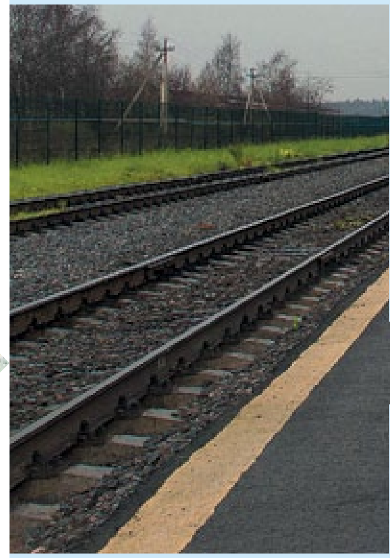
1

PROJECT PROPOSAL

CAPABILITIES

Project initiator — LLC Yanino Logistics Park

The Bank's Committee for Development of Investment Operations adopted a decision on expediency of a complex expert evaluation. The project is in the pipeline for VEB's funding consideration.



2

PRELIMINARY PROJECT EVALUATION

RESOURCES

Total project value, *USD mn*	**127.8**
The Bank's commitment, *USD mn*	**87.5**

The Credit Committee produced a positive opinion in respect of the Bank's participation in financing the project. The financing request was submitted to the governing bodies for consideration and approval.

3

COMPLEX PROJECT EVALUATION

IMPLEMENTATION

Total area **49.8** ha

simultaneous container storage capacity — more than **10 000** TEU

The Bank's governing bodies made a decision on financing the project. On 19 September 2008, a loan agreement was concluded. Continuous project monitoring by the Bank is ensured. On 28 May 2011, inauguration of the Yanino Logistics Centre took place.

DELIVERABLES

Installed container transshipment capacity –

500

TEU's. p.a.

4

FINANCING

5

PROJECT MONITORING AND ADMINISTERING

6 State Trust Management Company

Vnesheconombank performs 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.

It is important to note that all the operations 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 being strictly observed.

STMC priority tasks

- ensuring the safety of the pension savings transferred to Vnesheconombank for trust management;
- minimizing market risks when investing the respective funds and transferring the funds back at the request of the Russian Federation Pension Fund.

Principles of pension savings investment

- safety;
- liquidity;
- profitability;
- investment portfolio 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.

Admittedly, in 2011, the market environment for pension savings management was not favourable due to:

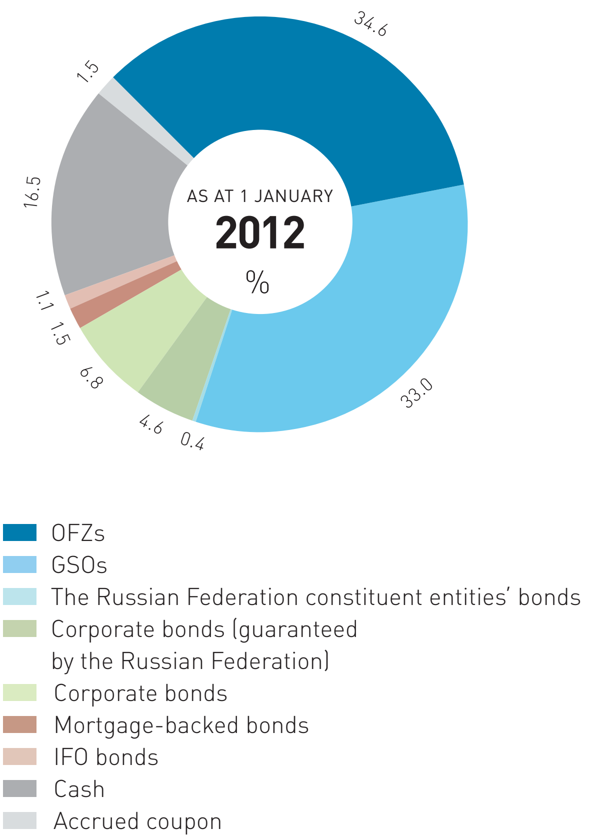
- reduced prices of most issues of long-term OFZs (a considerable part of them was transferred to Vnesheconombank by the Russian Federation Pension Fund for management in 2011);
- low volumes of IPOs of highly reliable corporate bonds (inclusive of mortgage bonds) performed by credible issuers, as well as of bonds backed by the Russian Federation sovereign guarantees.

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 Russian Federation 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.

Throughout 2011, the Russian Federation Pension Fund transferred to the STMC assets (cash funds, as well as long-term OFZs) in the total amount of RUB 602.9 bn (RUB 241.1 bn — 2010).

Structure of the STMC Extended Portfolio



As at the end of 2011, the market value of the extended investment portfolio amounted to RUB 1328.9 bn (as at year start 2011 — RUB 737.8 bn).

At the end of 2011, just as before, investment in the government bonds accounted for the bulk of the extended investment portfolio — 67.6% (71.9% — 01.01.2011). The share of cash funds (including deposits) amounted to 16.5%, which resulted from the transfer of a huge amount of pension saving to the STMC for management by the Russian Federation Pension Fund.

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 bonds backed by the Russian Federation sovereign guarantees of corporate issuers that engage in implementing infrastructure projects of national significance (OJSC Russian Railways, OJSC FSK, Avtodor state company, OJSC Western High Speed Diameter (St. Petersburg), the North-West Concession Company (Moscow — St. Petersburg Highway). As a result, the market value of the respective component of the portfolio at the end of 2011 totalled RUB 189.6 bn (+50.2% on the similar indicator posted at the beginning of the year).

In order to diversify the extended investment portfolio, to effectively manage the short-term liquidity, as well as to ensure the transfer of funds back at the request of the Russian Federation Pension Fund, 8 tenders were held, In the course of the tenders, the STMC placed RUB 136.9 bn worth of funds for a term of approximately 10 months with banks that met the eligibility criteria of the pension savings investment legislation. The average weighted interest rate of placing funds — 8.06% p.a.

In 2011, the yield on the STMC extended investment portfolio amounted to 5.47%, slightly lower than the annual inflation rate in 2011 (6.1% according to the data of the Russian Statistics Office). Obviously, the transfer to Vnesheconombank at the end of the reporting year of a huge amount of pension savings substantially impacted the level of yield on investment.

According to the data offered by the Russian Federation Pension Fund, in terms of the investment yield on the extended investment portfolio, the STMC ranked 4th among all the 58 asset managing companies.

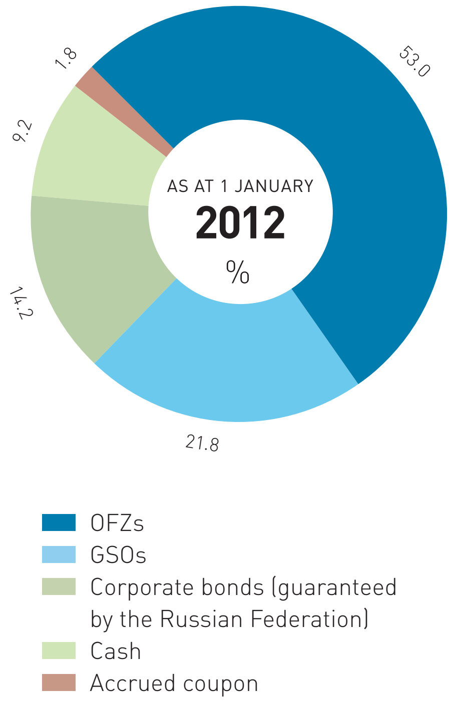
Investment Portfolio of Government Securities

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 Russian Federation sovereign guarantee, as well as in rouble- and foreign currency-denominated cash funds placed on accounts with credit organizations.

Throughout the period under review, the amount of the investment portfolio of government securities witnessed a more than 2-fold increase and its market value reached RUB 5.16 bn. In 2011, the Russian Federation Pension Fund transferred to the STMC for management pension savings in the total amount of RUB 2.7 bn. These funds were earmarked for investment in the portfolio of government securities.

In 2011, the portfolio of government securities was substantially diversified. The share of OFZs considerably decreased (from 93.0 to 53.0%) due to inclusion in the respective portfolio of GSOs and the bonds of corporate borrowers, whose commitments were backed by the Russian Federation guarantees.

Structure of the STMS Russian Government Securities Portfolio



In 2011, the investment yield on the government securities investment portfolio made 5.9% p.a. that is slightly below the annual inflation rate (6.1%).

According to the data offered by the Russian Federation Pension Fund, in terms of the investment yield on the government securities portfolio, the STMC ranked 3rd among all the 58 asset managing companies.

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

Supervisory Board — Vnesheconombank's Supreme Governing Body.

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.

Key functions of the Supervisory Board:

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

IN 2011

33 meetings held
102 issues carefully scrutinized

IN 2011

229 meetings held
902 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 Department;
- making decisions pertaining to 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 Board members 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 in compliance with the established procedures.

In accordance with the established procedures, the Board, on a regular basis, at least once a month, holds meetings.

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 executive bodies and preparing the relevant recommendations. These committees include: Committee for Strategic Development, Committee for Development of Investment Operations, Credit Committee, Committee on Trust Management of the Pension Savings, Budget Committee, Committee for Assets/Liabilities Management and Technology Committee.

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 the best globally accepted practices.

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

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

Throughout 2011, with a view to enhancing efficiency of the risk management system, major internal regulatory documents related to risk management were upgraded.

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

The Bank has adopted methodologies to assess exposure by various categories of borrowers. For this particular purpose, it applies a single rating scale to assess risks inherent in various borrower categories. The scale is also used for developing proposals in respect of setting limits and for assessing the costs of transactions associated with credit risks.

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

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

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

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

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

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

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

The Bank creates reserves for possible losses (under loans, loan indebtedness and loan equivalents, other assets and off-balance sheet positions) in compliance with the procedure of reserve formation approved by the Bank's Supervisory Board. The documents are devised in full compliance 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 outcomes of the scrutiny, appropriate measures are taken.

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

Throughout 2011, measures designed to develop uniform approaches to VEB Group's overall risk management system, including approaches to risk assessment and limits policies formation were consistently introduced.

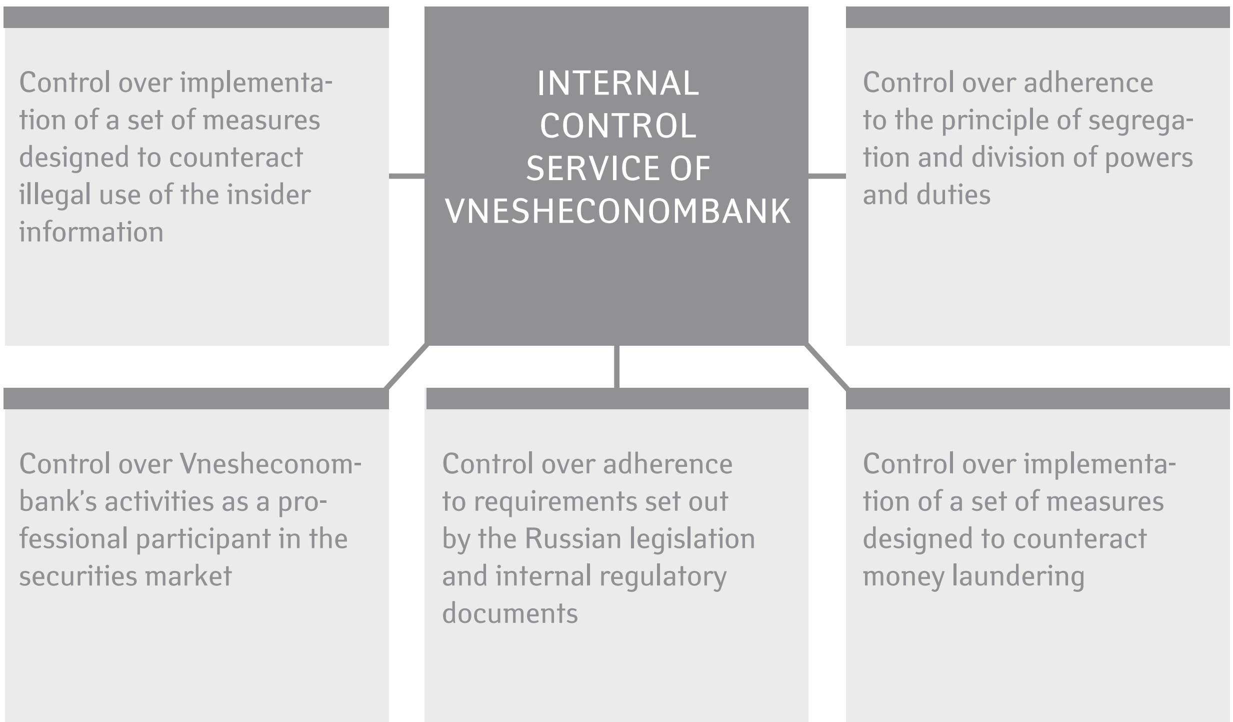
Major outcomes of the efforts made in this area in 2011 are devising and approving overall Group's regulatory documents with respect to liquidity risk management. These are designed to project long-term funding requirements, to manage long-term liquidity and to coordinate public borrowing.

Measures designed to enhance the Group's overall risk control were introduced. They included the formation of the system of common limits for effecting operations of Vnesheconombank with subsidiary banks and financial companies, as well as setting forth the principles for defining the respective operations' parameters. Also, in pursuit of the goal, designing special software ensuring automated data collection and processing was started.

7.3. Internal Control System

The system of Vnesheconombank's internal control is organized in full compliance with the legislation of the Russian Federation. The system embraces all areas of the Bank's activities and is primarily oriented towards ensuring enhanced effectiveness and efficiency of:

- the Bank's financial and economic activities in conducting banking operations and other transactions;
- asset/liability programme management;
- asset safety;
- risk management.



In 2011:

16 methodologies on the procedures to monitor critical business-processes were completed;

7 methodologies on carrying out checks in respect of indicators included in the sustainability report were developed

The key structural element of the internal control system is the Bank's specialized unit, the Internal Control Service of Vnesheconombank (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.

One of the major tasks of the ICS is executing control over the Bank's adherence to the provisions of the Bank's Memorandum on Financial Policies. To accomplish the goal, the Bank's ICS carries out checks in respect of the annual financial statements and other documents set forth by Federal Law No. 82-FZ dated 17.05.2007 "On Bank for Development" and executes 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-investment activities, activities in financial markets, as well as to execute control over the appropriateness of the reserve formation procedure and of functioning of the information systems.

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

Throughout 2011, audits, comprehensive and thematic reviews in respect of Vnesheconombank's activities were carried out. According to the results of the checks, the respective recommendations were prepared.

As at 01.01.2012, the ICS staff had 6 permits from the Russian Ministry of Finance authorizing them to engage in banking audit activities; 14 employees had certificates from the FCSM/FFMS to engage in various activities in the securities markets; 1 employee had an ITIL certificate and 1 person — an MBA diploma.

7.4. The Bank's Organizational Structure and HR Management

In 2011, seeking to deliver against the objectives and new tasks, the Bank's professionals continued committed efforts to upgrade the organizational structure. To this end, the structure of a number of Vnesheconombank's units was rationalized. New divisions to tackle the business lines relating both to the Bank's investment projects in natural resource utilization and construction and to securing close engagement with the Agency of Strategic Initiatives for Promotion of New Projects were established.

The Bank's Management was invariably maintaining focus on improvement of the Bank's organizational structure drawing on the expertise of foreign development institutions, as well as on the global and Russian practices of good governance.

Special energies were devoted to improving employee qualifications. In 2011, in order to ensure efficient employee training and appropriate qualifications upgrade, 826 employees, i.e. about 44% of the total staff number (724 employees, or 41% in 2010) participated in various training and professional development events.

Training was provided in such areas as counteracting legalization of illicit gains and terrorism financing, improper use of insider information, personnel appraisal and certification, principles and technologies of setting individual objectives, risk management, accounting and IFRS, foreign languages, IT and occupational health and safety.

Apart from this, a number of events designed to bolster the Bank's experience exchange with leading Russian and foreign institutions, including development banks were held. These included:

- Practical training for Vnesheconombank's employees at foreign financial institutions, i.e. the China Development Bank (CDB, Beijing) and Japan Bank for International Cooperation (JBIC, Tokyo)). Overall, 60 of Vnesheconombank's professionals participated in secondments and practical training arranged by foreign colleagues. Based on the results of the training events employee proposals on introducing the most potentially worthwhile technologies in the Bank's practices were prepared;

- Conference "Developing Corporate Governance In VEB Group" was held. Among the participants in the conference were Vnesheconombank's CEOs, representatives of subsidiaries directly responsible for issues of good corporate governance, representatives of the Russian Federation Government Executive Office and a number of ministries;

- 6th International Interbank HR Conference "Human Capital: Best HR Practices at the Turn of the Decade" brought together Vnesheconombank's top executives, HR heads representing leading Russian and CIS commercial banks and financial institutions;

- Round Table and meetings with representatives of HR services of VEB Group, in the course of which they exchanged opinions on the best ways to introduce a new employee remuneration and incentive system and the annual procedure of personnel assessment.

Providing healthcare programmes for the Bank's staff and retirees, members of the Retiree Council, remains on the priority list of Vnesheconombank's social policies.

In 2011, a programme of Vnesheconombank's employee medical insurance, which offered the mechanism of the Bank's and employee co-investment in the insurance premiums, was continued. The year 2011 also witnessed an increase in an annual spending limit per person.

In the reporting period, a survey of employee satisfaction with the medical insurance package was conducted. Based on the outcomes of an employee job satisfaction questionnaire, monitoring of the insurance programmes and services was performed. It enabled the Bank to develop and introduce new insurance programmes, improve the current list of medical services available under the insurance programmes for all the insured staff members.

Vnesheconombank provides employees with a wide range of social guarantees and benefits, as well as renders financial support to retirees, members of the Bank's Retiree Council. With this end in view, all the members of the Retiree Council were provided with a medical insurance package. Special corporate events on the occasion of the 66th anniversary of the victory in the Great Patriotic War and the New Year Day were successfully held. Remarkably, smooth functioning of the pension programme put in place was secured.

"Partners of the XXI Century" sport festival attended by the Bank's staff, as well as by the VEB Group and partner-banks' employees was arranged.

The period under review also saw implementation of programmes intended to reduce the level of professional disease and sustain and improve employee working capacity.

In 2011, to further upgrade the Bank's HR and social policies and obtain an appropriate feedback in respect of the events held throughout the year, weekly surveys on the corporate Intranet were made readily available.

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

In 2011, Vnesheconombank continued dedicated work on integration of the CSR principles in its business practices. The CSR polices are designed to help increase the Bank's contribution to social prosperity and environment protection. Vnesheconombank's CSR initiatives mean embedding responsibility in the investment decision-making process (principles of responsible project financing), managing the Bank's ecological impacts and developing a quality professional environment, volunteering and charitable activities.

In 2011, aiming to promote the CSR principles in the business community, the Bank arranged a number of events, including CSR policies training seminars for the staff, employees of subsidiaries and representatives of the Russian financial sector, as well as held other public events.

Obviously, the Bank's subscription in December 2011 to the UN Global Compact, a major international initiative in the area of sustainable development, which brings together companies that are taking the lead in promotion of the CSR principles, could well be viewed as a major international cooperation highlight of the year.

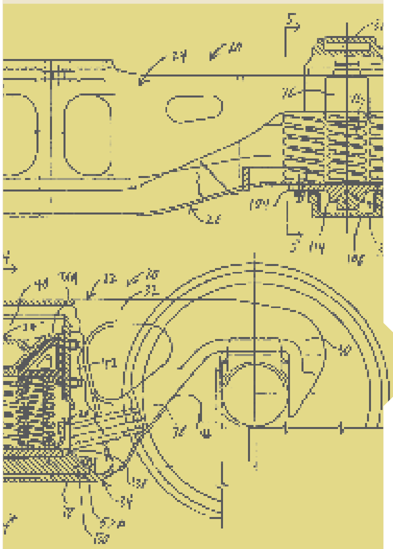
The past year featured the continuation of Vnesheconombank's volunteer movement. In 2011, 17 volunteering initiatives were launched. To illustrate; the Day of the Donor, Good Deed Days during the Easter, rendering aid to a correctional boarding school for boys in the village of Almazovo, aid to the pupils of the Voskresensk boarding school for orphans or children left without parental guidance, providing financial aid for the Bank's employees or their relatives who found themselves in a predicament. Starting from 2011, an extra paid day off work

Construction of Tikhvin freight car building plant

GOALS

Construction of an advanced technological complex with a full cycle production of railroad casting and new generation freight cars with improved performance characteristics.

Financing request for the project on construction of Tikhvin Freight Car Building Plant, Leningrad region, is subject to consideration.



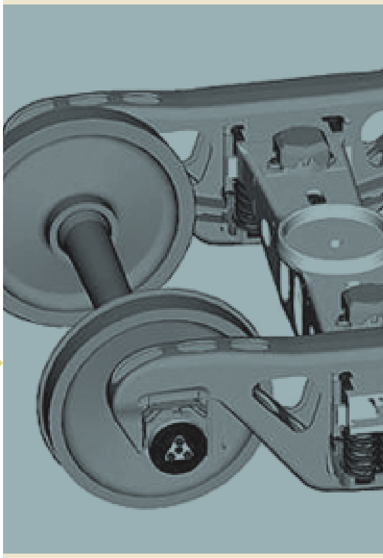
1

PROJECT PROPOSAL

CAPABILITIES

Project initiator — IST Group of Companies.
Borrower — CJSC Tikhvin Freight Car Building Plant.

The Bank's Committee for Development of Investment Operations adopted a decision on expediency of a complex expert evaluation. The project is in the pipeline for VEB's funding consideration.



2

PRELIMINARY PROJECT EVALUATION

RESOURCES

Total project value, *RUB bn*	**37.99**
The Bank's commitment, *RUB bn*	**9.66**

The Credit Committee produced a positive opinion in respect of the Bank's participation in financing the project. The financing request was submitted to the governing bodies for consideration and approval.

3

COMPLEX PROJECT EVALUATION

IMPLEMENTATION

Industrial capacities

freight cars units p.a	10 000
car casting, tons p.a	72 000

The Bank's governing bodies made a decision on financing the project. On 23 October 2008, a loan agreement was concluded. Continuous project monitoring by the Bank is ensured. On 30 January 2012, an official ceremony of the Plant commissioning took place.

DELIVERABLES

New generation freight cars with an axle load of

23.5 and **25**

tons

4

FINANCING

5

PROJECT MONITORING AND ADMINISTERING

for the members of the staff who engage in volunteering was introduced (Volunteer Day). That provides each employee with an opportunity of spending at least one day a year out of office to accomplish the volunteering goals.

7.6. Information Policy

In delivering information policies, the Bank, invariably guided by the principles of openness and transparency, endeavors to present full and most up-to-date information that would highlight the Bank's and the VEB Group activities.

In 2011, the Bank was seeking to communicate to society information concerning most important lines of Vnesheconombank's business activities. The information highlights concerned nationally important infrastructure and innovation-oriented projects, raising major investment resources for the Russian economy, networking with Russian and foreign banks and companies, sovereign debt servicing and managing pension savings.

Vnesheconombank's activities in the public field benefited from the use of effective means of communicating with target audiences, from application of both traditional media channels (print and broadcast media, various expositions, participation in all the meaningful international and Russian exhibitions and forums) and active introduction of most advanced communication mechanisms.

Given an ever-growing public interest in Vnesheconombank's activities, the Bank's top executives on a regular basis would participate in press conferences, briefings and interviews. Responding to questions offered by the press and the business community, the Bank's specialists were committed to providing detailed answers and commentaries that would cover various lines of the Bank's activities coming within their competences. At the end of 2011, Vnesheconombank ranked 3rd among 50 major Russian banks both in terms of the overall number of press publications and in terms of the so-called Information Favorability Index (IFI), an integrated indicator produced by an independent information-analytical Medialogia system. The Index is supposed to reflect not only the quantitative, but also the qualitative aspect of the entity's presence in the information field. In 2011, Vnesheconombank's specialists launched the first in Russia specialized information/PPP guidance site "Public-Private Partnership in Russia" (www.pppinrussia.ru), as well as a site of the Coordinating Committee for Economic Cooperation with Sub-Saharan Africa (www.afrocom.ru).

Alongside the traditional monthly "Development Projects" information/educational programme on the Russian "Vesti" 24 TV channel, 2011 saw the launch of a new social advertising campaign devoted to SME support, which was broadcast on the federal and regional TV channels in H1 of the year.

In 2011, a strong emphasis was placed on further rolling out the Bank's image as a key Russian development institution. This was done through demonstrating the positive outcomes of Vnesheconombank's investment activities in innovation and infrastructure. Descriptions and visual presentations of the Bank's projects delivered in various sectors of the economy were the key elements that added substantive value to the Bank's expositions at major exhibitions and forums, to advertising materials and presentations. The Bank's interactive stands with the application of "augmentech reality" technologies, which, clearly demonstrating the whole range of the Bank's projects in various sectors/regions, won due appreciation of the participants and guests attending such hallmark events as the International Aviation and Space Salon MAKS 2011 Show and the Sochi 2011 International Investment Forum.

The year 2011 saw the continuation of commited work to design the architecture of a single VEB Group brand. Well-coordinated advertising/information policies were in progress. Efforts were completed to design and register the Group logo that would underscore subsidiaries' membership of the VEB Group. Remarkably, OJSC SME Bank was the first subsidiary to actively introduce the Group logo in the design style.

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 that are well-balanced in terms of quality, cost, security and business effects. With this aim in view, the ITSM/ITIL methodology-based IT management system was introduced and has been successfully operating at the Bank.

In the period under review, a strong focus was placed on enhanced efficiency and reliable functioning of the Bank's software/hardware infrastructure. Alongside that, a set of measures was undertaken to create new and upgrade the existing software packages.

In 2011, to drive forward the lending-investment activities, a software package "System of Panning, Analysis and Monitoring of Investment Projects" was further developed and upgraded. It primarily concerned further automation of settlements required for assessing a borrower's financial standing and improving the reporting formats for lending-investment activities.

To rationalize and improve Vnesheconombank's activities in the securities, money and FX markets, as well as to introduce measures envisaged by the Program of affordable and accessible housing construction and mortgage lending, the Bank continued work to modernize software required for record-keeping in respect of limits set on various financial instruments.

To ensure information and technological support for the Bank's activities in performing the function of an agent for the Russian Federation Government, the 1st stage of the project on creating a software package intended for analytical record-keeping in issuing and executing the Russian Federation sovereign guarantees under credits and bond loans, including the instruments related to settlement of debt owed by debtor-companies was completed.

The "Risk Management System" software was further upgraded, i.e. a module for assessment of risks of financial institutions based on the use of data available in the open information sources and a module for an automated control over limits set on financial institutions were further developed.

A set of measures designed to modernize the Bank's processing centre to ensure its compliance with the PCI DSS payment systems international security standard was introduced.

To ensure application of uniform software and technical solutions conducive to advanced IT policies to manage the group of banks' electronic document turnover (financial massages in SWIFT format) a soft/hardware SWIFT platform of Vnesheconombank based on the SWIFT ALLIANCE soft-hardware platform was put into operation.

To ensure electronic communication with tax authorities through the CBR in conformity with the CBR Provision No. 311-P dated 07.09.2007 "On Electronic Transmission by the Bank to Tax Authorities of Information on Opening/Closing an Account, on Changing the Requisites of the Account", as well as in conformity with the CBR's Provision No. 361-P dated 15.11.2010 "On the Procedure of Electronic Transmission by the Bank to a Body Executing Control over Payments of Insurance Premiums of Information on Opening/Closing an Account, on Changing the Requisites of the Account", a software package "Bank-accounts" was modernized.

To abide by the requirements of Federal Law No. 224-FZ dated 24.07.2010 "On Counteracting Improper Use of Insider Information and Market Manipulation and on Amending Certain Regulatory Acts of the Russian Federation", software platforms intended for automation of recording and processing the data related to counteracting improper use of insider information were developed.

In 2011, Vnesheconombank's automated information system was duly certified in accordance with 1G protection grade.

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 VII Meeting of the SCO IBC Council (June 2011, Astana, Kazakhstan), where the parties signed a Protocol amending the Regulation on Cooperation with Financial Institutions of the SCO Observer States and the Status of an SCO IBC Observer Bank. Such a document will allow not only financial institutions representing the SCO observer states (India, Iran, Mongolia, Pakistan), but also those enjoying the status of SCO dialogue partners (Belarus, Sri-Lanka) to participate in the IBC work.

The Session of the SCO Council of Heads of States (07.11.2011, St. Petersburg) approved the Strategy of SCO IBC Mid-Term Development (2012-2016). The document is designed to specify joint activity priorities with due regard for the immediate tasks of economic development set by the SCO member-states, as well as to focus on implementation of joint investment projects at the regional level. Vnesheconombank initiated preparation of the respective document in 2010.

Under Vnesheconombank's auspices, Moscow hosted "Moscow SCO Business Dialogue", an international business forum attended by representatives of the SCO member states' business and expert community, as well as observer states and dialogue partners.

Vnesheconombank is one of the participants in Memorandum of Cooperation between state financial institutions for development and export support of the BRICS countries (BRICS' interbank cooperation mechanism). In April 2011, the Memorandum was accessed by the South African Development Bank.

During the Summit of the BRICS' Heads of States (April 2011, Sanya, China), heads of the banks — signatories to the Memorandum — concluded an agreement on developing financial cooperation within the BRICS interbank mechanism. The document aims to strengthen financial interaction between partner-banks and assist financial institutions and companies in entering the BRICS member-states' capital markets. Furthermore, the Agreement provides for mutual financing in the national currencies of the BRICS countries.

In the course of St. Petersburg International Economic Forum-2011, Vnesheconombank held a special session "Emerging Markets as a Driver of New Global Economic System" and signed a Memorandum of Cooperation in HR training and experience exchange between the BRICS Interbank Mechanism partner banks.

9 Participation in NCOs

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

Professional unions of the securities and currency market participants account for a considerable share of NCOs, in which Vnesheconombank is a participant. These include the National Association of Stock Market Participants (NAUFOR), Professional Association of Registrars, Transfer-Agents, and Depositories (PARTAD), National Currency Association (NCA), National Stock Association (NSA), Association of Bill Market Participants (ABMP), Association of the Russian Members of Europay, International Capital Market Association (ICMA), Financial Market Association (ACI). Membership in such organizations enables the Bank to operate in financial markets in compliance with the standards recognized by the global financial community.

Since 2009, Vnesheconombank has been a full-fledged member of the Long Term Investors' Club established on the initiative of major European institutional investors. The Club sees its key objectives in formulating a joint investment policy, as well as in ensuring interaction between major global investors. Vnesheconombank's Chairman is a member of the Steering Committee — the Club's supreme governing body.

In 2011, the Bank participated in the establishment of the International Development Finance Club (IDFC). The respective agreement was signed by 19 leading national and regional development banks in September 2011 at the session of IMF and World Bank in Washington. The Club was established on the initiative of the KfW Bankengruppe. The mission of the Club is to share experience and new ideas on delivery of projects in infrastructure, environment, energy efficiency, innovation, social development, SME support and poverty reduction. The meetings of the Club member banks are to be timed to the IMF and World Bank's sessions.

For many years, Vnesheconombank has been a member of the International Chamber of Commerce (ICC) and participated in the ICC Banking Commission in Paris and ICC Russian National Committee. Introduction of new banking rules, regulations and standards, in particular, in connection with the publication of Basel III and tougher measures against money laundering and terrorist financing came top of the Commission's agenda in 2011.

Being one of the founders of CIS Financial and Banking Council (CIS FBC), a non-commercial partnership, Vnesheconombank worked on the CIS FBC Committee on Project Expert Appraisal. It considerably broadened Vnesheconombank's opportunities for identification and selection of CIS-based projects aimed at restoring and promoting cooperation ties and broadening investment cooperation of the post-Soviet Union countries.

In 2011, the Bank joined the Institutional Investors Roundtable, a non-commercial organization established under the auspices of the Quebec City Conference (Quebec, Canada). Among other participants in the Roundtable are institutional investors representing developed economies. Working in this NCO, the Bank will be able to participate in the process of strategic investment decision-making by the global business community.

Starting from 2011, Vnesheconombank has raised the level of its membership in the World Economic Forum (WEF) to the regional partnership. This status provides for a number of benefits, in particular, the right to submit to WEF for consideration proposals concerning the business programme of the Annual Meeting in Davos. Vnesheconombank took an active part in panel discussions on Russian issues during the World Economic Forum on Europe and Central Asia in June 2011 (Vienna, Austria). Furthermore, Vnesheconombank gave a presentation of the Russian Direct Investment Fund for European participants in WEF, potential investors and the Bank's partners.

In accordance with the decision by the Russian and Swedish Heads of Governments, the Russian-Swedish Business Council (RSBC) was established in September 2011 with an active participation of Vnesheconombank. The Russian part of RSBC is headed by Vladimir Dmitriev, Chairman of Vnesheconombank. The key objectives of the Council include broadening and strengthening business ties and mutually beneficial cooperation between Russian and Swedish entrepreneurs, promoting the Russian business in Swedish markets and attracting Swedish investment to Russia. Furthermore, the Council is designed to enhance the role of the business community in shaping and pursuing the state policy on the Russian-Swedish economic ties.

In the reporting period, the Russian-Bahraini Business Council with Vnesheconombank's participation continued work on attracting Bahraini investments to Russian development projects, in particular in the RDIF network. The Bank also made efforts to organize in Bahrain a Russian commercial and industrial exhibition that would help promote Russian exports both in Bahrain and in the Middle East in general.

The Coordinating Committee for Economic Cooperation with Sub-Saharan Africa (AfroCom), headed by Vladimir Dmitriev, Chairman of Vnesheconombank, was established in 2009 to promote interests of the Russian business in Africa. In 2011, a specialised website was launched to give coverage to the Russian-African economic relations. The website is a credible and up-to-date information source for Russian companies, primarily in terms of information about investment and export opportunities in Sub-Saharan Africa. AfroCom website serves as an electronic platform for efficient interaction between Russian and African business circles.

10 Vnesheconombank's Work on Commissions, Councils and Working Groups under the Auspices of Government Bodies, as well as in Intergovernmental Commissions

Vnesheconombank actively works in the Taskforce to Create an International Financial Centre (IFC) in the Russian Federation under the auspices of the Russian Presidential Council for the Russian Financial Market Development, International Advisory Council to Create and Develop an IFC in the Russian Federation, as well as the Project Group to Upgrade Financial Infrastructure and Regulate Financial Market. Vnesheconombank has initiated the establishment of the Russian-British Joint Liaison Group to promote Moscow as an international financial centre.

International Financial Centre

During an official visit of the British Prime-Minister to Moscow in September 2011, Vnesheconombank, the Taskforce and the British Corporation TheCityUK signed a Memorandum of Cooperation.

Work in Collegiate Government Bodies

In 2011, Vnesheconombank continued to work in coordination and advisory bodies operating under the Government of the Russian Federation.

Thus, Vladimit Dmitriev, Chairman of Vnesheconombank, took part in the Government Commission for High Technologies and Innovation and in the Government Commission for Transport and Communications. Participants in the meeting discussed urgent development issues of the respective sectors and industries of the Russian economy and adopted decisions reflected in the instructions given by the Russian Government to federal executive bodies and state-owned companies.

In order to boost sustainable and integrated development of territories, the Bank's representatives worked on the Interdepartmental Investment Commission to select investment projects and the Expert Council for Regional Investment Policy under the Russian Ministry of Regional Development. The Commission selects projects seeking to obtain state guarantees of the Russian Federation under the loans obtained by legal entities registered and undertaking their core business activities in the North-Caucasian Federal District. The Expert Council is designed to assist implementation of regional investment policies and raising investment to deliver investment projects including the PPP-based ones.

Vnesheconombank took part in the work of the Working Group on Single-Industry Towns Modernization under the Government Commission on Economic Development and Integration designed to work out decisions on state support for infrastructure development objectives set out in the comprehensive investment plans for delivery of investment projects aimed at economic diversification of single-industry towns. The Bank participated in 17 sessions and 5 working meetings of the Group together with representatives from the Russian constituent entities, municipalities and investors.

Vnesheconombank's inclusion in the Interdepartmental Working Group on elaboration and implementation of the state programme for development of foreign economic activities evidences due recognition of the Bank's expertise in foreign economic operations. The Bank produced the Programme proposals on application of key performance indicators and indices, as well as specified the projected results of export support, foreign investment and insurance, as well as proposals in other areas of foreign economic activities.

Vnesheconombank's participation in the work of the Subcommission for Economic Integration of the Government Commission for Economic Development and Integration contri-buted to working out comprehensive decisions designed to boost integration on the post-Soviet space, including the operation of the Customs Union, setting up a free trade zone, accelerating Russia's accession to WTO and OECD, financial support for the Russia — EU Initiative "Partnership for Modernization", as well as developing relations with EurAsEC, APEC and other international organizations.

Vnesheconombank's active work in 2011 in the Council for Foreign Economic Activities under the Ministry of Economic Development of the Russian Federation and the respective working groups helped consolidate the Bank's position in the Russian foreign economic network as the leading state financial institution for development. Vnesheconombank came up with a number of initiatives designed to boost foreign economic activities of SMEs engaged in export production and development of ambitious areas of regional economic cooperation.

Participation in Intergovernmental Commissions

In 2011, Vnesheconombank took part in more than 70 events held within the framework of Intergovernmental Commissions (hereinafter ICs) in Russia and abroad, in particular, with such strategically important investors as Ukraine, Germany, Japan, Italy, India and Great Britain. Over 20 proposals produced by the Bank are reflected in the final documents.

In the reporting period, the issues of investment cooperation with Europe, Asia, Africa and Latin America (in the context of international intergovernmental commissions and committees on trade, as well as economic, scientific and technical cooperation) were in the focus of Vnesheconombank's joint efforts with Russia's Ministry of Economic Development and other ministries.

The Bank was directly involved in preparing and agreeing action plans subject to approval by the Russian parties of ICs and in setting objectives, goals and projected results of cooperation with Russia's strategic and key economic partners.

Developing long-term bilateral economic cooperation programmes became a new area of the Russian Ministry of Economic Development's activities within ICs. Vnesheconombank was engaged in drawing up the respective documents with Ukraine, Kazakhstan, Armenia, Kyrgyzstan, Indonesia and Hungary.

Throughout 2011, the Bank worked on a number of interbank commissions comprising various intergovernmental commissions (Russian-Vietnamese Working Group on Interbank Cooperation, Russian-Chinese Subcommission on Financial Cooperation, Working Group on Financial and Banking Cooperation of the Joint Russian-Turkish Commission on Trade and Economic Cooperation, Working Group on Financial Cooperation of the Russian-Venezuelan High Commission).

11 Charitable Activities and Sponsorship

For years, Vnesheconombank has been actively involved in charitable support and sponsorship, aiming to develop the social sphere and promote economic cooperation.

Traditionally, the Bank's sponsorship and charitable activities are focused on support for healthcare, culture, education, arts and sports. Besides, the Bank acted as a partner of the leading Russian and international economic forums and conferences.

In 2011, the amount of funds allocated for these purposes increased significantly. Vnesheconombank's charitable and sponsorship activities are based on the annual plans and programmes approved by its Supervisory Board. New important areas were added to the agenda in the reporting year.

They include financial support to the Forum Analytical Centre, a non-commercial fund set up to establish an International Financial Centre in Moscow and to coordinate the activities of the respective Task Force.

Vnesheconombank's financial support helped to promptly implement an action plan for the launch of the Agency of Strategic Initiatives.

Healthcare and Social Support for Citizens

To address the financial needs of low-income people, Vnesheconombank supported orphanages, organizations for veterans and disabled veterans of the Great Patriotic War, families of military personnel and employees wounded or killed in action.

Moreover, Vnesheconombank continued to sponsor all the healthcare projects started in the previous years (the First Hospice for Children with Cancer, Research Institute for Pediatric Oncology and Hematology at the Blokhin Cancer Research Centre ("Sunny Day" festival), Moscow Regional Psychoneurological Hospital for Children with Central Nervous System Disorders, etc.).

As in the previous years, the Bank provided grants to the most talented students of MGIMO University, Lomonosov Moscow State University, Finance University, Higher School of Economics.

Culture

Aiming to promote culture and education, Vnesheconombank has traditionally supported the "Pyotr Fomenko Studio" Moscow theatre and the Academy of Young Opera Soloists and Ballet Dancers of the Mariinsky Theatre.

For more than 10 years, Vnesheconombank has been a sponsor of the Pushkin State Museum of Fine Arts. Vladimir Dmitriev, Chairman of Vnesheconombank, is a member of its Board of Trustees. The Pushkin Museum Fund was established for financing the construction of a Museum Town on the basis of the Museum.

Vnesheconombank was actively involved in the project on creating a Research and Educational Center of international standard on the basis of the Moscow Polytechnical Museum. Vnesheconombank's Chairman is a member of the Board of Trustees of the Museum Development Fund. The project is regarded as a top priority in the context of the tasks set by the Russian Government to pursue strategic modernization initiatives. The project includes refurbishing the historic building of the Museum, constructing a new building and creating a world-class science museum on its basis.

Sports

Seeking to maintain the tradition of the past years, Vnesheconombank supported the development of Russian sports. The Bank's 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 Football Union and acted as a partner of the Golden Boat International University Regatta and the Tennis Legends in Moscow Tournament. The Bank continued financing construction of the Sapega Volley Grad Sports Centre for training and health-improving in Anapa. Vnesheconombank sponsors the KAMAZ-Master Team, which is a nine-time winner of the Paris-Dakar Rally.

Economic Forums, Conferences and Exhibitions

In order to support and improve Russia's investment image, the Bank sponsored a number of Russian and international projects including the St. Petersburg International Economic Forum 2011, the Sochi-2011 X International Investment Forum, the VIII Krasnoyarsk Economic Forum, annual sessions of the Russian Economic and Financial Forum; the Regional Cooperation Forum in Switzerland, Austria, France and Germany and the Annual Banking Forum of the Eastern Europe and CIS.

Also, Vnesheconombank acted as a partner in such major regional events as the V International Pacific Economic Congress (Vladivostok), St. Petersburg Dialog Forum, the V Far Eastern International Economic Forum in Khabarovsk.

Alongside that, the Bank sponsored a number of specialized forums and conferences, including the II International Forum of Adam Smith Institute "Innovative Drug Research and Development in Russia", the VII International REPO Forum "2012 Financial Market: A New Model of Regulation", the VIII Federal Investment Forum, International Scientific and Practical Conference on Developing the National System of Anti-Money Laundering.

International Aviation and Space Salon MAKS-2011 held biennially was a prominent international event of the year. Vladimir Putin, Chairman of the Russian Federation Government, inaugurated the show. The Bank has traditionally been an official sponsor of the Salon being a unique platform for demonstrating Russian high technologies and developing business ties with foreign partners.

In 2011, Vnesheconombank also participated as a sponsor in a number of major exhibitions both in Russia and abroad. These include the Transport of Russia-2011 V international exhibition; the INNOPROM-2011 Ural international exhibition and forum; the IMDS-2011 V international maritime defense show, the NEVA-2011 international shipping and shipbuilding exhibition.

Support for Russian Orthodox Church

Trying to preserve the Russian spiritual and historic heritage, the Bank has traditionally been rendering assistance to the Russian Orthodox Church.

In 2011 the Bank continued financing the construction and completion works for the Centre of Spiritual Development of Children and Young People at the Moscow Danilov Monastery. Vnesheconombank supported the annual programme "From His Holiness the Patriarch of Moscow and all Russia to Children and Young People of Russia". Due to Vnesheconombank's financial support, thousands of children from

Construction of a tanker terminal complex in Ust-Luga commercial seaport

GOALS

Development of transport infrastructure in North-Western region through enhancing deep water access to secure the exports of Russian oil products.

Financing request for the project on construction of a tanker terminal complex in Ust-Luga commercial seaport is subject to consideration.

1

PROJECT PROPOSAL

CAPABILITIES

Project initiator — OJSC Rosneftebunker (Gunvor Group).

The Bank's Committee for Development of Investment Operations adopted a decision on expediency of a complex expert evaluation. The project is in the pipeline for VEB's funding consideration.

2

PRELIMINARY PROJECT EVALUATION

RESOURCES

Total project value, *USD mn* *(first 3 start-up complexes)*	**1064.3**
The Bank's commitment, *USD mn*	**545**

The Credit Committee produced a positive opinion in respect of the Bank's participation in financing the project. The financing request was submitted to the governing bodies for consideration and approval.

3

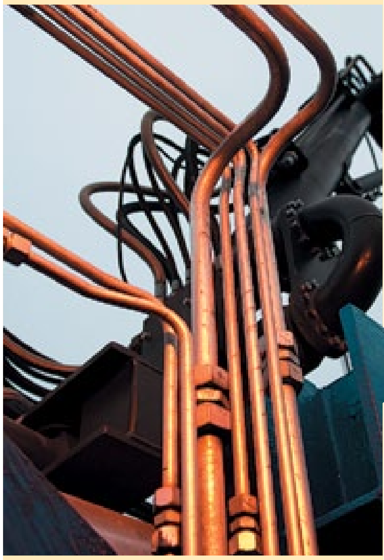
COMPLEX PROJECT EVALUATION

IMPLEMENTATION

railroad-fuel oil tanker transshipment

mn tons p.a.	**18**
light oil products, *mn tons p.a.*	**12**

The Bank's governing bodies made a decision on financing the project. On 3 March 2011, a loan agreement was concluded. Continuous project monitoring by the Bank is ensured. In January 2011, the tanker terminal complex started operating in the testing regime.



DELIVERABLES

Freight turnover on project completion –

30

mn tons of oil products p.a.

4 FINANCING

5 PROJECT MONITORING AND ADMINISTERING different Russian regions could demonstrate their talents and skills in music and arts to the public.

The Bank views financing of the preservation and restoration of operating churches, which have a historic and cultural value, as one of the priority tasks. In 2011, funds were transferred to ensure repairs of the Spaso-Preobrazhenskiy Solovetskiy Monastery in the village of Solovki (Arkhangelsk Region), the Presvyataya Bogoroditsa Pokrov Church in Tyunezh (Tula Region), the Svyatye Petr and Pavel Apostols Church of Svyato-Troitze-Sergieva Lavra in Sergiev Posad, the Spasskaya Church in Ubory, the Ioanno-Predtechenskiy Church in Butyrki (Lyubimy municipal district, Yaroslavl Region). Apart from this, the Bank transferred funds to the Representation of the Russian Orthodox Church in Strasbourg and the Russian Orthodox Church Parish of Prepodobnyi Sergey Radonezhskiy in Johannesburg.

By request of His Holiness Patriarch Kirill of Moscow and All Russia, two new projects were included in the sponsorship programme: the construction of Russian Orthodox Church Hospice on the Jordan river where Jesus was baptized and the construction of Russian Orthodox Church St.George's Monastery in Hetzendorf (Germany) on the territory of a Hetzendorf estate of the 19th century.

Environment Protection

In the reporting year, Vnesheconombank continued financing of an environmental project on preserving the flora and fauna variety at the Belovezhskaya Pushcha National Park launched in 2010.

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 Central Bank of Russia.

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

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

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

Independent auditors' report

ERNST & YOUNG

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

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

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

We have audited the accompanying consolidated financial statements of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (hereinafter, the "Bank") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
26 April 2012

Ernst & Young LLC

Consolidated Statement of Financial Position

As of 31 December 2011

(in millions of Russian rubles)

	Notes	2011	2010
1	2	3	4
ASSETS			
Cash and cash equivalents	10	178,028	196,672
Precious metals		260	293
Financial assets at fair value through profit and loss	11	94,362	76,144
Due from credit institutions	12	457,698	415,641
Loans to customers	14	1,228,923	787,926
Investment securities:	15		
available-for-sale		454,285	471,755
held-to-maturity		17,779	21,536
Investment securities available for sale pledged under repurchase agreements	15	4,715	4,828
Due from the Russian Government	16	124	119
Receivable from the Russian Government under London Club Arrangements	8	1,147	1,123
Investments in associates	17	5,894	5,638
Property and equipment	18	34,286	23,550
Income tax assets	19	3,332	2,350
Other assets	21	51,114	35,897
Total assets		**2,531,947**	**2,043,472**
LIABILITIES			
Due to credit institutions	22	472,014	235,027
Financial liabilities at fair value through profit or loss	13	6,945	5,416
Due to the Russian Government and the Bank of Russia	8	884,592	814,901
Due to London Club creditors	8	1,147	1,123
Amounts due to customers	23	352,424	290,098
Debt securities issued	24	261,030	186,947
Income tax liabilities	19	1,885	1,042
Provisions	20	206	203
Other liabilities	21	19,029	13,611
Total liabilities		**1,999,272**	**1,548,368**

1	Notes 2	2011 3	2010 4
EQUITY	25		
Charter capital		382,571	382,571
Additional paid-in capital		62,600	–
Retained earnings		28,845	25,043
Gains of investment securities available for sale		57,782	85,679
Foreign currency translation reserve		58	373
Equity attributable to the Russian Government		**531,856**	**493,666**
Non-controlling interests		**819**	**1,438**
Total equity		**532,675**	**495,104**
Total equity and liabilities		**2,531,947**	**2,043,472**

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*

16 April 2012

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

Consolidated Statement of Income

For the year ended 31 December 2011

(in millions of Russian rubles)

	Notes	2011	2010
1	2	3	4
CONTINUING OPERATIONS			
Interest income			
Loans to customers		87,947	84,886
Amounts due from credit institutions and cash equivalents		39,653	38,932
Investment securities		17,545	17,997
		145,145	**141,815**
Finance leases		12,128	3,882
Financial assets at fair value through profit or loss		2,514	2,066
		159,787	**147,763**
Interest expenses			
Amounts due to credit institutions and the Bank of Russia		(24,079)	(25,841)
Amounts due to customers and the Russian Government		(56,984)	(50,081)
Debt securities issued		(14,390)	(5,168)
		(95,453)	**(81,090)**
Net interest income		**64,334**	**66,673**
Provision for impairment of interest-earning assets	12, 14	(38,790)	(45,735)
Net interest income after provision for impairment of interest-earning assets		**25,544**	**20,938**
Net fee and commission income	27	**6,612**	**6,030**
Gains less losses arising from financial instruments at fair value through profit or loss		(2,508)	10,178
Gains less losses from investment securities available for sale	28	10,130	13,129
Gains less losses from foreign currencies:			
dealing		12,275	3,547
translation differences		(17,287)	(1,078)
Gains less losses on initial recognition of financial instruments		3,746	(2,400)
Share in income in associates	17	285	204
Dividends		4,551	2,260
Other operating income		3,136	1,754
Non-interest income		**14,328**	**27,594**
Payroll and other staff costs		(16,890)	(12,365)

	Notes	2011	2010
1	2	3	4
Occupancy and equipment		(5,156)	(4,336)
Depreciation	18	(1,334)	(1,456)
Taxes other than income tax		(3,050)	(1,582)
Other impairment and provisions	20	(366)	(221)
Other operating expenses	29	(11,555)	(7,833)
Non-interest expenses		**(38,351)**	**(27,793)**
Income from continuing operations before income tax and hyperinflation effect		**8,133**	**26,769**
Income from net monetary position resulting from hyperinflation		381	–
Income from continuing operations before income tax		**8,514**	**26,769**
Income tax benefit/(expense)	19	(1,034)	1,306
Income for the reporting year from continuing operations		**7,480**	**28,075**
Discontinued operations			
Income for the reporting year from discontinued operations	30	–	172
Profit for the reporting year		**7,480**	**28,247**
Attributable to:			
the Russian Government		7,474	28,342
non-controlling interests		6	(95)
		7,480	**28,247**

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 2011

(in millions of Russian rubles)

	Notes	2011	2010
1	2	3	4
Income for the reporting year		**7,480**	**28,247**
Other comprehensive income			
Change in unrealized gains/(losses) on investment securities available for sale	25	(27,933)	11,817
Income tax relating to components of other comprehensive income	19	7	(68)
Translation differences		(337)	2
Other comprehensive income/(loss) for the reporting year, net of tax		**(28,263)**	**11,751**
Total comprehensive income/(loss) for the reporting year		**(20,783)**	**39,998**
Attributable to:			
the Russian Government		(20,733)	40,069
non-controlling interests		(50)	(71)
		(20,783)	**39,998**

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 2011

(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 securities available for sale	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
1	2	3	4	5	6	7	8	9
31 December 2009	**382,489**	**–**	**(3,809)**	**73,940**	**382**	**453,002**	**2,234**	**455,236**
Total comprehensive income/ (expense) for the year	–	–	28,342	11,739	(12)	40,069	(71)	39,998
Contribution of the Russian Government (Note 25)	82	–	–	–	–	82	–	82
Establishment of a subsidiary	–	–	–	–	–	–	48	48
Change in interest in subsidiaries (Note 6)	–	–	510	–	3	513	(770)	(257)
Dividends from subsidiaries (Note 25)	–	–	–	–	–	–	(3)	(3)
31 December 2010	**382,571**	**–**	**25,043**	**85,679**	**373**	**493,666**	**1,438**	**495,104**
Total comprehensive income/ (expense) 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
Increase in interest in 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**

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 2011

(in millions of Russian rubles)

	Notes	2011	2010
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Income for the reporting year		7,480	28,247
Adjustments:			
Change in interest accruals		(8,226)	(2,754)
Impairment and other provisions		39,156	45,956
Changes in unrealized revaluation of trading securities and derivative financial instruments		(4,969)	(7,806)
Gains less losses from investment securities available for sale, net of impairment loss		(19,040)	(35,405)
Impairment of investment securities available for sale		8,910	22,276
Changes in translation differences		17,287	1,078
Gains less losses on initial recognition of financial instruments		(3,746)	2,400
Share in income in associates		(285)	(204)
Profit on net monetary position resulting from hyperinflation		(381)	–
Depreciation and amortization		1,873	1,804
Deferred income tax		(1)	(2,533)
Income from discontinued operations		–	(172)
Other changes		(1,488)	(1,122)
Cash flows from operating activities before changes in operating assets and liabilities		**36,570**	**51,765**
Net (increase)/decrease in operating assets			
Precious metals		(1)	(11)
Financial assets at fair value through profit or loss		(9,847)	(14,124)
Amounts due from credit institutions		(35,988)	7,054
Loans to customers		(416,379)	13,173
Due from the Russian Government		44	88
Other assets		(9,537)	(22,308)
Net increase/(decrease) in operating liabilities			
Due to credit institutions, net of long-term interbank financing		55,354	14,119
Due to the Russian Government and the Bank of Russia, net of long-term special purpose financing		26,246	(50,636)
Amounts due to customers		31,648	88,264
Securities issued, net of bonds		3,708	(2,022)

	Notes	2011	2010
1	2	3	4
Other liabilities		1,344	2,339
Net cash flows from/(used in) operating activities		**(316,838)**	**87,701**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities		(260,441)	(359,083)
Proceeds from sale and redemption of investment securities		264,523	251,906
Purchase of property and equipment		(11,161)	(5,504)
Proceeds from sale of property and equipment		191	202
Investments in associates		(19)	–
Acquisition of subsidiaries, net of cash acquired	6	(2,178)	–
Net cash used in investing activities		**(9,085)**	**(112,479)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term interbank financing raised		218,477	92,952
Long-term interbank financing repaid		(76,975)	(69,326)
Long-term special purpose financing raised from the Russian Ministry of Finance		37,000	133,170
Long-term financing repaid to the Bank of Russia		–	(209,815)
Placement of bonds		97,704	168,077
Redemption of bonds		(27,923)	(62,541)
Purchase of bonds issued by the Group		(15,561)	(744)
Proceeds from sale of previously purchased bonds		8,499	743
Change in interest in existing subsidiaries		(4,238)	(257)
Dividends of subsidiaries		(8)	(3)
Contribution to additional paid-in capital from the Russian Government		62,600	–
Contribution to the share capital of subsidiary from minority shareholders		–	48
Net cash from financing activities		**299,575**	**52,304**
Effect of changes in foreign exchange rates against the ruble on cash and cash equivalents		7,704	230
Net increase/(decrease) in cash and cash equivalents		**(18,644)**	**27,756**
Cash and cash equivalents, beginning	**10**	**196,672**	**168,916**
Cash and cash equivalents, ending	**10**	**178,028**	**196,672**
SUPPLEMENTAL INFORMATION			
Income tax (paid)/recovered		(884)	(1,107)
Interest paid		(81,174)	(73,978)
Interest received		137,917	140,141
Dividends received		4,551	2,260

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

Notes to the consolidated financial statements

1. Principal activities

The Group of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" comprises state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" ("Vnesheconombank" or the "Bank"), Russian banks, CIS-based banks, and Russian and foreign companies controlled by 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" (Federal Law No. 82-FZ), 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 Federal Law No. 82-FZ. 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 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" (OJSC "SME Bank")), CJSC State Specialized Russian Export-Import Bank (CJSC "ROSEXIMBANK") and OJSC "Federal Center for Project Finance" to the charter capital.

Vnesheconombank performs the functions of an agent of the Russian Government for the purpose of 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 and Additional Agreement No.1 dated 23 December 2010 and Additional Agreement No.2 dated 8 December 2011. In 2012, the Russian Ministry of Finance expects to enter into a new additional agreement.

In 2011, Vnesheconombank received a lump-sum consideration in the amount of RUB 534 million (2010: RUB 534 million) for the agency services provided pursuant to Federal Law No. 357-FZ "On the Federal Budget for 2011 and the 2012 and 2013 Planned Period" dated 13 December 2010.

As described in greater detail in Note 8, at 31 December 2011 and 31 December 2010, the Russian Government owed Vnesheconombank RUB 1,147 million and RUB 1,123 million, respectively, relating to the London Club debt obligation of Vnesheconombank. These amounts have been presented in the Bank's statement of financial position and are not subject to offsetting. No allowance has been provided with respect to the Russian Government receivable under the London Club debt.

1. Principal activities (continued)

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. Vnesheconombank performs trust management of accumulated pension savings of insured citizens who have not selected a private management company and who have selected the Bank as the management company.

On 2 August 2009, Federal Law No. 182-FZ dated 18 July 2009, "On Amendments to Federal Law "On Non-state Pension Funds" and Federal Law "On Investment of Funds to Finance the Funded Part of Labor Pensions in the Russian Federation", came into effect which provides that from 1 November 2009 the Bank as the state trust management company shall form two portfolios: an extended investment portfolio and an investment portfolio of government securities. The Bank shall form the portfolios in accordance with the investment declarations approved by Resolution of the Russian Government No. 842 dated 24 October 2009.

During 2011, the Bank, as a state management company, mainly invested in state securities denominated in Russian rubles, and corporate bonds of highly credible Russian issuers and mortgage securities. At 31 December 2011 and 31 December 2010, total funds of the State Pension Fund of the Russian Federation placed in management to the state management company amounted to RUB 1,328,885million and RUB 737,821 million in the extended investment portfolio and RUB 5,157 million and RUB 2,398 million in the portfolio of government securities, respectively.

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

Since October 2008, Vnesheconombank has been taking measures aimed at supporting the financial system of the Russian Federation so as to implement Federal Law No. 173-FZ dated 13 October 2008, "On Additional Measures to Support the Financial System of the Russian Federation" (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" ("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), the United States of America, the UK, Italy, Germany, the Republic of South Africa, India, the People's Republic of China, the French Republic and the Swiss Confederation. The Bank's principal office is located at 9 Prospect Akademika Sakharova, Moscow.

At 31 December 2011 and 31 December 2010, the Group had 17,935 and 17,832 employees, respectively.

2. Basis of preparation

General

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

The Bank, its subsidiaries and associates maintain their accounting records and prepare financial statements in accordance with regulations applicable in their country of registration. These consolidated financial statements are based on those accounting books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between equity and net income/(loss) before adjustments and reclassifications and per IFRS is presented later in this note.

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

These consolidated financial statements are presented in millions of Russian rubles ("RUB million"), unless otherwise 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" uses the Belarusian Ruble ("BYR") as its functional currency. Public Stock Company "Joint-Stock Commercial Industrial and Investment

2. Basis of preparation (continued)

General (continued)

Bank" ("PSC Prominvestbank"), another foreign subsidiary of the Group, uses the Ukrainian Hryvnia ("UAH") as its functional currency.

London Club debt amounts denominated in foreign currencies are recorded at the official rates of the Bank of Russia at 31 December 2011 and 31 December 2010.

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 2011 and 31 December 2010.

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:

1. Liabilities to foreign creditors including all accrued interest which are serviced and redeemed at the expense of the Russian Government, except some remaining London Club obligations (Note 8);

2. Internal foreign currency debt to residents of the former USSR;

3. Claims to legal entities for foreign currency government and commercial loans granted to Russian Federation regions, former republics of the USSR, and other foreign countries representing both government external and internal foreign currency assets;

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

5. Participation claims and liabilities related to the reorganization of former USSR-owned foreign banks, which are subject to trilateral settlement by the 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;

6. 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.

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

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

	2011		2010	
	Equity	Income for the reporting year	Equity	Income for the reporting year
Before adjustments and reclassifications	**540,999**	**19,785**	**517,474**	**28,851**
Effect of consolidation of subsidiaries	(31,126)	(13,008)	(9,503)	700
Translation differences	2,247	2,660	(413)	158
Effect of accrued interest	(13,201)	(1,335)	(11,866)	(3,582)
Initial recognition of financial instruments	10,433	3,746	6,687	(2,400)
Impairment of financial assets	–	(8,910)	–	(22,276)
Provisions for losses	35,337	4,494	30,843	20,794
Effect of currency revaluation of the carrying value of available for sale equity instruments	–	(8,507)	–	–
Revaluation of trading securities and securities designated as at fair value through profit or loss	33	(8,425)	(113)	1,266
Fair value revaluation of investment securities available for sale	7,764	(1,078)	(7)	–
Derivative financial instruments	21,623	16,697	4,926	5,995
Goodwill written off	(41,841)	–	(41,841)	–
Other	407	1,361	(1,083)	(1,259)
International Financial Reporting Standards	**532,675**	**7,480**	**495,104**	**28,247**

3. Major subsidiaries

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

Subsidiaries	Ownership 31 December 2011	Ownership 31 December 2010	Country of incorporation	Type of activity
CJSC "ROSEXIMBANK"	100%	100%	Russia	Banking
OJSC "Belvnesheconombank"	97.49%	97.42%	Republic of Belarus	Banking
OJSC "VEB-Leasing"	98.96%	97.97%	Russia	Leasing
OJSC "SME Bank"	100%	100%	Russia	Banking
OJSC "Sviaz-Bank"	99.47%	99.47%	Russia	Banking
PSC "Prominvestbank"	97.85%	93.84%	Ukraine	Banking
CJSC "Kraslesinvest"	100%	100%	Russia	Production and processing of materials
CJSC "GLOBEXBANK"	99.99%	99.16%	Russia	Banking
LLC "VEB-Capital"	100%	100%	Russia	Finance intermediary
LLC "VEB Engineering"	67.55%	51.00%	Russia	Investment project implementation services
OJSC "Federal Center for Project Finance"	100%	100%	Russia	Finance intermediary
OJSC "North Caucasus Development Corporation"	100%	–	Russia	Advisory services, investment project support
LLC "Management Company RDIF"	100%	–	Russia	Management company
OJSC "EXIAR"	100%	–	Russia	Insurance
OJSC "The Far East and the Baikal region Development Fund"	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"	99.9975%	99.9975%	Russia	Mutual fund
Mutual Fund RDIF	100%	–	Russia	Mutual fund

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

In April 2011, Vnesheconombank made an additional contribution to the charter capital of LLC "VEB Capital" for the total amount of RUB 300 million. The Group's share in charter capital of LLC "VEB Capital" has not changed and is 100%.

In June 2011, Vnesheconombank established its subsidiary, Management Company of the Russian Direct Investment Fund (LLC "Management Company RDIF"). The Bank contributed RUB 300 million to the charter capital of the LLC "Management Company RDIF" (100% interest). The principal objective of the company's activities of the company includes creation of an environment that would encourage foreign investments in high-tech sectors of the Russian economy.

In October 2011, OJSC "EXIAR", the Russia's Export Credit and Investment Insurance Agency, was registered. Vnesheconombank is the sole founder of the Fund. The charter capital of OJSC "EXIAR" is paid to RUB 30,000 million. The Agency specializes in insuring export credits and investments against business and political risks.

In November 2011, OJSC "The Far East and the Baikal region Development Fund" possessing the equity equaling to RUB 500 million was registered. Vnesheconombank is the sole founder of the Fund. The Fund will specialize in promoting investment projects in the Far East and the Baikal region.

In December 2011, the Bank purchased 100% of units of the mutual fund of the long-term investments "The Russian Fund of Direct Investments" ("Mutual Fund RDIF") managed by LLC "Management Company RDIF". At 31 December 2011, the Bank invested RUB 62,600 million.

In December 2011, the Bank purchased 2,900,000 additionally issued shares of OJSC "Federal Center for Project Finance"at a total sum amounted to RUB 2,900 million (the shares were purchased at their nominal value equaling to RUB 1,000 per unit). The Group's share in the equity of OJSC "Federal Center for Project Finance" has not changed and is 100%.

4. Summary of significant accounting policies

Changes in accounting policies

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

4. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IAS 24 "Related Party Disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011. The disclosure of transactions with related parties in accordance with the revised IAS 24 is presented in Note 33.

Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendments alter the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. These amendments did not have any impact on the Group's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The Interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This interpretation had no impact on the Group's consolidated financial statements.

Improvements to IFRSs

In May 2010, the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" had impact on the accounting policies, financial position or performance of the Group, as described below.

- IFRS 3 Business Combinations: restricts the application of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportion-

(in millions of Russian rubles)

ate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.

- IFRS 7 Financial Instruments: Disclosures: introduces the amendments to quantitative and credit risk disclosures. The additional requirements were taken into account in the preparation of the annual financial statements.

- Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

- The following amended standards and interpretations had no impact on accounting policies, financial position or performance of the Group:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters;

- IFRIC 14 Prepayments of a Minimum Funding Requirement.

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. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses 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.

4. Summary of significant accounting policies (continued)

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 to fair value as at the acquisition date through profit or loss.

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

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

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

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

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 corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates

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

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

4. Summary of significant accounting policies (continued)

Financial assets

Initial recognition

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

Date of recognition

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

"Day 1" profit

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available for sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement 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 at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of income as gains less losses from investment securities available for sale. However, interest calculated using the effective interest method is recognized in the consolidated income statement.

Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Determination of fair value

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

4. Summary of significant accounting policies (continued)

Financial assets (continued)

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.

Offsetting

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

Reclassification of financial assets

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

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the 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, National Bank of Ukraine, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the above mentioned bid prices are recorded as translation differences from precious metals in other income.

Repurchase and reverse repurchase agreements and securities lending

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

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

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

4. Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from financial instruments at fair value through profit or loss or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

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

Promissory notes

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts to the 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 grants provided at below market interest rates are recognized in accordance with IAS 39. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the statement of financial position. This benefit is accounted for in accordance with IAS 20.

Leases

1. *Finance — Group as lessee*

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

2. *Finance — Group as lessor*

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

4. Summary of significant accounting policies (continued)

Leases (continued)

3. Operating — Group as lessee

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

4. Operating — Group as lessor

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

Impairment of financial assets

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

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

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

Amounts due from credit institutions and loans to customers

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

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the 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

4. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

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

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

Available-for-sale financial investments

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

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. 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:

4. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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

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

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

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

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

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

4. Summary of significant accounting policies (continued)

Taxation (continued)

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

Property and equipment

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

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

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

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

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 goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

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

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

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

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

Intangible assets other than goodwill

Intangible assets other than goodwill include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. 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.

4. Summary of significant accounting policies (continued)

Assets classified as held for sale

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

The sale qualifies as highly probable if the 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 of classification of the non-current asset (or disposal group) as held for sale.

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

Provisions

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

Retirement and other benefit obligations

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

In addition, the 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.

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:

4. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

Interest and similar income and expense

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

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

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

Fees and commission income

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

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

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

- Fee income from providing transaction services

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

Dividend income

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

Foreign currency translation

The consolidated financial statements are presented in Russian Rubles, which is the Bank's functional currency and Group's presentation currency. Each 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 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 dealing in foreign currencies. The official exchange rates of the Bank of Russia at 31 December 2011 and 2010 were RUB 32.1961 and RUB 30.4769 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

4. Summary of significant accounting policies (continued)

Foreign currency translation

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 (first phase)

In November 2009 and 2010 the IASB issued the first phase of IFRS 9 Financial Instruments. This Standard will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2015. The first phase of IFRS 9 introduces new requirements for classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. There is a new requirement for financial liabilities recognized through profit or loss using a fair value option that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income. The Group now evaluates the impact of the adoption of the new standard and considers the initial application date.

IFRS 10 Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements 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. Early application is permitted. The Group now evaluates possible effect of IFRS 10 on its financial position and financial results.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities 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 becomes effective for annual reporting periods starting on or after 1 January 2013. Early application is permitted. The Group now evaluates possible effect of IFRS 11 on its financial position and financial results.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 contains all disclosure requirements that were previously included in IAS 27 related to consolidated financial statements, as well as all disclosure requirements that were previously included in IAS 31 and IAS 28. These disclosures 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. This standard becomes effective for annual reporting periods beginning on or after 1 January 2013. Early application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its 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. This standard becomes effective for annual reporting periods beginning on or after 1 January 2013. Early application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. The Group now evaluates possible effect of IFRS 13 on its financial position and financial results.

4. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

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, jointly controlled entities, 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 IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 by the IASB and are effective for annual reporting periods beginning on or after 1 July 2011. The amendment introduces additional disclosure requirements for transferred financial assets that are not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

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

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The Group is now evaluating the possible impact of these amendments.

Amendment to IAS 19 Employee Benefits

The amendment to IAS 19 becomes effective for annual periods beginning on or after 1 January 2013. The amendment introduces significant changes to the method of 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, the amendment limits changes in net pension assets (liabilities) recognized in profit and loss to net interest income (expense) and cost of services. The amendment 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 to IAS 1 becomes effective for annual periods beginning on or after 1 July 2012. The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and will have no impact on the Group's financial position or performance.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment introduces a new deemed cost exemption for entities that have been subject to severe hyperinflation. The amendment will have no impact on the Group's financial position or performance.

Amendments to IAS 32 Financial Instruments: Presentation (guidance on offsetting financial assets and liabilities), and amendments to IFRS 7 Financial Instruments: Disclosures (disclosures on offsetting financial assets and liabilities).

In December 2011, the IASB issued amendments to its current guidance in IAS 32 on offsetting financial assets and liabilities and has introduced new disclosure requirements in IFRS 7. The amendments to IFRS 7 are to be retrospectively applied for annual periods beginning on or after 1 January 2013 and the amendments to IAS 32 are to be retrospectively applied for annual periods beginning on or after 1 January 2014. Earlier application is permitted. The amendments to IAS 32 now clarify that rights to set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default, bankruptcy or insolvency of all the counterparties to the contract. The amendments to IAS 32 also clarify that rights of set-off must not be contingent on a future event. The amendments to IAS 32 also clarify the offsetting criteria that the reporting entity is required to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IFRS 7 require the reporting entity to disclose information about rights of set-off and related arrangements for all recognized financial instruments that are set off in accordance with IAS 32. The Group now evaluates the impact of the adoption of new amendments and considers the initial application date.

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 financial statements.

The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the 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.

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 2011, the carrying value of goodwill amounted to RUB 1,843 million (at 31 December 2010: RUB 1,381 million). More details are provided in Note 21.

6. Business combinations

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 NTBextends 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.In September 2011, the General Shareholders' Meeting of CJSC "GLOBEXBANK" decided to reorganize CJSC "GLOBEXBANK" through merger with OJSC NTB (with the transfer of all titles and liabilities of OJSC NTB to CJSC "GLOBEXBANK").

The Group intends to use OJSC NTB's well developed regional network to develop banking operations in the Povolzhsky region, including the SME sector. The Group also plans to use retail banking framework, including the range of products, scoring and risk management technologies and IT systems, to develop and offer a new line of retail products, thus expanding its own retail banking business. New retail products will include deposits, mortgage loans and, possibly, car loans.

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 securities available for sale in the consolidated income statement.

The fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition were as follows:

	Fair value recognized on acquisition
Cash and cash equivalents	961
Financial assets at fair value through profit or loss	1,939
Amounts due from credit institutions	311
Loans to customers	23,129
Investment securities available for sale	51
Deferred income tax assets	227

6. Business combinations (continued)

Acquisitions in 2011 (continued)

	Fair value recognized on acquisition
Property and equipment	390
Other assets	4,701
	31,709
Amounts due to credit institutions	4,307
Amounts due to customers	21,508
Debt securities issued	1,385
Other liabilities	272
	27,472
Total 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 in 2011	**4,178**

The above goodwill of RUB 462 million includes the expected improvement of performance as a result of business combination. It is expected that the goodwill recognized will be non-deductible for taxation purposes.

The fair value of loans to customers is RUB 23,129 million. The contracted amount of loans to customers before allowance for impairment as at the date of acquisition of OJSC NTB was RUB 24,334 million. The best estimate of contracted cash flows not expected to be received as at the date of acquisition was RUB 1,469 million.

Since the date of acquisition, contribution of OJSC NTB to the Group's interest income, non-interest income amounted to RUB 2,597 million, RUB 318 million, respectively, to the Group's net income – loss in the amount of RUB 179 million. If the combination had occurred at the beginning of the year, the Group's net income for the period, interest income and non-interest income, including fee and commission income, would have been RUB 7,622 million, RUB 160,084 million and RUB 21,036 million,respectively.

At the acquisition date, a loan issued to OJSC NTB and discounted promissory notes of OJSC NTB were recognized in the financial statements of CJSC "GLOBEXBANK". 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

(in millions of Russian rubles)

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 compensation transferred upon acquisition was increased by the fair value of these liabilities.

Cash flows at acquisition were as follows:

Cash acquired with the subsidiary (included in cash flows from investing activities)	961
Cash paid at acquisition (included in cash flows from investing activities)	(3,139)
Net cash outflow	**(2,178)**

Changes in ownership interest in subsidiaries in 2011

Acquisition of interests

During the first six months 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 OJSC "Belvnesheconombank" at nominal value (equivalent to RUB 844 million at the date of payment).

In September 2011, the state registration of an additional issue of shares of OJSC "Belvnesheconombank" 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 OJSC "Belvnesheconombank" increased by RUB 867 million. The reallocation of interests between the Bank and the remaining non-controlling shareholders resulted in a RUB 20 million

(in millions of Russian rubles)

6. Business combinations (continued)

Changes in ownership interest in subsidiaries in 2011 (continued)

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 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 November 2011, the charter capital of LLC "VEB Engineering" was reduced from RUB 196 million to RUB 148 million. The Group's share in the subsidiary's equityincreased to 67.6%.

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 1Q 2011, 2,370,077 treasury shares of OJSC "Belvnesheconombank" were sold. The reallocation of interests resulted in an increase of the Group's retained earnings by RUB 2 million.

In 4Q 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.

Changes in ownership interest in subsidiaries in 2010

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

In February and March 2010, the Group additionally purchased 830,229 ordinary registered shares of OJSC "VEB-Leasing" to total RUB 1,240 million. These shares were purchased from the subsidiary and previously were recorded as treasury shares. The increase in the Group's interest in

OJSC "VEB-Leasing" from 78.07% to 97.97% resulted in decrease in a non-controlling interest by RUB 531 million, the amounts of RUB 529 million and RUB 2 million were recognized in the retained earnings with the Group's equity and in the foreign currency translation reserve, respectively.

Acquisition of additional interest in CJSC "GLOBEXBANK"

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

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

Purchase of treasury shares of PSC Prominvestbank from non-controlling shareholders

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

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

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

(in millions of Russian rubles)

7. Segment information

For the management purposes the Group has five operating business segments:

Segment 1 Vnesheconombank, OJSC "SME Bank", CJSC ROSEXIMBANK.

Segment 2 OJSC "Sviaz-Bank", CJSC "GLOBEXBANK".

Segment 3 PSC Prominvestbank (Ukraine).

Segment 4 OJSC "Belvnesheconombank" (Republic of Belarus).

Segment 5 OJSC "VEB-Leasing", LLC "VEB Capital", LLC "VEB Engineering", OJSC "Federal Center for Project Finance", Mutual Hedge Fund MRIF, Mutual Equity Fund MRIF-II, OJSC "North Caucasus Development Corporation", LLC "Management Company RDIF", OJSC "EXIAR", Mutual Fund RDIF, OJSC "The Far East and the 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 anti-crisis measures developed by the Russian Government. Segments 3 and 4 are responsible for

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 securities available for sale	10,064	275
Gains less losses from foreign currencies	(2,391)	515
Share in income of associates	(43)	–
Other income/(expenses)	8,751	877
Total external income	**120,291**	**29,274**
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)

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 access operating performance. Segments results are defined in a different way from that used for the purposes of the consolidated financial statements, as shown in the table below. Income taxes are managed on a group basis and are not allocated to operating segments.

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

In 2011 and 2010, 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 entitiesunder control of the Russian Federation. Such income was mainly received from transactions within Segments 1 and 2.

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

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**
–	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)**

(in millions of Russian rubles)

7. Segment information (continued)

2011	Segment 1	Segment 2
Allowance for loan impairment	(27,831)	(2,422)
Personnel expenses	(5,681)	(5,456)
Depreciation	(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/(benefit)		
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 securities of Segment 1 and a RUB 300 million loss from securities of Segment 3 by transferring the negative revaluation previously recorded in comprehensive income to gains less losses from investment securities available for sale.

2010	Segment 1	Segment 2
INCOME		
External clients		
Interest income	102,780	18,928
Fee and commission income	3,869	1,652
Gains less losses arising from financial instruments at fair value through profit or loss	10,011	256
Gains less losses from investment securities available for sale	11,988	1,479
Gains less losses from foreign currencies	403	298
Share in income of associates	208	–
Other income/(expenses)	801	466

Segment 3	Segment 4	Segment 5	Total before intersegment (income)/ losses	Adjustments	Total
(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**

Segment 3	Segment 4	Segment 5	Total before intersegment (income)/ losses	Adjustments	Total
19,509	2,521	4,025	147,763	–	**147,763**
1,253	709	32	7,515	–	**7,515**
–	–	(89)	10,178	–	**10,178**
(343)	1	4	13,129	–	**13,129**
928	655	185	2,469	–	**2,469**
–	16	(20)	204		**204**
(675)	575	447	1,614	–	**1,614**

(in millions of Russian rubles)

7. Segment information (continued)

2010	Segment 1	Segment 2
Total external income	**130,060**	**23,079**
Intersegment income		
Interest income	5,055	239
Other intersegment income less expenses	524	761
Total intersegment income	**5,579**	**1,000**
Total income	**135,639**	**24,079**
Interest expense	(63,895)	(7,513)
Fee and commission expense	(783)	(422)
Allowance for loan impairment	(30,460)	(4,064)
Personnel expenses	(3,956)	(4,095)
Depreciation	(399)	(436)
Other impairment provision (charges)/reversal	(96)	(138)
Other expenses	(4,975)	(4,259)
Total external expense	**(104,564)**	**(20,927)**
Intersegment expenses		
Interest expense	(456)	(2,335)
Other intersegment (expenses)/ income	(1,437)	(82)
Total intersegment expenses	**(1,893)**	**(2,417)**
Total expenses	**(106,457)**	**(23,344)**
Segment results	**29,182**	**735**
Income tax expense/(benefit)		
Profit after taxation for the year from continuing operations		
Profit/(loss) from discontinued operations		
Profit for the year		
Other segment information		
Capital expenditure	246	561
Investments in associates	155	–

Segment 3	Segment 4	Segment 5	Total before intersegment (income)/ losses	Adjustments	Total
20,672	**4,477**	**4,584**	**182,872**	**–**	**182,872**
–	(2)	17	5,309	(5,309)	–
(139)	126	105	1,377	(1,377)	–
(139)	**124**	**122**	**6,686**	**(6,686)**	–
20,533	**4,601**	**4,706**	**189,558**	**(6,686)**	**182,872**
(7,594)	(728)	(1,360)	(81,090)	–	**(81,090)**
(155)	(109)	(16)	(1,485)	–	**(1,485)**
(10,898)	(249)	(64)	(45,735)	–	**(45,735)**
(2,536)	(1,076)	(702)	(12,365)	–	**(12,365)**
(460)	(102)	(59)	(1,456)	–	**(1,456)**
100	(29)	(58)	(221)	–	**(221)**
(2,317)	(712)	(1,488)	(13,751)	–	**(13,751)**
(23,860)	**(3,005)**	**(3,747)**	**(156,103)**	**–**	**(156,103)**
(1,654)	(192)	(637)	(5,274)	5,274	–
–	(3)	3	(1,519)	1,519	–
(1,654)	**(195)**	**(634)**	**(6,793)**	**6,793**	–
(25,514)	**(3,200)**	**(4,381)**	**(162,896)**	**6,793**	**(156,103)**
(4,981)	**1,401**	**325**	**26,662**	**107**	**26,769**
					1,306
					28,075
					172
					28,247
974	598	3,423	5,802	–	**5,802**
1	40	5,442	5,638	–	**5,638**

(in millions of Russian rubles)

7. Segment information (continued)

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

Reconciliation of the total segment assets to total assets of the Group according to IFRS is presented below:

	31 December 2011	31 December 2010
Segment assets		
Segment 1	1,931,864	1,631,391
Segment 2	413,190	274,192
Segment 3	146,528	126,863
Segment 4	42,158	36,994
Segment 5	299,501	87,082
Total before deducting intersegment assets	**2,833,241**	**2,156,522**
Intersegment assets	(301,599)	(113,638)
Adjustments	305	588
Total assets	**2,531,947**	**2,043,472**

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, acquisitions 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 2011 and 2010 and for the years then ended is presented in the table below:

	2011				2010			
	Russia	Ukraine	Other countries	Total	Russia	Ukraine	Other countries	Total
Interest income from external clients	140,274	15,106	4,407	159,787	125,733	19,509	2,521	147,763
Non-current assets	25,027	10,628	2,761	38,416	13,678	10,700	1,791	26,169

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:

	2011	2010
Interest-bearing loans and deposits from the Russian Ministry of Finance	647,319	594,028
Interest-bearing deposits from the Bank of Russia	225,664	211,647
Settlements related to redemption of Russian Government loans	10,092	7,438
Special purpose funds	1,259	996
Current accounts in precious metals	167	201
External debt payment funds	73	575
Current accounts of the Russian Government	16	16
Other funds	2	–
Due to the Russian Government, its institutions and the Bank of Russia	**884,592**	**814,901**

At 31 December 2011 and 2010, 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 375,243 million (31 December 2010: RUB 372,270 million). These deposits were raised at annual rates of 6.25% and 7.25% (31 December 2010: 6.25% and 7.25%) and have maturity dates from December 2014 through December 2020.

In addition, at 31 December 2011 and 31 December 2010, interest-bearing deposits from the Russian Ministry of Finance included RUB-denominated funds intended to finance credit institutions and legal entities supporting small and medium enterprises. OJSC "SME Bank", a subsidiary bank, is responsible for implementing the government financial support.At 31 December 2011, the amount of financing was RUB 27,956 million (at 31 December 2010: RUB 27,642 million). The funds are

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

denominated in Russian rubles, bear interest at 6.25% p.a. (31 December 2010: 6.25%) and mature in December 2017.

Pursuant to amendments to Federal Law No. 173-FZ and Regulation of the Russian Government No. 18 dated 19 January 2008, the interest rate on the above deposits was significantly lowered in August 2010. As at 31 December 2010, according to IFRS requirements, the Group derecognized initial liabilities and recognized new liabilities. As the new terms of financing were considered to be non-market, gains on initial recognition of financial instruments in the amount of RUB 42,192 million were recognized in the consolidated statement of incomefor the year ended 31 December 2010.

At 31 December 2011, interest-bearing deposits from the Russian Ministry of Finance include also RUB denominated deposits in the amount of RUB 33,833 million (31 December 2010: RUB 2,585 million) placed in Vnesheconombank pursuant to Federal Law No. 173-FZ at the interest rate 6.25% p.a. maturing in May 2020 for further lending to the 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 reporting period ended 31 December 2011 (for the year ended31 December 2010: RUB 416 million).

In addition to the above, at 31 December 2011 and 31 December 2010, the interest-bearing deposits from the Russian Ministry of Finance include funds intended to finance investment projects. The funds are denominated in US dollars and mature from December 2012 to April 2013. At 31 December 2011, the amount of financing was RUB 205,576 million (31 December 2010: RUB 190,916 million maturing from July 2011 through December 2012).

At 31 December 2011, the Russian Ministry of Finance placed temporarily available funds on RUB denominated short-term deposits with the Group's subsidiary banks, amounting to RUB 4,120 million and maturing from January to March 2012.

At 31 December 2011 and 31 December 2010, the interest-bearing deposits from the Bank of Russia include special RUB-denominated deposits for the purposes of implementing the program of financial support to OJSC "Sviaz-Bank" (31 December 2011 and 31 December 2010: RUB 123,925 million and RUB 124,462 million, respectively) and CJSC "GLOBEXBANK" (31 December 2011 and 31 December 2010: RUB 85,561 million and RUB 86,682 million, respectively) to ensure activities on development of business of the above entities. Deposits raised for the outlined purposes were extended by 1 year in 2011 at interest rates below the market level. According to IFRS requirements,

(in millions of Russian rubles)

the Group derecognized initial liabilities and recognized new liabilities. Gains on initial recognition of financial instruments in the amount of RUB 5,767 million were recognized in the consolidated statement of income for the reporting period ended 31 December 2011 (for the year ended 31 December 2010: RUB 3,080 million).

At 31 December 2011, interest-bearing deposits of the Bank of Russia include short-term RUB denominated deposits in the amount of RUB 16,178 million maturing from March to November 2012, raised by the Groups' subsidiaries.

Settlements related to redemption of Russian Government loans represent funds received from borrowers as repayment of loans granted by the Russian Government. These funds and the processing of payments are managed and conducted by the Bank in accordance with Agency Agreements. At 31 December 2011 and 31 December 2010, these amounts are regarded as due to the Russian Government.

At 31 December 2011 and 31 December 2010, 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 documentation between the Bank and foreign creditors signed on 6 October 1997.These agreements required the original debts and the accrued interest thereon, denominated in various currencies, to be converted into Restructured Loans ("PRINs") denominated in base currencies (Swiss Francs, Japanese Yens, Deutsche Marks, European Currency Units and US Dollars) and Interest Arrears Notes ("IANs") denominated in US dollars.

The London Club debt was issued as a legal obligation of the Vnesheconombank of the USSR. Based on Russian Government resolution No. 1167 "On the Settlement of the Indebtedness of the Former USSR to Foreign Commercial Banks and Financial Institutions (the London Club)" dated 15 September 1997 and the Declaration of Support dated 28 November 1997, the Russian Government expressed its willingness, without right of legal recourse from creditors or specific commitment,

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 31.7 billion (at 31 March 2000) was exchanged for a new issue of Eurobonds issued by the 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 PRIN and IAN holders, who have not exchanged these instruments for the Russian Federation Eurobonds maturing in 2010 and 2030 under the agreement between the Russian Government and representatives of the London Club of creditors reached on 11 February 2000. At 31 December 2010, liabilities to PRIN and IAN holders were included in the statement of financial position.

Pursuant to Resolution of the Russian Government No. 1047-r dated 30 July 2009 concerning final settlement of the external debt obligations of the Russian Government and former USSR to London Club of Creditors, in December 2009, claims in the amount of RUB 31 million were settled. At 31 December 2011, the obligations settled and claims not presented for settlement by creditors, except for those mentioned above, were removed from the consolidated statement of financial position based on the letter of the Russian Ministry of Finance.

The London Club debt comprises:

	2011	2010
IAN	1,058	1,020
PRIN	–	16
Interest accrued on the PRINs and IANs, including overdue interest and penalties	89	87
Due to London Club	**1,147**	**1,123**

(in millions of Russian rubles)

9. Agency operations

Agency operations of Vnesheconombank

At 31 December 2011 and 2010, 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:

	2011	2010
Cash on hand	13,293	12,450
Current accounts with the Bank of Russia	19,427	19,127
Correspondent nostro accounts with credit institutions and current stock broker accounts:		
Russian Federation	15,621	11,981
other countries	36,923	45,361
Interest-bearing loans and deposits maturing within 90 days:		
due from the Bank of Russia	120	195
due from credit institutions	90,015	83,748
Non-interest deposits with OECD credit institutions up to 90 days	94	–
Reverse repurchase agreements with credit institutions for up to 90 days	2,535	23,810
Cash and cash equivalents	**178,028**	**196,672**

At 31 December 2011, reverse repurchase agreements included loans of RUB 2,385 million (31 December 2010: RUB 23,350 million) issued to credit institutions and secured by corporate bonds with the fair value of RUB 2,786 million (31 December 2010: RUB 25,490 million), as well as loans in the amount of RUB 150 million (31 December 2010: RUB 460 million) issued to credit institutions and secured by corporate shares with the fair value of RUB 217 million (31 December 2010: RUB 648 million).

(in millions of Russian rubles)

11. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2011	2010
Trading financial assets	41,814	37,277
Derivative financial assets (Note 13)	29,468	11,285
Financial assets designated as at fair value through profit or loss	23,080	27,582
Financial assets at fair value through profit or loss	**94,362**	**76,144**

Trading financial assets held by the Group comprise:

	2011	2010
Debt securities:		
Corporate bonds	17,006	10,839
Federal Loan Bonds (OFZ)	3,650	513
Municipal and sub-federal bonds, bonds of the Bank of Russia	725	2,501
	21,381	**13,853**
Eurobonds issued by the Russian Federation	7,115	10,481
Eurobonds of Russian and foreign issuers	1,115	1,875
	8,230	**12,356**
Equity securities:		
Shares	11,541	11,068
Other financial assets	**662**	**–**
Trading financial assets	**41,814**	**37,277**

Financial assets designated as at fair value through profit or loss

At 31 December 2011 and 31 December 2010, 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 income statement 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 2011, the fair value of these shares and loss from its change during the period (as recorded in the consolidated income statement) amount to RUB 18,314 million (31 December 2010: RUB 24,825 million) and RUB 6,511 million, respectively.

(in millions of Russian rubles)

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

	2011	2010
Obligatory reserve with the central banks	4,774	1,499
Non-interest-bearing deposits	9,823	9,602
Subordinated loans	349,940	347,090
Interbank loans and term interest-bearing deposits with credit institutions	92,479	59,169
Mortgage bonds	1,079	–
	458,095	**417,360**
Less allowance for impairment	(397)	(1,719)
Amounts due from credit institutions	**457,698**	**415,641**

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 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 2011, non-interest-bearing deposits include non-interest-bearing deposits in clearing currencies in the amount of RUB 9,498million (31 December 2010: RUB 8,113 million), gross.The use of these deposits is subject to certain restrictions as stipulated by agreements between governments of the respective countries. The funds can be used for purchase of goods and services by Russian importers who purchase clearing currencies of tenders organized by the Group under the supervision of the Russian Ministry of Finance.

At 31 December 2011 and 31 December 2010, subordinated loans issued to Russian credit institutions comprised loans in the amount of RUB 349,940 million and RUB 346,880 million, respectively, issued to 16 Russian credit institutions in accordance with Federal Law No. 173-FZ carrying interest from 6.5% to 7.5% p.a. (31 December 2010: from 6.5% and 7.5%) and maturing from December 2014 to December 2020.

(in millions of Russian rubles)

12. Amounts due from credit institutions (continued)

Pursuant to amendments to Federal Law No. 173-FZ introduced in July 2010, the interest rate on the above deposits was lowered in August 2010. According to the adopted accounting policies, the Group derecognized initial receivables and recognized new subordinated loans. The new terms of placement were considered to be non-market.The Bank discounted these loans using a relevant market rate of placement, and the loss on initial recognition of financial instruments in the amount of RUB 42,073 million was recognized in the consolidated statement of income for the year ended 31 December 2010.

At 31 December 2011, interbank loans and term interest-bearing deposits with credit institutions include funds intended to finance (via the subsidiary bank OJSC "SME Bank") credit institutions supporting small and medium enterprises. At 31 December 2011, loans issued amounted to RUB 58,651 million (31 December 2010: RUB 50,051 million). For the reporting year ended 31 December 2011, loss on initial recognition of the part of these financial instruments in the amount of RUB 733 million was recognized in the consolidated statement of income (for the year ended31 December 2010: RUB 4,341 million).

At 31 December 2011, mortgage bonds represent debt securities of a Russian bank in the amount of RUB 1,079 million at the rate below the market level and maturing in 2043, which were purchased in September 2011 by Vnesheconombank under 2010-2013 Investment Program to support affordable housing construction and mortgage projects. For the reporting period ended 31 December 2011, loss on initial recognition of financial instruments in the amount of RUB 559 million was recognized in the statement of income.

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

	2011	2010
1 January	**1,719**	**1,533**
Charge/(reversal)	(57)	186
Write-offs	(1,265)	–
31 December	**397**	**1,719**

(in millions of Russian rubles)

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.

	2011			2010		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and swaps – foreign	141,999	12,363	4,185	170,568	2,952	786
Forwards and swaps – domestic	37,939	1,465	530	44,956	308	529
Securities forward contracts						
Units	408	449	–	368	719	–
Bonds of Russian and foreign issuers	8,134	62	21	–	–	–
Interest rate swaps						
Foreign contracts	20,221	13	1,953	21,378	8	1,691
Domestic contracts	–	–	–	4,746	66	72
Option contracts	44,315	14,829	–	41,070	7,232	2,090
Cross-currency interest rate swap	27,953	287	256	6,889		248
Total derivative assets/ liabilities		**29,468**	**6,945**	–	**11,285**	**5,416**

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

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

13. Derivative financial instruments (continued)

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

At 31 December 2011 and 2010, the Group's options included asset related to a put option with a fair value of RUB 8,731 million and RUB 7,232 million, respectively, for shares of a Russian company recognized within the Group's investment securities available for sale.

At 31 December 2011, the Group's options included asset related to a put option issued with a fair value of RUB 6,081 million for shares of a Russian company recognized in the Group's securities designated as at fair value through profit or loss to avoid accounting inconsistencies. At 31 December 2010, the Group's options included liability related to a call option issued with a fair value of RUB 2,090 million for shares of a Russian company recognized in the Group's securities designated as at fair value through profit or loss to avoid accounting inconsistencies.

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.

(in millions of Russian rubles)

14. Loans to customers

Loans to customers comprise:

	2011	2010
Commercial loans, including loans to individuals	634,076	437,846
Project finance	464,659	372,547
Net investments in leases	123,635	47,552
Financing of operations with securities	41,810	20,918
Back-to-back finance	34,328	2,604
Promissory notes	21,325	19,606
Reverse repurchase agreements	19,339	3,899
Pre-export finance	12,892	18,595
Claims under letters of credit	11,003	4,933
Mortgage bonds	753	–
Other	28,412	3,637
Gross loans to customers	**1,392,232**	**932,137**
Less allowance for impairment	(163,309)	(144,211)
Loans to customers	**1,228,923**	**787,926**

At 31 December 2011 and 31 December 2010 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 reporting 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(for the year ended 31 December 2010: RUB 399 million).

At 31 December 2011, mortgage bonds included bonds represent debt securities of OJSC "AHML" in the amount of RUB 753 million with an interest rate below the market value and maturing in 2044, purchased by Vnesheconombank under the Vnesheconombank's 2010-2013 Investment Program to support affordable housing construction and mortgage projects in December 2011. For the reporting year ended 31 December 2011, loss on initial recognition of financial instruments in the amount of RUB 378 million was recognized in the statement of income.

(in millions of Russian rubles)

14. Loans to customers (continued)

Allowance for impairment of loans to customers

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

	Project finance 2011	Commercial loans 2011	Pre-export finance 2011	Net investment in leases 2011
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)
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**
Individually impaired loans before impairment allowance	**161,938**	**102,065**	**2,163**	**54**

	Project finance 2010	Commercial loans 2010	Pre-export finance 2010	Net investment in leases 2010
1 January 2010	**62,054**	**54,214**	**1,847**	**133**
Charge (reversal)	14,947	26,621	31	75
Write-offs	(2)	(14,154)	–	(44)
Interest accrued on impaired loans	(7,029)	(990)	(111)	–
31 December 2010	**69,970**	**65,691**	**1,767**	**164**
Individual impairment	61,965	52,106	1,471	–
Collective impairment	8,005	13,585	296	164
	69,970	**65,691**	**1,767**	164
Individually impaired loans before impairment allowance	**152,739**	**103,789**	**1,999**	**–**

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**

Financing of operations with securities 2010	Promissory notes 2010	Reverse repurchase agreements 2010	Back-to-back finance 2010	Claims under letters of credit 2010	Other 2010	Total 2010
669	**183**	**501**	**–**	**1288**	**272**	**121,161**
2,067	561	(281)	96	1,407	25	45,549
(153)	–	–	–	–	(16)	(14,369)
–	–	–	–	–	–	(8,130)
2,583	**744**	**220**	**96**	**2,695**	**281**	**144,211**
2,043	77	213	–	2,610	234	120,719
540	667	7	96	85	47	23,492
2,583	**744**	**220**	**96**	**2,695**	**281**	**144,211**
2,056	**77**	**346**	**–**	**2,610**	**234**	**263,850**

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.

The market value of collateral is monitored on a regular basis, additional collateral is requested in accordance with the underlying agreement, and the market value of collateral obtained is monitored during review of the adequacy of the allowance for loan impairment.

Reverse repurchase agreements

At 31 December 2011, reverse repurchase agreements were in respect of marketable shares with the fair value of RUB 19,871 million, and marketable corporate bonds with the fair value of RUB 4,758 million. At 31 December 2010, reverse repurchase agreements were signed in respect of marketable shares with the fair value of RUB 931 million, and marketable corporate bonds with the fair value of RUB 3,700 million.

(in millions of Russian rubles)

Concentration of loans to customers

At 31 December 2011, the total outstanding amount of loans to three major borrowers/groups of related borrowers was RUB 243,102 million, equivalent to 17.5% of the Bank's gross loan portfolio (31 December 2010: RUB 210,585 million or 22.6%). At 31 December 2011, an impairment allowance of RUB 39,145 million was made against these loans (31 December 2010: RUB 41,359 million). At 31 December 2011, these loans included loans issued to an associate of the Group involved in the real estate business, which accounted for 10.2 % of the gross loan portfolio (31 December 2010: 14.4 %).

At 31 December 2011 and 2010, in addition to the three major borrowers mentioned above, loans were issued to ten major borrowers/ groups of related borrowers in the amount of RUB 241,210 million and RUB 147,587 million or 17.3% and 15.8% of the gross loan portfolio, respectively. At 31 December 2011 and 2010, an allowance was made for those loans in a total amount of RUB 14,937 million and RUB 12,878 million, respectively.

Loans have been extended to the following types of customers:

	2011	2010
Private enterprises	1,131,991	731,254
State-controlled entities	173,120	153,395
Companies under foreign state control	37,098	27,566
Foreign states	24,667	658
Individuals	19,997	11,017
Regional authorities	2,794	7,051
Individual entrepreneurs	2,565	1,196
	1,392,232	**932,137**

Loans are made principally in the following industry sectors:

	2011	%	2010	%
Real estate and development	308,815	22	251,558	27
Finance companies	259,426	19	157,966	17
Manufacturing, heavy machinery and military-related goods production	255,600	18	158,056	17
Transport	138,405	10	57,117	6
Agriculture	85,973	6	51,137	5
Trade	82,777	6	58,914	6
Energy	69,170	5	51,832	6
Oil and gas	46,555	3	41,307	4

BACK TO CONTENTS

(in millions of Russian rubles)

14. Loans to customers (continued)

Concentration of loans to customers (continued)

	2011	%	2010	%
Metallurgy	40,459	3	28,223	3
Foreign states	24,667	2	658	0
Individuals	19,997	2	11,017	1
Telecommunications	18,946	1	27,299	3
Mining	9,656	1	3,287	0
Logistics	5,427	0	5,295	1
Regional authorities	2,794	0	7,051	1
Mass media	732	0	276	0
Other	22,833	2	21,144	3
	1,392,232	**100**	**932,137**	**100**

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

Finance lease receivables

The analysis of finance lease receivables as of 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**

The analysis of finance lease receivables as of 31 December 2010 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	11,649	37,985	20,517	70,151
Unearned future finance income on finance leases	(874)	(11,762)	(9,963)	(22,599)
Net investment in finance leases	**10,775**	**26,223**	**10,554**	**47,552**

(in millions of Russian rubles)

15. Investment securities

Investment securities available for sale

Available-for-sale investment securities comprise:

	2011	2010
Debt securities		
Corporate bonds	139,549	147,824
Eurobonds of Russian and foreign issuers	25,261	18,781
Federal loan bonds (OFZ)	22,557	135
Promissory notes	15,386	10,600
Debt instruments issued by foreign government bodies	3,848	7,958
Eurobonds issued by the Russian Federation	2,124	1
Municipal and sub-federal bonds	549	1,678
	209,274	**186,977**
Equity securities		
Shares	245,011	284,898
Less allowance for impairment (Note 20)	–	(120)
	245,011	**284,778**
Investment securities available for sale	**454,285**	**471,755**
Securities pledged under repurchase agreements		
Debt instruments issued by foreign government bodies	3,217	–
Shares	836	144
Eurobonds of Russian and foreign issuers	662	162
Corporate bonds	–	2,245
Russian MinFin bonds (OVGVZ)	–	2,222
Municipal and sub-federal bonds	–	55
Investment securities available for sale and pledged under repurchase agreements	**4,715**	**4,828**

For the reporting year ended 31 December 2011, the Group recognized a RUB 8,910 million loss from impairment of available-for-sale securities (for the year ended 31 December 2010: RUB 22,276 million) by transferring the negative revaluation earlier recorded in comprehensive income to gains less losses from investment securities available for sale of the consolidated statement of income (Note 28).

(in millions of Russian rubles)

15. Investment securities (continued)

Investment securities held to maturity

Investment securities held to maturity comprise:

	2011	2010
Eurobonds of Russian and foreign issuers	15,127	17,860
Corporate bonds	1,396	2,368
Municipal and sub-federal bonds	1,297	1,338
Federal loan bonds (OFZ)	25	51
Promissory notes	9	–
	17,854	**21,617**
Less allowance for impairment (Note 20)	(75)	(81)
Investment securities held to maturity	**17,779**	**21,536**

16. Due from the Russian Government

At 31 December 2011, amounts due from the Russian Government include primarily claims to the Russian Ministry of Finance of RUB 124 million (31 December 2010: RUB 119 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 2011	Ownership 31 December 2010	Country	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

(in millions of Russian rubles)

Associates	Ownership 31 December 2011	31 December 2010	Country	Industry
OJSC "Ilyushin Finance Co."	21.39%	21.39%	Russia	Leasing
LLC "VEB-Invest",	19.00%	19.00%	Russia	Investment
		Share of assets:		
CMIF "Bioprocess Capital Ventures"	50.00%	50.00%	Russia	Investment

Movement in investments in associates was:

	2011	2010
Balance, beginning of the reporting period	5,638	5,500
Share of net profit	285	204
Dividends received	(31)	–
Write-offs	–	(38)
Translation differences	3	(2)
Cost of acquisition	19	–
Other	(20)	(26)
Investments in associates, end of the reporting period	**5,894**	**5,638**

At 31 December 2011, unrecognized Group's share in loss of its associates amounted to RUB 1,853 million (31 December 2010: RUB 2,560 million). At 31 December 2011, total unrecognized Group's share in loss of its associates amounted to RUB 4,854million (31 December 2010: RUB 3,001 million).

The following table illustrates summarized aggregated financial information of the associates:

Aggregated assets and liabilities of associates	2011	2010
Assets	185,337	180,055
Liabilities	183,085	172,967
Net assets	**2,252**	**7,088**

Aggregated revenue and loss of associates	2011	2010
Revenue	7,329	11,965
Loss	(8,429)	(12,204)

(in millions of Russian rubles)

18. Property and equipment

The movements in property and equipment were as follows:

	Buildings	Land	Equipment	Motor vehicles	Leasehold improve-ments	Assets under construction and warehoused property and equipment	Total
COST							
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)	0
Translation effect	422	3	(61)	44	–	(19)	389
31 December 2011	**17,745**	**234**	**6,002**	**2,337**	**535**	**14,515**	**41,368**
ACCUMULATED AMORTIZATION AND IMPAIRMENT							
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)
Transfers	–	–	–	–	–	–	–
31 December 2011	**3,300**	**–**	**3,006**	**624**	**152**	**–**	**7,082**
NET BOOK VALUE							
31 December 2010	**12,732**	**231**	**2,292**	**1,465**	**200**	**6,630**	**23,550**
31 December 2011	**14,445**	**234**	**2,996**	**1,713**	**383**	**14,515**	**34,286**
COST							
31 December 2009	**16,021**	**215**	**4,337**	**682**	**499**	**3,938**	**25,692**
Additions	251	16	822	1,404	75	3,234	5,802
Disposals	(386)	–	(332)	(84)	(230)	(335)	(1,367)
Reclassification of property and equipment to investment property	(143)	–	–	–	–	–	(143)
Transfers	87	–	127	–	(9)	(205)	–
31 December 2010	**15,830**	**231**	**4,954**	**2,002**	**335**	**6,632**	**29,984**

(in millions of Russian rubles)

	Buildings	Land	Equipment	Motor vehicles	Leasehold improve-ments	Assets under construction and warehoused property and equipment	Total
ACCUMULATED AMORTIZATION AND IMPAIRMENT							
31 December 2009	**2,790**	**–**	**2,064**	**351**	**81**	**2**	**5,288**
Depreciation charge	365	–	835	186	70	–	1,456
Depreciation of property and equipment reclassified to investment property	(3)	–	–	–	–	–	(3)
Disposals	(54)	–	(244)	(76)	(24)	–	(398)
Transfers	–	–	(8)	–	8	–	–
Impairment	–	–	15	76	–	–	91
31 December 2010	**3,098**	**–**	**2,662**	**537**	**135**	**2**	**6,434**
NET BOOK VALUE							
31 December 2009	**13,231**	**215**	**2,273**	**331**	**418**	**3,936**	**20,404**
31 December 2010	**12,732**	**231**	**2,292**	**1,465**	**200**	**6,630**	**23,550**

19. Taxation

Income tax expense comprises:

	2011	2010
Current tax charge/(benefit)	1,093	1,227
Deferred tax (benefit)/expense – origination and reversal of temporary differences in the statement of income	(1)	(2,533)
Hyperinflation effect	(58)	–
Income tax expense/(benefit)	**1,034**	**(1,306)**

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

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2011 and 2010. The tax rate for companies other than banks was also 20% for 2011 and 2010. The tax rate for interest income on state securities was 15% for Federal taxes.

(in millions of Russian rubles)

19. Taxation (continued)

The aggregate income tax rate effective in the Republic of Belarus for 2011 was 24% and for 2010 26.28%. The aggregate income tax rate effective in Ukraine for 2011 was 23% and for 2010 25%.

In accordance with federal legislation, effective from reorganization date income and expenses received and paid by Vnesheconombank are not accounted when determining taxable base for income tax purposes. Therefore, income and expenses of the Bank for 2011 and 2010 are not included into taxable base for income tax purposes, which had significant impact on the Group's effective income tax rate for 2011 and 2010.

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

	2011	2010
Current income tax assets	595	712
Deferred income tax asset	2,737	1,638
Income tax assets	**3,332**	**2,350**
Current income tax liability	167	27
Deferred income tax liability	1,718	1,015
Income tax liabilities	**1,885**	**1,042**

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

	2011	2010
Income before tax from continuing operations	8,514	26,769
Loss before tax from discontinued operations	–	(184)
Income before tax	**8,514**	**26,585**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**1,703**	**5,317**
Tax effect from the following income and expenses:		
Non-taxable income on state securities/income taxed at different rates	(264)	(181)
Income taxed at different rate	(237)	(200)
Non-taxable income and non-deductible expenses	1,565	475
Currency translation differences	1,230	(20)
Vnesheconombank's income and expenses not included in tax base for income tax purposes	(2,614)	(5,477)
Change in income tax resulting from change in tax rate and other changes in the legislation	1,143	(1,835)
Change in unrecognized deferred tax assets	(1,097)	179
Other	(395)	80

(in millions of Russian rubles)

	2011	2010
Income tax (benefit)/charge	**1,034**	**(1,662)**
Income tax (benefit)/expense recognized in the consolidated statement of income	1,034	(1,306)
(Benefit)/expense related to the income tax from discontinued operations	–	(356)
	1,034	**(1,662)**

(in millions of Russian rubles)

19. Taxation (continued)

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

		Origination and reversal of temporary differences	
	2009	In the statement of income	In other comprehensive income
Tax effect of deductible temporary differences:			
Allowance for impairment	486	236	–
Change in fair value of securities	98	178	(52)
Initial recognition of financial instruments at fair value	–	907	–
Tax losses carried forward	4,848	(197)	–
Accrued income and expense	12	(12)	–
Derivative financial instruments	11	5	–
Property and equipment	92	108	–
Other	1,663	474	(11)
	7,210	**1,699**	**(63)**
Unrecognized deferred tax assets	(5,563)	(179)	–
	1,647	**1,520**	**(63)**
Tax effects of taxable temporary differences:			
Change in fair value of securities	(142)	78	(5)
Loans to customers	(506)	59	–
Initial recognition of financial instruments at fair value	–	(914)	–
Allowance for impairment	(366)	263	–
Customers' accounts	–	–	–
Accrued income and expense	(79)	(14)	–
Derivative financial instruments	(170)	(104)	–
Property and equipment	(1,979)	1,992	–
Other	(260)	(347)	–
	(3,502)	**1,013**	**(5)**
Deferred tax asset	**80**	**1,543**	**(63)**
Gross deferred tax liability	**(1,935)**	**990**	**(5)**

			Origination and reversal of temporary differences			
Currency translation effect	2010	In the statement of income	In other comprehen-sive income	Effect of business combination	Currency translation effect	2011
(2)	720	255	–	–	1	976
–	224	67	(3)	–	–	288
–	907	55	–	–	–	962
–	4,651	(484)	–	–	(94)	4,073
–	–	23	–	–	8	31
–	16	77	–	–	–	93
(4)	196	(84)	–	4	(95)	21
94	2,220	500	(8)	236	76	3,024
88	**8,934**	**409**	**(11)**	**240**	**(104)**	**9,468**
4	(5,738)	1,097	–	–	157	(4,484)
92	**3,196**	**1,506**	**(11)**	**240**	**53**	**4,984**
(1)	(70)	(782)	18	(3)	(8)	(845)
–	(447)	(274)	–	–	–	(721)
–	(914)	(84)	–	–	–	(998)
(2)	(105)	(193)	–	–	5	(293)
–	–	–	–	–	–	–
3	(90)	(34)	–	–	15	(109)
–	(274)	109	–	–	69	(96)
(29)	(16)	(405)	–	–	–	(421)
(50)	(657)	158	–	(10)	27	(482)
(79)	**(2,573)**	**(1,505)**	**18**	**(13)**	**108**	**(3,965)**
78	**1,638**	**819**	**(11)**	**241**	**50**	**2,737**
(65)	**(1,015)**	**(818)**	**18**	**(14)**	**111**	**(1,718)**

(in millions of Russian rubles)

20. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Investment securities	Investments in associates	Other assets	Claims	Guarantees and commitments	Total
31 December 2009	**391**	**38**	**927**	**27**	**2,440**	**3,823**
Charge/(reversal)	(158)	–	429	24	(74)	221
Write-offs	(32)	(38)	(49)	–	(2,214)	(2,333)
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**
31 December 2011	**75**	**–**	**1,355**	**59**	**147**	**1,636**

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

21. Other assets and liabilities

Other assets comprise:

	2011	2010
Advances issued to leasing equipment suppliers	9,644	11,421
Settlements with suppliers and other debtors	8,270	6,002
Prepaid expenses	5,101	4,581
Investment property	4,464	676
Intangible assets	4,130	2,619
Assets held for sale	3,672	1,582
Other tax assets	3,500	3,555
Prepaid investments	2,231	–
Claims on transactions with shares	2,000	–
Property pledged as collateral against loans	1,349	–
Equipment purchased for leasing purposes	1,301	2,047
Accrued commissions	1,225	1,110
Settlements on outstanding operations with securities	847	634

(in millions of Russian rubles)

	2011	2010
Prepaid securities	740	1,110
Cash transactions	46	11
Other	3,949	1,856
	52,469	**37,204**
Less allowance for impairment of other assets (Note 20)	(1,355)	(1,307)
Other assets	**51,114**	**35,897**

Included in other assets are intangible assets in the amount of RUB 5,299 million (31 December 2010: RUB 3,211 million), net of accumulated amortization of RUB 1,169 million (31 December 2010: RUB 592 million). In 2011, the Group disposed of intangible assets in the amount of RUB 166 million (in 2010: RUB 128 million), net of accumulated depreciation of RUB 160 million (in 2010: RUB 118 million). The respective depreciation charges for 2011 are RUB 539 million (2010: RUB 348 million), which is included in other operating expense

At 31 December 2011, intangible assets include goodwill in the amount of RUB 1,843 million related to acquisition of OJSC "Belvnesheconombank", OJSC "VEB-Leasing" and OJSC NTB. At 31 December 2010, intangible assets include goodwill in the amount of RUB 1,381 million related to acquisition of OJSC "Belvnesheconombank" and OJSC "VEB-Leasing".

Other liabilities comprise:

	2011	2010
Future period income	10,798	7,831
Settlements with employees	1,743	641
Settlements with clients on export revenues	1,444	714
Advances received from lessees	1,380	1,906
Other settlements with credit institutions	789	1,204
Obligations to issue loans at a below-market interest rate	680	–
Obligations under finance lease agreements	128	26
Settlements on operations with securities	5	–
Spot deals	4	12
Other	2,058	1,277
Other liabilities	**19,029**	**13,611**

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:

	2011	2010
Correspondent loro accounts from Russian credit institutions	15,614	7,216
Correspondent loro accounts from other credit institutions	11,746	7,142
Loans and other placements from OECD-based credit institutions	258,417	123,114
Loans and other placements from Russian credit institutions	125,441	62,450
Loans and other placements from other credit institutions	51,318	21,987
Repurchase agreements	7,397	13,107
Deposits from Russian credit institutions – fiduciaries	2,081	11
Amounts due to credit institutions	**472,014**	**235,027**

At 31 December 2011, loans and other placements from OECD-based credit institutions include loans primarily denominated in RUB, USD, EUR and GBP with interest rates ranging from 5.5% to 9.8% for RUB placements (31 December 2010: from 6.6% to 7.1%), from three-months LIBOR plus 0.2% to 7.6% for USD placements (31 December 2010: from three-months LIBOR plus 0.2% to 7.6%), from 1.97% to 6.5% for EUR placements (31 December 2010: from six-months EURIBOR plus 0.3% to 6.5%) and from 5.7% to 7.9% for GBP placements (31 December 2010: from 5.7% to 7.9%). At 31 December 2011, loans and other placement OECD-based credit institutions include loans denominated in CHF with the interest rate of 5.05%.

At 31 December 2011, loans and other placements from Russian credit institutions include loans denominated in RUB, USD and EUR with interest rates ranging from 3.75% to 9.7% for RUB loans (31 December 2010: from 0.5% to 15%), from 0.2% to 7% for USD loans (31 December 2010: from 0.2% to 7%), from 0.7% to 1% for EUR loans (31 December 2010: from 0.6% to 7.5%). At 31 December 2011 and 2010, this item also includes deposits held as security against letters of credit and minimum balances on correspondent loro accounts.

At 31 December 2011, loans and other placements from non-OECD based credit institutions include loans primarily denominated in RUB, USD, EUR and GBP with interest rates ranging from 4% to 9.2% for RUB placements (31 December 2010: no balances), from 0.2% to 11% for USD placements (31 December 2010: from one-months LIBOR plus 0.7% to six-months LIBOR plus 3.8%), from 0.7% to 6.1% for EUR placements (31 December 2010: from 0.6% to 11%) and from 0.6% for GBP placements (31 December 2010: 0.5%). At 31 December 2010, loans and other placements from non-OECD based credit institutions include loans denominated in BYR with interest rates ranging from 2% to 3%, and loans denominated in UAH with interest rates ranging from 11.2% to 18%. At 31 December 2011, this item also includes minimum balances on correspondent loro accounts from non-OECD-based credit institutions.

(in millions of Russian rubles)

At 31 December 2011, repurchase agreements with credit institutions include loans of RUB 7,397 million received from foreign credit institutions and collaterized by debt securities available for sale with the fair value of RUB 3,217 million (Note 15) and securities acquired under reverse repurchase agreements with the fair value of RUB 4,035 million. At 31 December 2010, repurchase agreements with credit institutions include loans of RUB 13,107 million received from Russian banks and collaterized by available-for-sale securities with the fair value of RUB 4,522 million (Note 15) and securities acquired under reverse repurchase agreements with the fair value of RUB 10,226 million.

In 2011, the Bank raised long-term financing on market terms from OECD-based credit institutions totaling to RUB 132,592 million (in 2010: RUB 31,034 million) and repaid long-term financing of RUB 36,904 million (in 2010: RUB 13,154 million) in accordance with contractual terms.Besides, in 2011 the Bank raised long-term financing on the market terms from other credit institutions totaling to RUB 7,010 million (in 2010: RUB 5,279 million) and repaid long-term financing of RUB 3,293 million (in 2010: RUB 39,654 million) in accordance with contractual terms.

In addition, in 2011 the Group's leasing company raised long-term financing from Russian and foreign credit institutions totaling RUB 76,909 million (in 2010: RUB 52,466 million) and repaid long-term financing of RUB 36,508 million (in 2010: 16,432 million) in accordance with contractual terms.

23. Amounts due to customers

Amounts due to customers comprise:

	2011	2010
Customer current accounts	122,294	127,443
Term deposits	228,771	162,384
Repurchase agreements	1,316	271
Other amounts due to customers	43	–
Amounts due to customers	**352,424**	**290,098**
Held as security against guarantees	**504**	**2,118**
Held as security against letters of credit	**3,337**	**3,695**

At 31 December 2011 and 2010, amounts due to the Bank's four largest customers amounted to RUB 92,625 million and RUB 83,567 million, respectively, representing 26.3% and 28.8% of the aggregate amounts due to customers.

(in millions of Russian rubles)

23. Amounts due to customers (continued)

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

	2011	2010
Telecommunications	36,369	39,408
Infrastructure development	32,002	30,114
Financing	18,932	–
Manufacturing, including heavy machinery and military-related goods production	14,673	11,786
Energy	8,293	7,254
Transportation	4,294	16,592
Mining	3,513	–
Metallurgy	–	4,715
	118,076	**109,869**

Included in term deposits are deposits of individuals in the amount of RUB 79,534 million (31 December 2010: RUB 65,745 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.

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

	2011	2010
State and state controlled companies	125,750	112,986
Private companies	120,185	89,696
Employees and other individuals	97,434	82,417
Companies under foreign state control	9,055	4,999
Amounts due to customers	**352,424**	**290,098**

At 31 December 2011, repurchase agreements with customers include loans of RUB 1,316 million received from a foreign company and collaterized by available-for-sale debt and equity securities with the fair value of RUB 1,498 million (Note 15). At 31 December 2010, repurchase agreements with customers include loans of RUB 271 million received from a foreign company and collaterized by available-for-sale debt and equity securities with the fair value of RUB 306 million (Note 15).

24. Debt securities issued

Debt securities issued comprise the following:

	2011	2010
Eurobonds	134,715	99,546
Bonds	107,430	71,423
Promissory notes	18,394	15,976
Certificates of deposit and saving certificates	491	2
Debt securities issued	**261,030**	**186,947**
Promissory notes held as security against guarantees	**1,289**	**1,856**

At 31 December 2011, the Group's debt securities issued include Eurobonds placed at market interest rates denominated in USD maturing from May 2016 to November 2025 (at 31 December 2010: from November 2017 to November 2025), denominated in CHF maturing in February 2016.

At 31 December 2011, included in the Group's debt securities are bonds placed at market interest rates denominated in RUB maturing from February 2013 to September 2021 (at 31 December 2010: from April 2011 to October 2020), denominated in UAH maturing from March 2013 to March 2014, as well as bonds, denominated in BYR maturing from October to December 2011.

At 31 December 2010, included in the Group's debt securities are bonds placed at market interest rates denominated in USD maturing in April 2011.

The Group's debt securities issued at 31 December 2011 include interest-bearing promissory notes denominated in RUB, USD and EUR maturing in 2049 (31 December 2010: maturing before 2049). Interest rates are from 0.1% to 9.5% for RUB-denominated promissory notes (31 December 2010: from 0.1% to 7.8%), from 0.2% to 4.9% for USD-denominated promissory notes (31 December 2010: from 0.2% to 4.9%) and from 0.5% to 5% for EUR-denominated promissory notes (31 December 2010: from 2.4% to 4.9%).

At 31 December 2011, deposit and saving certificates issued by a subsidiary bank are denominated in RUB, bear interest rates from 0.1% to 9% and mature from February 2012 to March 2022. At 31 December 2010, deposit and saving certificates issued by a subsidiary bank are denominated in BYR, bear interest rates of 1% and mature in February 2011.

25. Equity

Charter capital

In accordance with Federal Law No. 82-FZ, the Bank's charter capital is formed from asset contributions of the Russian Federation made upon decision of the Russian Government.

In accordance with Resolution of the Russian Government No. 1687-r dated 27 November 2007, pursuant to Federal law No. 246-FZ dated 2 November 2007, "On Introducing Amendments to Federal Law "On the Federal Budget for 2007", the Russian Federation contributed RUB 180,000 million to the charter capital of Vnesheconombank in November 2007.

In accordance with Resolution of the Russian Government No. 1766-r dated 7 December 2007, the Russian Government decided to contribute 100% of state-owned shares of OJSC "SME Bank" and 5.2% of state-owned shares of CJSC ROSEXIMBANK to the charter capital of Vnesheconombank. The transfer of shares was completed in 2008.

In accordance with Resolution of the Russian Government No. 1665-r dated 19 November 2008, pursuant to Federal law No. 198-FZ dated 24 July 2007, "On Federal Budget for 2008 and for the 2009 and 2010 Budget Period", the Russian Federation contributed RUB 75,000 million to the charter capital of Vnesheconombank in November 2008.

In accordance with Resolution of the Russian Government No. 854-r dated 23 June 2009, pursuant to Federal law No. 204-FZ dated 31 October 2008, "On Federal Budget for 2009 and for the 2010 and 2011 Budget Period", the Russian Federation contributed RUB 100,000 million to the charter capital of Vnesheconombank in June 2009.

In accordance with Resolution of the Russian Government No. 1891-r dated 10 December 2009, the Russian Federation contributed RUB 21,000 million to the charter capital of Vnesheconombank for further acquisition by the Bank of shares additionally issued by JSC "United Aircraft Corporation" in December 2009.

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

In 2011 and 2010, OJSC "Belvnesheconombank", the Group's subsidiary,paid dividends on ordinary sharesin the amount of RUB 286 million and RUB 95 million for the reporting years ended 31 December 2010 and 2009, respectively.

(in millions of Russian rubles)

Additional paid-in capital

In December 2011, pursuant to Federal Law No.357-FZ "On Federal Budget for 2011 and for the 2012 and 2013 Budget 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 the Russian direct investment fund, which was recognized in additional paid-in capital. Vnesheconombank used all funds to acquire units in Mutual Fund "RDIF".

Nature and purpose of other reserves

Unrealized gains/(losses) on investment securities available for sale

This reserve records fair value changes of available-for-sale investments.

The movements in unrealized gains/(losses) on investment securities available for sale were as follows:

	2011	2010
Unrealized gains/(losses) on investment securities available for sale	(21,243)	24,695
Realized gains on investment securities available for sale, reclassified to the statement of income (Note 28)	(15,607)	(35,154)
Tax effect of net income on securities available for sale	7	–
Impairment loss on investment securities available for sale, reclassified to the statement of income (Note 28)	8,910	22,276
Change in unrealized gains/(losses)on operations with investment securities available for sale	**(27,933)**	**11,817**

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.

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 the 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 2011, the Russian, Belarusian and Ukrainian governments continued to take measures to support the economy to overcome the consequences of the global financial crisis. Despite certain signs of economic recovery, there continues to be uncertainty regarding future economic growth, access to capital and cost of capital, which could adversely affect the Group's financial position, results of operations and business prospects.

Also, factors including increased unemployment, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Group's borrowers' ability to repay the amounts due to the Group. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Legal

In November 2009, based on a suit filed by one of the minority shareholders of PSC Prominvestbank, the Commercial Court of Kiev annulled decisions of the general meetings of shareholders of PSC Prominvestbank, held in September and November 2009. Based on the said decisions, PSC Prominvestbank issued additional shares which resulted in an increase of Vnesheconombank's interest in the Ukrainian bank from 75% plus three shares to 93.8%. The cost of additional shares acquired by Vnesheconombank totaled RUB 14,127 million (equivalent of USD 500 million).

In April 2010, based on the specified decision of the Commercial Court of Kiev, the Securities and Stock Market State Commission of Ukraine (SSMSC) annulled the additional issue of shares by PSC Prominvestbank.

Prominvestbank filed a claim with Kiev County Administrative Court requesting to annul the specified decision of the Securities and Stock Market State Commission (SSMSC). The court of the first instance dismissed the claim.

Prominvestbank appealed the decision of Kiev County Administrative Court with the appeal instance. After review of the complaint Kiev Administrative Court of Appeal cancelled the decision of the court of the first instance as illegal by its Resolution dated 1 February 2011. The Resolution came into effect on 1 February 2011.

At 27 February 2011 SSMSC filed a cassation appeal against the Resolution of Kiev Administrative Court of Appeal dated 1 February 2011 with the Supreme Administrative Court of Ukraine.

In July 2011, the Supreme Administrative Court of Ukraine legitimated the Resolution of Kiev Administrative Court of Appeal that came into effect on 1 February 2011, and the cassation appeal of the Securities and Stock Market State Commission was dismissed.

The Group's management assumes that there is no need for an allowance in the consolidated financial statements as at 31 December 2011 in respect of the above litigation.

In the ordinary course of business, the Group is also subject to other legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group. Movement in provisions for legal claims is shown in Note 20.

Taxation

Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. In addition, certain provisions of Belarusian and Ukrainian tax legislation may give rise to varying interpretations and inconsistent applications. The Bank's management's and its subsidiaries' management's interpretation of such legislation as applied to the transactions and activity of the Group companies may be challenged by the relevant tax authorities. Trends within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of

(in millions of Russian rubles)

26. Commitments and contingencies (continued)

Taxation (continued)

the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be accrued.

Pursuant to the interpretation of the Russian Ministry of Finance stated in the letter dated 31 December 2011, special purpose entities incorporated in Ireland for the purposes of issuing Eurobonds are not subject to benefits under the Double Taxation Treaty between Ireland and Russia. If Russian tax authorities follow this approach (and possibly, apply it to other bond-issuing structures in countries other than Ireland), a fee of 20% of the tax not withheld from interest paid to such Eurobond-issuing companies in 2009-2011, a penalty and, possibly, a requirement to pay a 20% tax may be imposed on the Group. The Russian Ministry of Finance declared its plans to introduce a bill clarifying applicable legal requirements. If the bill is passed, the tax risk for 2011 and preceding years will be eliminated. The Group's management believes that its interpretation of tax legislation on Eurobonds will be sustained and this contingency will have no significant impact on the Group's consolidated financial statements.

At 31 December 2011, management believes that its interpretation of the relevant legislation is appropriate and that the Group’s tax position will be sustained.

Commitments and contingencies

At 31 December, the Group’s commitments and contingencies comprised:

	2011	2010
Credit related commitments		
Undrawn loan commitments	568,066	436,271
Guarantees	103,049	156,237
Letters of credit	80,790	49,806
	751,905	**642,314**
Operating lease commitments		
Not later than 1 year	1,322	1,240
Later than 1 year but not later than 5 years	2,256	1,691
Later than 5 years	963	1,013
	4,541	**3,944**

(in millions of Russian rubles)

	2011	2010
Capital expenditure commitments	19,559	10,901
	776,005	**657,159**
Less provisions (Note 20)	(147)	(152)
Commitments and contingencies (before deducting collateral)	**775,858**	**657,007**
Less Group's cash and promissory notes held as security against guarantees and letters of credit	(5,130)	(7,752)
Commitments and contingencies	**770,728**	**649,255**

At 31 December 2011, the Group advised export letters of credit for a total amount of RUB 73,890 million (31 December 2010: RUB 72,416 million) and received reimbursement authorization from the issuing credit institutions for a total of RUB 2,364 million (31 December 2010: RUB 2,956 million). The Group bears no credit risks under export letters of credit and reimbursement authorization.

At 31 December 2011, credit related commitments include liabilities in favor of one counterparty, a state company, in the amount of RUB 33,924 million, which accounts for 5% (31 December 2010: RUB 44,846 million, 7%) of all credit related commitments.

In October 2011, the Bank signed a credit line agreement in the amount of RUB 36,000 million with a manufacturing company to provide a credit line under a project financing program.

At 31 December 2011, the Bank signed credit line agreements with ten resident banks in the amount of RUB 35,500 million under the Vnesheconombank's Investment Program to support affordable housing construction and mortgage projects.

For the period from October to December 2011 the Bank entered into material loan agreements in the amount of RUB 77,407 million with companies operating in the electric power, oil and gas, finance, manufacturing and agricultural sectors.

Insurance

At 31 December 2011the Group's premises are insured for RUB 9,847 million (31 December 2010: RUB 12,241 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, Republic of Belarus and Ukraine at present.

(in millions of Russian rubles)

27. Net fee and commission income

Net fee and commission income comprise:

	2011	2010
Cash and settlement operations	3,582	3,230
Guarantees and letters of credit	3,295	2,033
Agency fees	556	557
Trust management of pension funds	279	236
Operations with securities	150	175
Other operations	779	1,284
Fee and commission income	**8,641**	**7,515**
Fee and commission expense	**(2,029)**	**(1,485)**
Net commission income	**6,612**	**6,030**

28. Gains less losses from investment securities available for sale

Gains less losses from investment securities available for sale recognized in the statement of income comprise:

	2011	2010
Gains less losses on sale of investment securities available for sale, previously recognized in other comprehensive income (Note 25)	15,607	35,154
Losses on impairment of investment securities available for sale (Note 25)	(8,910)	(22,276)
Other gains from redemption of investment securities	3,433	251
Total gains less losses from investment securities available for sale	**10,130**	**13,129**

29. Other operating expenses

Other operating expenses comprise:

	2011	2010
Advertising expenses	1,504	1,437
Sponsorship	1,096	136
Administration expenses	955	653

	2011	2010
Audit and consulting	923	588
Charity	919	607
Insurance	801	435
Amortization of intangibles	539	348
Legal services	422	509
Loss on sale of financial assets (loans and accounts payable)	389	–
Deposit insurance	383	356
Marketing and research	259	199
Penalties incurred	17	20
Contribution to non-state pension fund	11	4
Impairment charge for property and equipment (Note 18)	–	91
Other	3,337	2,450
Other operating expenses	**11,555**	**7,833**

30. Profit from discontinued operations

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

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

31. 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.

BACK TO CONTENTS

31. Risk management (continued)

Introduction (continued)

The Group is also subject to operational risk and strategic risk. Strategic risk is defined by the Group as a risk of a negative effect on the Group's operations arising from mistakes (deficiencies) made in decisions that determine strategy of the Group; this risk is managed by the Group in the course of its strategic planning process.

The process of risk management is critical to ensure that risks accepted by the Group would not affect its financial stability. Each business division within the Group involved in operations exposed to risk is accountable for controlling the level of risks inherent in its activities to the extent provided in the internal regulations.

Risk management structure in place at Group members

Typical organizational structure of risk management in place at Group members consists of the following elements:

- The supreme collegial management body (Supervisory Board, Board of Directors) takes strategic decisions aimed at organizing and supporting the operation of the risk management system.

- Collegial management bodies (Management Board, Banking Risk Management Committee, Financial Committee, Asset and Liability Management Committee, Credit Committee, Technology Committee) and single management bodies (Chairman of the Bank, Chairman of the Management Board) prepare/adopt management decisions within their established authority, over a particular type of activity or type of risk.

- Independent risk management business division (Risk Management Department, Risk Analysis and Control Department) coordinates activities carried out by independent business divisions to implement risk management decisions taken by management bodies, including development of a regulatory framework that underlies risk assessment and control, independent assessment and subsequent control of risk level, and prepares risk reports for Group member management on a regular basis.

- Business divisions engaging in/supporting operations exposed to risks perform initial risk identification and assessment, control compliance with established limits and generate risk reports subject to the requirements of the adopted/approved regulatory framework.

The Internal Control Function controls compliance with requirements of internal regulations and evaluates the effectiveness of the risk management system. Following the completion of respective audits, the Internal Control Function reports its findings and recommendations to Group member management.

In 2011, the risk management coordination within the Group of Vnesheconombank was further developed. A package of measures aimed at harmonizing the approaches to risk management was consistently implemented within the group of subsidiary banks in general, to include approaches to risk assessment and development of the limits policy.

Vnesheconombank's risk management structure

The Supervisory Board is the supreme management body of the Bank. Within the scope of powers delegated to that body by the Memorandum on Financial Policies and Federal Law 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).

Within the scope of powers delegated to it by the Memorandum on Financial Policies and Federal Law No. 82-FZ, 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.

31. Risk management (continued)

Introduction (continued)

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 group of companies: improvement of coordination of public borrowings of Vnesheconombank subsidiary banks and companies, raising funds for Vnesheconombank subsidiary banks and companies, and reconciling 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.

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 Mana-

31. Risk management (continued)

Introduction (continued)

gement Department is composed of units that are responsible for control over the level of exposures by each type of risk and each line of the Bank's business, as well as a division responsible for monitoring risks of subsidiary banks.

Directorate for Currency and Financial Transactions

To control the Bank's day-to-day liquidity, the Directorate for Currency and Financial Transactions monitors compliance with the established minimum levels of liquidity and maturity gaps in assets and liabilities. The Directorate prepares regular forecasts of the Bank's estimated leverage by source of funding, performs daily monitoring of open position limits by class of financial instruments and operations performed by the Directorate on money, equity and currency markets as well as counterparty limits.

The Directorate monitors the market value and liquidity of collateral provided by the Bank's counterparties.

Independently from other operating divisions, the Analytical Unit within the Directorate analyzes the current situation on money, equity and currency markets.

Economic Planning Department

The Economic Planning Department is involved in the development of methodological documents for managing the Bank's financial risks. The Department monitors the Bank's financial stability parameters, including capital adequacy ratio. The Department coordinates the activities across the Bank relating to the establishment of allowances for losses.

Risk management

Risk measurement and reporting systems

The Bank's risks are measured using the methodologies approved by the Bank's authorized bodies which allow assessing both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate possible loss at a given level of probability. Losses are measured on the basis of the analysis and processing of historical data relating to risk factors underlying such losses and the established patterns (models) used to determine the relationship between changes in risk factors and loss events. Statistical patterns derived from the analysis of historical data are adjusted, as appropriate, to account for the current operating environment of the Bank and situation on the markets.

The Bank also applies stress testing practices to run worse case scenarios that would arise in case extreme events which are unlikely to occur do, in fact, occur.

Monitoring and limiting risks is primarily performed based on limits established by the Bank. These limits reflect the level of risk which is acceptable for the Bank and set strategic priorities for each line of the Bank's business.

To assess and monitor the aggregate credit and market risk exposure, the Bank computes capital adequacy ratio in accordance with the methodology approved by the Bank's Supervisory Board and based on approaches set out in regulations issued by the 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.

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.

(in millions of Russian rubles)

31. Risk management (continued)

Risk management (continued)

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.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a credit rating. Credit ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(in millions of Russian rubles)

31. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

The Bank makes available to its customers documentary operations which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee/letter of credit given. They also expose the Bank to credit risks which are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position does not exceed amounts presented in the balance sheet.

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 amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the inputs for measuring the counterparty risk. Not past due and not impaired assets are subdivided into assets with high, standard and sub-standard grade. Grades are assigned based on the requirements of the national standards for assets quality assessment and international ratings of securities issuers. High grade assets comprise demands to counterparties with good financial position, absence of overdue payments, or secured by the guarantees of the Russian Government, and securities with high international credit ratings. Probability of the breach of contractual terms with regard to such assets can be evaluated as low. Standard grade assets comprise demands to counterparties with average financial position or assets with no overdue payments, which were not included in high grade assets. Probability of the breach of contractual terms with regard to such assets can be evaluated as average. Other financial assets, not past due and not impaired, are assigned a substandard grade.Since not all individually impaired assets are considered past due, not past due individually impaired assets and past due assets are separated. Credit risk measurement methodology has been approved by the Bank's Supervisory Board. Group-wide guidelines for assessing the credit quality of assets have been developed for the purpose of preparing Group's consolidated financial statements.

(in millions of Russian rubles)

The table below shows the credit quality by class of assets for credit risk-related lines of the consolidated statement of financial position, based on the Group's credit rating system. The information is based on carrying amounts and does not include allowance for impairment.

		Not past due					
		Not impaired					
	Notes	High grade 2011	Standard grade 2011	Sub-standard grade 2011	Individually impaired 2011	Past due 2011	Total 2010
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
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**

		Not past due					
		Not impaired					
	Notes	High grade 2010	Standard grade 2010	Sub-standard grade 2010	Individually impaired 2010	Past due 2010	Total 2010
Amounts due from credit institutions	11						
Subordinated loans		346,066	1,024	–	–	–	347,090

(in millions of Russian rubles)

31. Risk management (continued)

Credit risk (continued)

		Not past due					
		Not impaired					
	Notes	High grade 2010	Standard grade 2010	Sub-standard grade 2010	Individually impaired 2010	Past due 2010	Total 2010
Interbank loans under small and medium-sized business support program		43,306	5,276	1,211	258	–	50,051
Other amounts due from credit institutions		16,939	815	1,116	58	1,291	20,219
		406,311	**7,115**	**2,327**	**316**	**1,291**	**417,360**
Loans to customers	13						
Commercial loans		128,938	148,541	52,961	58,666	48,740	437,846
Project finance		2,462	167,283	50,065	140,477	12,260	372,547
Net investments in leases		46,698	674	133	–	47	47,552
Financing of operations with securities		13,808	4,839	215	27	2,029	20,918
Back-to-back finance		2,604	–	–	–	–	2,604
Promissory notes		49	11,064	8,416	–	77	19,606
Reverse repurchase agreements		983	2,570	–	16	330	3,899
Pre-export finance		5,835	4,586	6,175	109	1,890	18,595
Claims under letters of credit		–	16	2,307	93	2,517	4,933
Mortgage bonds							
Other		3,362	34	7	234	–	3,637
		204,739	**339,607**	**120,279**	**199,622**	**67,890**	**932,137**
Debt investment securities	14						
Available-for-sale (including those pledged under repurchase agreements)		137,413	44,933	9,194	113	8	191,661
Held-to-maturity		20,058	1,406	72	–	81	21,617
		157,471	**46,339**	**9,266**	**113**	**89**	**213,278**
Total		**768,521**	**393,061**	**131,872**	**200,051**	**69,270**	**1,562,775**

Aging analysis of past due but not individually impaired loans per class of financial assets

The table below shows the carrying amounts of past due but not impaired loans by the number of days past due:

	Less than 7 days 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

	Less than 7 days 2011	7 to 30 days 2011	More than 30 days 2011	Total 2011
Net investments in leases	240	281	141	662
Other	2	0	0	2
	702	**584**	**4,755**	**6,041**

	Less than 7 days 2010	7 to 30 days 2010	More than 30 days 2010	Total 2010
Loans to customers:				
Commercial loans	189	347	3,126	3,662

See Note 14 for more detailed information with respect to the allowance for impairment of loans to customers.

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.

31. Risk management (continued)

Credit risk (continued)

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are also assessed and provision is made in a similar manner as for loans.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its financial obligations when they fall due.

The Group manages its liquidity risk at the following levels:

- Each bank within the Group manages its liquidity on a standalone basis so that it can meet its obligations in full and comply with requirements of the national regulator; for this purpose relevant policies and procedures have been developed that detail the liquidity risk assessment and control process;

- 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 Vnesheconombank's subsidiaries.

Group members assess liquidity risk using analysis of the maturity structure of assets and liabilities, and a liquid asset cushion under various scenarios. To limit liquidity risk, Group members control liquidity gaps and the level of the liquid asset cushion. Subsidiary banks within the Group also forecast and control compliance with mandatory liquidity ratios established by national regulators.

As a part of the liquidity risk management process the Group members perform the following actions limiting the liquidity risk:

- Regularly monitor the bank's liquidity situation, supervise the compliance with the established limits and review them;

- Maintain a well-balanced maturity and currency structure of assets and liabilities and an optimal liquid asset cushion;

- Maintain a diversified structure of funding sources and directions of investments by counterparty;

- Develop plans to raise debt funding;

- Assess sustained balances on customers' accounts, monitor the level of concentration of balances on customers' accounts in order to prevent an abrupt outflow of funds from customers' accounts;

- Perform cash flow modeling and supervise liquidity ratios under various scenarios that reflect changes in the macroeconomic and market operating environment;

- Perform stress testing of the Bank's exposure to liquidity risk and financial market conditions on a regular basis and as and when significant changes in external and internal factors arise or are expected.

Operational control over liquidity ratios, including liquidity gaps, is performed at the Bank by the Directorate for Currency and Financial Transactions. The subsequent control is performed by the Risk Management Department. Liquidity control results are reported to the Bank's management and used for making management decisions.

In addition, for the purposes of identifying available sources to cover an unexpected deficit of liquid assets, the Bank daily monitors and forecasts the liquidity reserve. The liquidity reserve comprises the following:

- Cash on the Bank's correspondent accounts, cash on hand, cash on accounts in stock exchange and clearing centers, and the net balance of the Bank's overnight placements;

- Short-term deposits placed with banks considered by the Bank as highly reliable;

- Liquid securities measured at fair value less any discount for unexpected losses due to market risk realization that can be promptly converted into cash or used as a collateralized funding.

(in millions of Russian rubles)

31. Risk management (continued)

Liquidity risk and funding management (continued)

In order to take into account any possible changes in projected cash flows, the Bank uses a procedure of stress testing liquidity ratios in accordance with scenarios covering both internal factors, specific to the Bank, and external factors:

- non-fulfillment by the Bank's counterparties of transaction, loan and debt obligations (credit risk realization);
- decrease in the market value of the securities portfolio (market risk realization);
- unexpected outflow of funds from customers' accounts;
- reduction in the expected inflow of funds to customers' accounts;
- reduced or closed access to financial market resources;
- reduction in the Bank's credit rating;
- early repayment of the attracted interbank loans due to the breaches of set financial covenants.

The Risk Management Department uses the procedure of liquidity ratios stress testing on a scheduled and unscheduled basis. Scheduled stress testing is carried out on a monthly basis. Unscheduled stress testing is carried out upon decision of an authorized body of the Bank, as well as in case of an indication of potential stress changes in internal and external risk factors, upon initiative of the Bank's functions involved in liquidity control activities. Findings of the analysis of the Bank's liquidity indicators calculated for various scenarios are communicated by the Risk Management Department to the Directorate for Currency and Financial Transactions and the Bank's management and are used in making decisions on measures required for regulating liquidity and planning the Bank's operations.

In case of an emergency the Bank uses the following liquidity support mechanisms:

- selling the portfolio of highly liquid assets (concluding repurchase agreements);
- limiting the volume of transactions with counterparties having a high credit risk level;

(in millions of Russian rubles)

- 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 2011 and 2010, monetary assets and liabilities of the Group, excluding receivables from the Russian Government under London Club arrangements and amounts due to London Club creditors, had the following maturities:

	Up to 1 month 2011	1 to 6 months 2011	6 to 12 months 2011	Over 1 year 2011	No stated maturity 2011	Total 2011
Monetary 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**
Investment securities:						
available-for-sale	209,273	–	–	11,295	233,717	**454,285**
held-to-maturity	245	1,019	1,009	15,506	–	**17,779**
Investment securities 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**
Monetary 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**

(in millions of Russian rubles)

31. Risk management (continued)

Liquidity risk and funding management (continued)

	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
	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**	

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

(in millions of Russian rubles)

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

While the majority of available-for-sale securities is shown as "up to 1 month", realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not always be liquidated in a short period of time without adverse price effects.

Alternatively, the Group's management believes that the substantial part of the investmentsin equity investment securities available for sale recognized in "no stated maturity" can guarantee significant volumes of liquidity within a short period of time (up to 1 month) upon sale of these securities on the market or conducting transactions on repurchase agreements.

These investments, in particular, can ensure the closing of the liquidity gap of RUB 101,256 million in "6 to 12 months, 2011". It should also be noted that this liquidity gap was formed mainly at the expense of interest-bearing deposits of the Bank of Russia, which include special purpose deposits attracted for the program for financial support to OJSC "Sviaz-Bank" and CJSC "GLOBEXBANK" in the amount of RUB 209,486 million (Note 8). The maturity of these deposits (with nominal maturity of 1 year) was extended three times in 2009, 2010 and 2011. In addition to deposits of the Bank of Russia, this liquidity gap is influenced by the interest-bearing deposit of the Russian Ministry of Finance denominated in USD attracted for the financing of investment projects. The maturity of this deposit (with nominal maturity of 1.5 years) was extended in 2011. Taking into consideration this fact and the special purpose-related character of these deposits, the Group's management expects that the maturity of the deposits of the Bank of Russia and the Russian Ministry of Finance will be also extended in 2012.

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 2011 and 2010 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.

(in millions of Russian rubles)

31. Risk management (continued)

Liquidity risk and funding management (continued)

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 asset	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**

Financial liabilities At 31 December 2010	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	90,584	34,793	121,899	22,993	270,269
Derivative financial instruments settled through delivery of underlying asset					
Contractual amounts payable	118,735	84,441	18,345	2,541	224,062
Fair value of sold underlying asset	–	–	35,928	–	35,928
Contractual amounts receivable	(120,105)	(84,105)	(52,245)	(1,867)	(258,322)
Due to the Russian Government and the Bank of Russia	18,418	327,851	226,694	560,553	1,133,516
Amounts due to customers	181,708	91,430	24,623	1,541	299,302
Debt securities issued	8,104	47,588	52,758	169,927	278,377
Other liabilities	3,574	325	85	16	4,000
Total undiscounted financial liabilities	**301,018**	**502,323**	**428,087**	**755,704**	**2,028,202**

The maturity analysis of liabilities does not reflect the historical stability of customers' current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in "less than 3 months" in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor. According to the legislation of the Republic of Belarus and Ukraine, the Group is obliged to repay the amount of these deposits at the first call of the depositor within five days. See Note 23.

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.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2011	737,122	–	14,783	–	**751,905**
2010	639,519	–	2,795	–	**642,314**

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

As at 31 December 2011, credit-related commitments presented in the "less than 3 months" category include liabilities in the amount of RUB 45,231 million (31 December 2010 – RUB 60,744 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

31. Risk management (continued)

Market risk (continued)

1-day projection horizon to assess the risk of the open currency position of the Bank. The depth of retrospective data used for VaR calculation is 670 working days.

VaR calculation results are assessed by the Bank subject to limitations inherent in the VaR methodology, i.e. possible failure to comply with initial assumptions, namely:

1) historical observations used to calculate unexpected losses in the future period might not contain all possible future changes in risk factors, especially in case of any extreme market events;

2) usage of a given projection horizon assumes that the Bank's positions in financial instruments can be liquidated or hedged over this period. Should the Bank have large or concentrated positions and/or should the market lose its liquidity, the used period of time might be insufficient for closing or hedging positions but unexpected losses estimated with VaR would remain within set limits;

3) applying a 99% confidence level does not permit assessing losses that can be incurred beyond the selected confidence level;

4) the VaR methodology assesses the amount of unexpected losses from the portfolio of financial instruments under the assumptions that the volume of positions will remain constant over the projection horizon and the Bank will not perform transactions that change the volume of positions. Should the Bank be engaged in purchase and sale of financial instruments over the projection horizon, VaR estimates can differ from estimates of actual losses.

To control the adequacy of the VaR calculation model, the Bank regularly uses back-testing procedures that enable it to assess differences between estimated and actual losses.

In order to obtain more precise estimates, the Bank is making efforts to enhance inputs used in the current model which provides adequate estimates under normal market conditions. Also, the Bank is making efforts to improve approaches that take into account extraordinary (stress) changes in the market behavior in the process of risk management.

The Bank performs stress testing procedures on regular and unplanned basis that enables the Bank to assess stress losses from realization of unlikely extraordinary events on financial instruments' portfolios and open currency positions, i.e. losses that are out of predictive limits of probabilistically statistical methods. The above approach supplements the risk estimate obtained from the VaR methodology and sensitivity analysis. The Bank uses a wide range of historical and hypothetical (user) scenarios within stress testing procedures. Stress testing results are reported to the Bank's management and used for making management decisions.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will adversely affect the fair values or future cash flows of financial instruments.

The interest rate policy of Group members refers to maintenance of a balanced structure of claims and obligations sensitive to change in interest rates (interest rate position) that provides limitation of possible unfavorable change in net interest income and/or equity of a Group member at an acceptable level.

The procedures of identification, assessment and control of the level of interest rate risk in Group members are formalized through developed internal regulations and rules and well as requirements of national regulators. Group members perform sensitivity analysis of net interest income and equity using different scenarios of market interest rate changes for the purpose of controlling financial losses arising from unfavorable changes in interest rates.

In addition, banks within the Group forecast and control the capital adequacy ratio subject to the effect of the interest rate risk.

Group members use a number of market instruments, including IRS, to manage its interest rate sensitivity and repricing gaps related to changes in interest rates of assets and liabilities.

In performing the sensitivity analysis of the net interest income and equity the interest rate gap method is used. The interest rate gap method is used to assess changes in the amount of net interest income and equity by using data on mismatch of claims and obligations sensitive to interest rate changes aggregated at given maturity intervals. A combination of negative scenarios that take into account the effect of internal and external risk factors related to the market situation is used as a part of the analysis. Scenarios are prepared either based on hypothetical events that can occur in the future or based on past events – historical stress scenarios.

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;

(in millions of Russian rubles)

31. Risk management (continued)

Market risk (continued)

expectations of significant changes in the market situation as well as socio-political and/or economic events that can have a significant adverse impact on the amount of net interest income/ equity.

The Bank uses two approaches in modeling risk factors. The statistical approach is based on the following assumptions:

1) the actual structure of volume and maturities of claims and obligations is kept constant in the whole projection horizon;

2) changes in the term structure of interest rates occur instantly as of the reporting date and once during the projection horizon.

In addition to the statistical approach to modeling risk factors, the Bank performs the sensitivity analysis by modeling dynamic changes in interest rates and the volume and maturity structure of claims and obligations using a more complex set of assumptions made by the Bank on a case-by-case basis.

The sensitivity of the statement of income is the estimate of the effect of the assumed changes in interest rates on the net interest income before tax for one year calculated for floating rate financial assets and financial liabilities held at 31 December 2011 and 2010, 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)

Rate	Increase in %, 2011	Sensitivity of the statement of income 2011	Sensitivity of equity 2011
3-m Libor USD	0.50%	(977)	–
3-m Libor EUR	0.50%	186	–
3-m Mosprime	2.75%	(781)	–
3-m 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)
Belarusian GKO and GDO rates	15.00%	245	–
Refinancing rate of 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
3-m Libor USD	-0.20%	391	–
3-m Libor EUR	-0.20%	(74)	–
3-m Mosprime	-2.75%	781	–
3-m 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 Bank of Russia	-0.25%	(316)	–
Refinancing rate of NB RB	-20.00%	(1,285)	–
Refinancing rate of NBU	-0.25%	(2)	–

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

(in millions of Russian rubles)

31. Risk management (continued)

Market risk (continued)

Rate	Increase in %, 2010	Sensitivity of the statement of income 2010	Sensitivity of equity 2010
Refinancing rate of NB RB	1.00%	73	–

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

Below are VaR measures for the bond portfolio of the Bank at 31 December 2011 and 2010:

	2011	2010
VaR	4,532	4,644

Currency risk

Currency risk is the risk that the fair value of a financial instrument or future cash flows will change due to changes in foreign exchange rates.

Group members calculate on a daily basis open currency positions by assets and liabilities recorded in the statement of financial position, and claims and obligations not recorded in the statement of financial position, which are subject to changes in currency and precious metals rates. Banks of the Group set limits on the cumulative open position as well as limits on open positions in each currency and for precious metals based on the requirements of the national regulator.

The VaR estimate obtained using the historical modeling method with a 99% confidence level and a 1-day projection horizon is used by the Bank as a currency risk estimate. The aggregate cur-

(in millions of Russian rubles)

rency 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 2011 and 2010, which include items of the statement of financial position and currency positions in derivative financial instruments by currencies against the Russian Ruble (open positions).

	2011	2010
UAH	28,428	22,579
BYR	3,378	7,373
EUR	1,829	2,175
HKD	214	202
Other currencies	133	104
CAD	95	(54)
CZK	78	–
GBP	70	(55)
CHF	(647)	(2,048)
JPY	(1,367)	(3,747)
USD	(50,422)	5,221

Below is the Bank's VaR measure for open currency positions at 31 December 2011 and 2010:

	2011	2010
VaR	1,097	1,447

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 2011, except for investments in subsidiaries, was RUB 1,010 million. The Bank's VaR for open currency positions at 31 December 2010, except for investments in subsidiaries, was RUB 107 million.

The table below shows the sensitivity of open currency positions of the Group (excluding the Bank) at 31 December 2011 and 2010. 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

(in millions of Russian rubles)

31. Risk management (continued)

Market risk (continued)

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 % 2011	Effect on profit before tax, 2011	Change in currency rate in % 2010	Effect on profit before tax, 2010
	24.42%	1,455	24.95%	1,947
UAH	-24.42%	(1,455)	-24.95%	(1,947)
	12.13%	(597)	10.83%	(753)
USD	-12.13%	597	-10.83%	753
	29.63%	150	14.41%	284
BYR	-29.63%	(150)	-14.41%	(284)
	10.58%	(50)	9.74%	(128)
EUR	-10.58%	50	-9.74%	128
	12.78%	(1)	12.15%	(1)
GBP	-12.78%	1	-12.15%	1
	15.34%	(1)	12.52%	–
CHF	-15.34%	1	-12.52%	–
	12.37%	–	12.41%	1
CAD	-12.37%	–	-12.41%	(1)
	16.51%	–	16.63%	1
AUD	-16.51%	–	-16.63%	(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.

Below are VaR measures for the equity portfolio of the Bank at 31 December 2011 and 2010:

	2011	2010
VaR	40,952	31,627

Together with options that hedge in full certain positions in shares and are included within the Bank's portfolio as at the reporting dates, VaR measures for the equity portfolio of the Bank at 31 December 2011 and 2010 are as follows:

	2011	2010
VaR	34,580	26,139

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 %, 2011	Change in equity price in %, 2011	Effect on profit before tax, 2011	Effect on equity, 2011
	47%	49%	3	4,981
MICEX	-47%	-49%	(3)	(4,981)
	61%	61%	(31)	
Russian Depositary Index USD	-61%	-61%	31	
	36%			
Ukrainian Stock Exchange index	-36%	–	–	–

Market index	Change in index in %, 2010	Change in equity price in %, 2010	Effect on profit before tax, 2010	Effect on equity, 2010
	47%	49%	223	2,743
MICEX	-47%	-49%	(223)	(2,743)
	59%			
Russian Depositary Index USD	-59%	–	–	–
	45%	44%		11
Ukrainian Stock Exchange index	-45%	-44%	–	(11)

(in millions of Russian rubles)

31. Risk management (continued)

Operational risk (continued)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. Management believes that the Group's exposure to prepayment risk is insignificant.

Operational risk

Operational risk is defined as a risk of losses arising from inadequate internal procedures, failures of equipment and information systems (technology risk), human errors or misconduct, and external factors. Legal risk is one of the types of operational risk.

Operational risks are managed in banks of the Group by addressing clearly all of the bank's business processes in the corresponding internal documents and applying internal controls to monitor the compliance with the established procedures as well as by obtaining external insurance.

The Bank has developed procedures of collecting information on risk events resulting in operational losses. The Bank's departments send information on risk events recorded in special forms to the Risk Management Department. The said information is classified, losses are evaluated and reasons for risk events are analyzed. If needed, the risk audit of departments, where risk events have occurred, is performed, and changes are made to the Bank's regulations.

The Bank's Technology Committee is responsible for managing and controlling technology risks. The Banking Infrastructure Protection Department is responsible for providing information and engineering support to all the business divisions in implementing action plans designated to ensure business continuity in the event of IT failures.

The Legal Department is responsible for legal risks and legal support of the Bank's operations. The Bank relies on templates drafted by the Legal Department when preparing transaction documents for transactions executed with counterparties. Any non-standard agreements are to be approved by the Legal Department. The Legal Department is also responsible for the review of the corresponding documents supplied by counterparties that deal with the main lines of the Bank's business. The Bank engages international law firms to assist in executing transactions with foreign partners.

When performing banking transactions and conducting other activities in the event of disaster, the Bank applies emergency procedures and action plans which are governed by internal documents providing guidance to ensure business continuity and/or disaster recovery. The above documents describe principles used to design infrastructure risk protection framework, define a set of measures designated to support the operability of the Bank's protection system, principles, rules and action plans to be implemented by personnel in the event of disaster. Within the framework of activities aimed at providing for business continuity a reserve facility is being developed which would ensure the recovery of Bank's operations in emergency situations that prevent from using the Bank's main building.

32. 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 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**

(in millions of Russian rubles)

32. Fair value of financial instruments (continued)

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

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

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

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

(in millions of Russian rubles)

of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2011	Transfers between levels	Gains/(losses) recorded in profit or loss	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 securities 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 liabilities	–	–	(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.

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

Gains or losses on Level 3 financial instruments included in profit or loss for the reporting period, were RUB 30 million of unrealized losses (in 2010 – losses of RUB 178 million).

Transfers between Level 1 and Level 2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value, during the reporting year:

(in millions of Russian rubles)

32. Fair value of financial instruments (continued)

	Transfers from Level 2 to Level 1,	
	2011	2010
Financial assets		
Investment securities available for sale	–	20

	Transfers from Level 1 to Level 2,	
	2011	2010
Financial assets		
Investment securities available for sale	1,626	41

In 2010, the above financial assets were transferred from Level 2 to Level 1 as they became actively traded during the reporting year.There were no transfers from Level 2 to Level 1 in 2011.

In 2011 and 2010, the above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the year and their fair values were consequently obtained through valuation techniques using observable market inputs.

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

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	At 31 December 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 securities available for sale	12,835	(312)
Financial liabilities		
Derivative financial liabilities	(137)	0

	At 31 December 2010	
	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets		
Derivative financial instruments	719	7

(in millions of Russian rubles)

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

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 and derivative financial instruments, the Group adjusted the amount of the assets held by the closed-end mutual fund by decreasing that by 3% assuming a change in the main pricing adjustments.

- For derivative financial instruments, the Group adjusted the interest rate used for calculation of discounted cash-flows nominated in BYR, USD, EUR and RUB. The adjustment decreased the interest rate by 1,000 basis points for cash-flows nominated in BYR and by 50 basis points for other currencies.

- The Group adjusted the rate of return on equity by 2%, which is used to discount expected cash flows of the first issuer. The adjustment was made by applying the increased risk ratio related to the projected income.

- For shares of the second issuer, the Group adjusted the rate of return on borrowed capital by 1.2% which is an element of calculation of the weighted average cost of capital used for discounting expected cash flows of the issuer.

- For shares of the third issuer, the Group adjusted the risk premium on investments in shares by 2% which is an element of calculation of the weighted average cost of capital used for discounting expected cash flows of the issuer.

- In 2010, for shares of the fourth issuer, the Group adjusted the multiplier "Cost/Gross profit" by 0.4% which was used for calculation of market value of owner's equity based on comparative approach (these shares were sold during 2011 in connection with business combination).

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.

(in millions of Russian rubles)

32. Fair value of financial instruments (continued)

	Carrying value 2011	Fair value 2011	Unrecognized gain/(loss) 2011	Carrying value 2010	Fair value 2010	Unrecognized gain/(loss) 2010
Financial assets						
Cash and cash equivalents	178,028	178,028	–	196,672	196,672	–
Amounts due from credit institutions	457,698	459,280	1,582	415,641	415,705	64
Loans to customers	1,228,923	1,221,641	(7,282)	787,926	789,467	1,541
Investment securities held to maturity	17,779	17,466	(313)	21,536	21,243	(293)
Financial liabilities						
Amounts due to credit institutions	472,014	467,672	4,342	235,027	235,051	(24)
Due to the Russian Government and the Bank of Russia	884,592	884,606	(14)	814,901	814,901	
Amounts due to customers	352,424	352,021	403	290,098	291,408	(1,310)
Debt securities issued	261,030	262,468	(1,438)	186,947	187,524	(577)
Total unrecognized change in unrealized fair value			**(2,720)**			**(599)**

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.

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 associates and key management personnel, outstanding balances at the year end, and related expense and income for the year are as follows:

	2011		2010	
	Associates	Key management personnel	Associates	Key management personnel
Amounts due from credit institutions at 1 January	–	–	971	–
Amounts placed during the year	–	–	–	–
Amounts repaid during the year	–	–	(971)	–
Other changes	–	–	–	–
Amounts due from credit institutions at 31 December	–	–	–	–
Less allowance for impairment	–	–	–	–
Amounts due from credit institutions at 31 December, net	–	–	–	–
Loans to customers at 1 January	147,035	17	125,932	22
Loans granted during the year	10,562	132	20,642	7
Proceeds related to changes in the Group	–	8	0	0
Loans repaid during the year	(10,981)	(24)	(2,041)	(8)
Write-offs	–	–	(0)	–
Other changes	2,764	1	2,502	(4)
Hyperinflation effect	–	**(15)**	–	–

(in millions of Russian rubles)

33. Related party transactions (continued)

Transactions with associates and key management personnel (continued)

	2011		2010	
	Associates	Key management personnel	Associates	Key management personnel
Loans to customers at 31 December	149,380	119	147,035	17
Less allowance for impairment	(35,686)	(1)	(40,216)	(0)
Loans to customers at 31 December, net	**113,694**	**118**	**106,819**	**17**
Interest income on loans to customers	**7,498**	**8**	**7,403**	**(0)**
Charge of allowance for impairment of loans to customers	**(698)**	**(0)**	**(6,265)**	**(0)**
Other assets	**236**	**0**	**61**	–
Loans and deposits received from credit institutions at 1 January	–	–	1,071	–
Loans and deposits received during the year	–	–	–	–
Loans and deposits repaid during the year	–	–	(1,069)	–
Other changes	–	–	(2)	–
Loans and deposits received from credit institutions at 31 December	–	–	–	–
Current customer accounts	**373**	**96**	**296**	**49**
Customer deposits at 1 January	1,389	952	4,052	647
Deposits received during the year	1,845	1,996	13,148	885
Proceeds related to changes in the Group	671	762		–
Deposits repaid during the year	(1,895)	(2,427)	(15,817)	(615)
Other changes	(18)	(29)	6	4
Hyperinflation effect	–	(21)	–	–
Customer deposits at 31 December	**1,992**	**1,233**	**1,389**	**921**
Interest expense on amounts due to customers	**(73)**	**(75)**	**(115)**	**(81)**
Debt securities issued at 1 January	–	–	–	–
Debt securities issued during the year	–	50	–	–
Debt securities repaid during the year	–	(50)	–	–
Other changes	–	–	–	–
Debt securities issued at 31 December	–	–	–	–

(in millions of Russian rubles)

	2011		2010	
	Associates	Key management personnel	Associates	Key management personnel
Interest expense on debt securities issued	**(9)**	–	–	–
Other liabilities	**32**	**25**	–	**36**
Guarantees issued and undrawn loan commitments	**6,567**	**2**	**991**	**8**
Fee and commission income, net	**6**	**0**	**47**	–
Other operating income	**211**	–	**0**	**0**
Other operating expenses	**(1)**	**(63)**	**(152)**	**0**

Compensation to key management personnel comprises the following:

	2011	2010
Salaries and other short-term benefits	1,889	946
Social security contributions	85	47
Total key management compensation	**1,974**	**993**

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 2011 transactions with state-related entities include the Group's deposits with the CBR Bank of Russia that mature within 90 days totaling RUB 120 million (31 December 2010: RUB 195 million) (Note 10) and cash non-interest-bearing deposits (obligatory reserves) maintained by the Group's subsidiary banks with the Bank of Russiain the amount of RUB 4,001 million (31 December 2010: RUB 1,137 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 2011 and 2010 are stated in the table below:

33. Related party transactions (continued)

Credit institution	Types of transactions	Amounts due from credit institutions	
		At 31 December 2011	At 31 December 2010
Credit institution 1	Subordinated loans	182,140	180,609
Credit institution 2	Subordinated loans	86,318	86,014
Credit institution 3	Subordinated loans	22,767	22,576
Credit institution 4	Subordinated loans	22,565	–
Credit institution 1	Interest-bearing loans and deposits with credit institutions maturing within 90 days	14,006	–
Credit institution 5	Subordinated loans	10,135	10,052
Credit institution 6	Interbank loans and term interest-bearing deposits with credit institutions	4,691	4,602
Credit institution 7	Interest-bearing loans and deposits with credit institutions maturing within 90 days	3,866	–
Credit institution 3	Interbank loans and term interest-bearing deposits with credit institutions	3,861	3,754
Credit institution 8	Interest-bearing loans and deposits with credit institutions maturing within 90 days	3,300	2,000
Credit institution 5	Interest-bearing loans and deposits with credit institutions maturing within 90 days	–	7,318
Credit institution 9	Interest-bearing loans and deposits with credit institutions maturing within 90 days	–	4,572
Credit institution 8	Interbank loans and term interest-bearing deposits with credit institutions	–	4,003
		353,649	**325,500**

Credit institution	Types of transactions	Amounts due to credit institutions	
		At 31 December 2011	At 31 December 2010
Credit institution 8	Loans and other placements from Russian credit institutions	28,971	11,193
Credit institution 1	Loans and other placements from Russian credit institutions	22,106	–
Credit institution 2	Loans and other placements from Russian credit institutions	19,093	21,764
Credit institution 10	Loans and other placements from Russian credit institutions	5,954	–
Credit institution 9	Loans and other placements from Russian credit institutions	4,522	–
Credit institution 11	Loans and other placements from OECD-based credit institutions	4,423	5,292
Credit institution 12	Loans and other placements from non-resident banks	3,220	–
Credit institution 5	Loans and other placements from Russian credit institutions	–	8,360
		88,289	**46,609**

(in millions of Russian rubles)

Borrower	Industry	Loans to customers	Undrawn loan commitments	Loans to customers	Undrawn loan commitments
		At 31 December 2011		At 31 December 2010	
Customer 1	Finance	35,081	–	2,604	37,000
Customer 2	Real estate and construction	20,613	–	19,705	–
Customer 3	Oil and gas	14,452	7,914	14,041	–
Customer 4	Telecommunications	12,381	2,379	0	–
Customer 5	Energy	11,870	7,813	6,590	12,904
Customer 6	Energy	10,448	17,563	0	27,469
Customer 7	Energy	7,392	–	–	–
Customer 8	Manufacturing, heavy machinery and military-related goods production	6,925	46,210	–	–
Customer 9	Finance	5,820	1,343	5,431	–
Customer 10	Energy	4,944	1,000	5,297	1,000
Customer 11	Manufacturing, heavy machinery and military-related goods production	4,653	17,816	0	21,087
Customer 12	Transport	3,558	–	3,477	–
Customer 13	Transport	3,541	–	3,464	–
Customer 14	Manufacturing, heavy machinery and military-related goods production	3,140	2,248	1,896	–
Customer 15	Manufacturing, heavy machinery and military-related goods production	2,954	3,484	6,201	1,829
Customer 16	Manufacturing, heavy machinery and military-related goods production	2,623	–	4,653	–
Customer 17	Telecommunications	2,413	–	4,846	2,500
Customer 18	Energy	–	12,000	–	12,000
Customer 19	Real estate and development	–	10,000	–	10,000
Customer 20	Energy	0	4,687	–	–
Customer 21	Manufacturing, heavy machinery and military-related goods production	1,472	4,107	0	–
Customer 22	Energy	0	–	7,945	–
Customer 23	Manufacturing, heavy machinery and military-related goods production	–	–	7,620	–
Customer 24	Telecommunications	–	–	3,820	–
Customer 25	Telecommunications	–	–	3,496	–
Customer 26	Telecommunications	–	–	3,403	–
Customer 27	Telecommunications	–	–	3,379	–
Customer 28	Oil and gas	–	–	3,354	–
		154,280	**138,564**	**111,222**	**125,789**

(in millions of Russian rubles)

33. Related party transactions (continued)

Customer	Industry	Amounts due to customers	
		At 31 December 2011	At 31 December 2010
Customer 17	Telecommunications	36,369	32,667
Customer 29	Infrastructure development	32,002	30,114
Customer 1	Finance	15,961	0
Customer 30	Energy	8,293	–
Customer 31	Manufacturing, heavy machinery and military-related goods production	4,439	3,371
Customer 32	Transport	4,294	16,591
Customer 33	Manufacturing, heavy machinery and military-related goods production	3,000	0
Customer 16	Manufacturing, heavy machinery and military-related goods production	1,383	4,001
Customer 4	Telecommunications	0	6,704
		105,741	**93,448**

Customer	Industry	Guarantees issued	
		At 31 December 2011	At 31 December 2010
Customer 34	Manufacturing, heavy machinery and military-related goods production	33,846	44,846
Customer 35	Manufacturing, heavy machinery and military-related goods production	8,902	12,351
		42,748	**57,197**

As at 31 December 2011 and 31 December 2010, the Group's investments in debt securities issued by the Russian Government comprised:

	At 31 December 2011	At 31 December 2010
Financial assets at fair value through profit or loss	11,490	13,495
Investment securities		
available for sale	25,230	4,258
held to maturity	1,322	1,389
Investment securities available for sale and pledged under repurchase agreements	–	2,277

As at 31 December 2011 and 31 December 2010, 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 2011 and 31 December 2010, the Group's investments into securities issued by state-related issuers, as well as derivative transactions with such counterparties comprised:

	At 31 December 2011			At 31 December 2010		
	Equity securities	Debt securities	Derivative financial instruments	Equity securities	Debt securities	Derivative financial instruments
Financial assets at fair value through profit or loss	30,636	8,487	15,238	34,141	5,662	7,232
Investment securities						
available for sale	172,072	119,571	–	206,670	125,407	–
held to maturity	–	725	–	–	4,854	–
Investment securities available for sale and pledged under repurchase agreements	649	–	–	–	749	–
Financial liabilities at fair value through profit or loss	–	–	152	–	–	2,090

Significant financial results related to transactions with the state are presented below:

	At 31 December 2011	At 31 December 2010
Interest expense:		
Amounts due to the Bank of Russia	(12,248)	(19,306)
Amounts due to the Russian Government	(39,277)	(34,770)

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.

34. Capital adequacy (continued)

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 2011 and 2010, 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:

	2011	2010
Main capital	484,505	455,653
Additional capital	62,618	62,184
Less: deductions from capital	(210,363)	(154,247)
Total capital	**336,760**	**363,590**
Risk-weighted assets	**2,315,833**	**1,805,426**
Capital adequacy ratio	14.5%	20.1%

In order to maintain or adjust the capital structure and in accordance with Federal law No. 82-FZ, 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

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 its liabilitiess in full and within the terms previously stipulated.

In January 2012, the Bankissued a counter-guarantee for a state company in the amount of RUB 4,073 million (equivalent to USD 130 million at the date of issuance).

In February 2012, the Bank placed Eurobonds with a 5-year maturity period in the amount of USD 750 million (RUB 22,419 million at the date of placement) through a special purpose entity.

In February 2012, under OJSC "Belvnesheconombank"'s 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 at the date of signing the report, a report on placing the additional issue of shares of OJSC Belvnesheconombank was not completed.

In February 2012, the Bank placed 3-year currency bonds in the amount of USD 500 million (RUB 14,890 million at the date of placement) at MICEX through an open subscription. This bond issue provides for a 1-year offer.

In February 2012, under the financing agreement with the Fund for the Capitalization of Russian Banks (the FCRB) Vnesheconombank transferred USD 250 million (RUB 7,445 million at the date of transfer) to the International Finance Corporation (IFC). The FCRB to be established is to invest in the capital of Russian universal second echelon banks actively operating in the regions and funding small and medium-sized real-sector businesses.

In February 2012, OJSC "VEB-Leasing" issued non-convertible interest-bearing documentary bonds, Series 06, in the total amount of RUB 10,000 million, maturing in 10 years.

In March 2012, the Bank placed RUB-denominated domestic bonds in the total amount of RUB 15,000 million at MICEX. The bonds mature in 20 years. This bond issue provides for a 3-year offer.

In March 2012, amendments were registered in the charter of the subsidiary bank OJSC "Belvnesheconombank" related to the change of the abbreviated name to OJSC "Bank BelVEB".

In March 2012, the Bank transferred funds in the amount of RUB 1,269 million as an additional monetary contribution to the charter capital of LLC "VEB Capital".The Bank's interest in the charter capital of its subsidiary remained unchanged at 100%.

In March 2012, the Bank transferred funds in the amount of USD 52 million (equal to RUB 1,507 million at the date of transfer) to repay 112,284 additional investment units of Mutual Equity Fund MRIF-II, thus increasing its interest in the Fund to 99.9990%.

In March 2012, the Bank redeemed at face value short-term Euro-denominated debt securities issued by a foreign government in the amount of EUR 200 million (equal to RUB 7,808 million at the date of redemption), previously classified as loans to customers.

In March 2012, OJSC "SME Bank" placed RUB-denominated domestic bonds in the total amount of RUB 5,000 million at MICEX. The bonds mature in 10 years. This bond issue provides for a 2-year offer.

In March 2012, the Bank received a loan from a foreign bank in the amount of USD 70 million (equal to RUB 2,742 million at the date of issue) with a floating interest rate and maturity date in 4 years. The amount will be used to finance the real sector.

After the reporting date, the Bank signed material loan agreements in the total amount of RUB 17,362 million with companies operating in energy, construction, real estate and production industries.

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 of Vnesheconombank in St. Petersburg
Area of Responsibility –
Northwestern Federal District
Shpalernaya Street 60,
St. Petersburg, 191015
Tel.: +7 (812) 331 51 01
Fax: +7 (812) 331 51 02
E-mail: reprf@veb.ru

Representative Office of Vnesheconombank in Khabarovsk
Area of Responsibility –
Far Eastern Federal District
Kim Yu Chen Street 7, letter B,
Khabarovsk, 680000
Tel.: +7 (4212) 42 05 30, 42 05 31
Fax: +7 (4212) 42 05 33
E-mail: reprf@veb.ru

Representative Office of Vnesheconombank in Yekaterinburg
Area of Responsibility –
Ural Federal District
Karl Libknecht Street 4, letter A,
Yekaterinburg, 620075
Tel./Fax: +7 (343) 359 04 36
E-mail: reprf@veb.ru

Representative Office of Vnesheconombank in Pyatigorsk
Area of Responsibility –
North Caucasian Federal District
Krayniy Street 49,
Pyatigorsk, 357500
Tel.: +7 (928) 493 16 60
E-mail: reprf@veb.ru

Representative Office of Vnesheconombank in Krasnoyarsk
(opened in 2011)
Area of Responsibility –
Siberian Federal District
Vesna Street 3 "A",
Krasnoyarsk, 660135
Tel./Fax: +7 (391) 276 16 70
E-mail: reprf@veb.ru

www.veb.ru