



VNESHECONOMBANK

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

ANNUAL REPORT

2007

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CHAIRMAN'S ADDRESS

Honourable Colleagues and Partners!

This year we are publishing a very special report. Actually, it is closing the last chapter in the “Book of Life” of Vnesheconombank of the USSR, which played a major role in building and developing the country’s economy, and opens up the first chapter in the history of the national bank for development. The very fact of creating a bank for development and its activity goals might be viewed as a response of the state to the ongoing challenges.

In a complex globalised environment fraught with crises in the world economy and financial sector, the Russian business will obviously have to make an innovative breakthrough to win in a tough competition on global markets. Practically, within a decade, Russia should become one of the five top global leaders in terms of the GDP, while the quality of life of its citizens should come closer to that of industrialised nations.

Admittedly, attaining these goals would not be possible unless a number of domestic problems were resolved. Among these problems come: a low level of innovations commercialization, insufficient level of development of economic infrastructure, as well as of small- and medium-sized enterprises (SMEs), depleted capabilities to further enhance production volumes on the basis of the existing capacities, a high level of fixed assets amortisation and obsolescence, pre-



dominance in the structure of Russia's exports of raw material production, sharp disproportions and imbalances in the levels of development of the Russian regions. All these factors motivate the need to ensure substantial financial support and targeted concentration of resources in the above areas of Russia's socio-economic development.

We are fairly confident that the history of modern Russia has never witnessed a precedent of establishing a financial institution that would be **really** capable of providing massive support for the state in structural reforms of the economy and the social sphere.

Clearly, a key strategic factor ensuring successful functioning of the bank for development is its financial sustainability, including, among other things, a high level of capitalisation (matching the capitalisation of its foreign peers) achieved, primarily, due to a set of measures undertaken by the state to form its charter capital. That implies that Vnesheconombank does not only have a considerable volume of its own sources of financing to address the challenges of Russia's socio-economic development, but also possesses a huge potential for borrowing resources to this end.

We recognise that, among other factors, that clearly play to our strengths as a bank for devel-

opment, come: long-standing and in-depth expertise gained over the years by Vnesheconombank of the USSR when participating in large-scale investment projects, operating on financial markets, cooperating with representatives of the business community (practically in all the regions of the world), as well as a highly professional team of employees having all the necessary knowledge and skills to ensure successful functioning of a new institution in compliance with the legally established business goals.

Also important is that on the completion of the transformation procedure the newly established bank for development has not only become a universal successor to Vnesheconombank of the USSR, but has also inherited a brand name of "Vnesheconombank" that is well-known both in Russia and abroad. For us and our partners, this fact is a testament to an organic continuation of the glorious history of one of the country's oldest banks, a vehicle of the state economic policy – Vnesheconombank of the USSR, which, in its turn, was a successor to the Bank for Foreign Trade of the USSR (created in 1924 with a view of servicing the country's foreign trade operations and developing the national industry).

Our past record was marked by participation in practically all the meaningful events in the life of the state, be it in wartime or in time of peace.

Our present and future are focused on support for the state to switch Russia over to an innovative way of development. Clearly, it is this way that would ensure for the country a worthy position in the modern world and enable it to enhance the quality of life for its citizens.

Established in the form of a state corporation, Vnesheconombank became the first institution of that kind.

In my judgment, there is a clear logic to the fact that today V. Putin, the person, who actually initiated the idea of creating the bank for development on the basis of Vnesheconombank of the USSR, acting already in a new capacity as the Chairman of the Government of the Russian Federation, heads the Supervisory Board of Vnesheconombank.

Now a brief word on financial results delivered in the past year.

Large-scale work to ensure transformation of Vnesheconombank of the USSR and organisation of its activities in a new status was carried out.

The major milestones of the reported period are:

■ May – Federal Law “On Bank for Develop-

ment” No 82-FZ dd. May 17, 2007 becomes effective;

■ June – registration of State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”, formation of Vnesheconombank’s governing bodies;

■ July – approval by the Government of the Russian Federation of Provisions on Vnesheconombank’s Supervisory Board and Memorandum on Vnesheconombank’s Financial Policies;

■ August – approval by Vnesheconombank’s Supervisory Board of Provisions on Credit Policy;

■ November – making RUB 180 billion worth of an asset contribution to Vnesheconombank’s charter capital by the Russian Federation.

The most important outcome of the year 2007 is the fact that, while seeking to resolve a whole set of complicated tasks related to the Bank’s transformation into a bank for development and creating groundworks required for its activities in the initial period of functioning, Vnesheconombank still continued operating as a financially sustainable institution.

The matter is that we never slowed momentum, but rather, in certain key areas, even gained it. The financial indicators of the period under review only bear it out. Thus, Vnesheconombank's net income reached RUB 8.96 billion, which is a 9.5 percent increase on the year 2006.

As of December 31, 2007, the volume of the loan portfolio totalled RUB 217.8 billion (+26 percent on December 31, 2006), the volume of guarantees issued increased by a 1.6 time to reach RUB 46.2 billion.

The major area of Vnesheconombank's focused efforts is rendering financial and guarantee support to legal entities engaged in implementing huge investment projects. Overall, in 2007, Vnesheconombank engaged in implementing 39 investment projects in a creditor, investor and/or guarantor capacity. Primarily, these were projects in the sector of economic infrastructure (transport and energy), as well as projects designed to create new or modernise the existing production facilities in other sectors/industries of the economy. Among them were 11 new investment projects, which the Bank started to finance when acting in its new legally established status of a bank for development.

Large-scale development of key business lines relating to financial and guarantee support

for implementing investment projects would not be feasible unless we fostered cooperation with our partners: state executive bodies, enterprises and organisations, financial institutions and the respective associations, inclusive of interstate and foreign banks for development.

A great number of requests for project finance submitted to the Bank in 2007 were a distinctive feature of the year. The experience of expert evaluation of these requests suggests that, regrettably, Russia now lacks a market of well-prepared projects. In this connection, the Bank's major focus in 2007 was and in the near-term is to devise approaches to fulfil the task of developing a market of high quality services offered by specialised companies and related to elaborating project documentation and managing projects. In this respect, conveying a well-formulated position to the authorised executive bodies and the business community remains another critically important task for the above companies. Vnesheconombank's participation as a founder in engineering companies might be viewed as a possible option.

Over the course of the reported period, special energies were devoted to a careful study of the best global public-private partnership (PPP) practices. We are prepared to convey this knowledge to the Russian business community. A de-

cision to set up a new structural unit within the Bank — a Centre for public-private partnership (PPP Centre) — was made. Its principal functions will be consolidation and promotion in Russia of practices related to devising and implementing projects on the basis of PPP mechanisms and principles, arranging events to ensure PPP expertise exchange between the representatives of business and state, as well as formulating proposals on developing the respective legal and regulatory framework.

In 2007, striking out into new business directions was another area of the Bank's special attention. These include support for SMEs, as well as insurance of export credits against commercial and political risks. Presently, work designed to help develop SMEs is carried out jointly with Russian Development Bank, 100 percent of whose equity is to be contributed to Vnesheconombank's charter capital by the Russian Federation. The Bank participated in elaborating the "Rules to be Applied by Vnesheconombank to Insuring Export Credits against Commercial and Political Risks", approved by the Directive of the Government of the Russian Federation in February 2008. Also, elaboration of the relevant internal documents is under way.

The bank for development as an assignee of all the rights and obligations of the Bank for Foreign

Economic Affairs of the USSR, continued, among other things, performing the function of an agent for the Government of the Russian Federation to service indebtedness of the former USSR and the Russian Federation, as well as the function of the State Trust Management Company (STMC) to trust manage the pension savings funds.

It is only natural that the Bank's activities related to trust managing pension savings funds have always been in the spotlight of the public and the media. In this context, I would like to highlight the major results delivered by the Bank in this particular area of activities.

On the results of the year 2007, the STMC was among 12 companies that were taking the lead in terms of the yield earned on pension savings funds investment — 6 percent per annum.

The Bank's professionals elaborated proposals to ensure enhanced efficiency of the pension savings funds trust management through the use of more profitable instruments, as compared with those specified in the investment declaration of the STMC. In particular, we proposed that the declaration should envisage a possibility for investing pension savings funds into term deposits placed with commercial banks, as well as investing them into bonds of sound Russian companies.

To foster the development of the domestic capital market, we considered an opportunity to expand the list of instruments that would enable Russian borrowers to form a long-term resource base required for implementing investment projects with long pay-back periods. It primarily concerns the category of infrastructure projects and, accordingly, the issues related to establishing in Russia a market of high-grade infrastructure bonds. In the event of a successful launch of the market, the Bank aims to prepare the respective proposals to include the above bonds into the list of instruments eligible for investment in compliance with the STMC's declaration.

Obviously, long-term ratings (at par with the sovereign credit ratings of the Russian Federation) assigned to Vnesheconombank by the leading international rating agencies are solid proof and an objective assessment of the Bank's sustainability and positive dynamics.

We firmly believe that all the efforts undertaken over the past year allow us to come to a straightforward conclusion: the task set by the Russian Government to create in the country a national bank for development has been on the whole successfully fulfilled. The transformation of Vnesheconombank of the USSR into a new quality financial institution was made within the shortest timeframe possible, maintaining the momentum and the quality of work.

We'd like to take this opportunity to extend thanks to our partners for understanding and support in the period of Vnesheconombank's reorganisation. Now that Vnesheconombank acts in a new status of a development institution, we very much hope for further rewarding cooperation.

Enormous, challenging, but fascinating tasks still lie ahead. It is on meeting these challenges that the knowledge, expertise and dedicated efforts of the Bank's staff will be focused.

Looking to the future, we are holding a fundamentally optimistic and confident view.



V. Dmitriev

Chairman of Vnesheconombank

VNESHECONOMBANK'S SUPERVISORY BOARD

as of December 31, 2007

CHAIRMAN OF THE SUPERVISORY BOARD:

V.A. Zubkov Chairman of the RF Government

MEMBERS OF THE SUPERVISORY BOARD:

A.L. Kudrin Deputy Chairman of the RF Government,
Minister of Finance of Russia

S.E. Naryshkin Deputy Chairman of the RF Government,
Head of the RF Government Administration

D.N. Kozak Minister of Regional Development of Russia

I.E. Levitin Minister of Transport of Russia

E.S. Nabiullina Minister of Economic Development and Trade of Russia

V.N. Putilin First Deputy Chairman of Military-Industrial Commission
under the RF Government; Minister of the Russian Federation

V.B. Khristenko Minister of Industry and Energy of Russia

V.A. Dmitriev Chairman of Vnesheconombank



VNESHECONOMBANK'S BOARD

V.A. Dmitriev	Chairman of the Bank
N.N. Kosov	First Deputy Chairman
A.B. Ballo	Deputy Chairman
S.A. Vasilyev	Deputy Chairman
A.P. Zabaznov	Deputy Chairman
S.P. Lykov	Deputy Chairman
A.V. Smirnov	Deputy Chairman
P.M. Fradkov	Deputy Chairman
V.D. Shaprinskiy	Chief Accountant

BANK'S OVERVIEW

State corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” was established in 2007 by way of reorganisation of Vnesheconombank of the USSR, one of the oldest financial institutions of the Russian banking system.

The Bank’s legal status and activities are regulated by Federal Law No.82-FZ “On Bank for Development” (hereinafter referred to as “Law”) dd. May 17, 2007, other federal laws and the subsequent by-laws of the Russian Federation.

The major goal of Vnesheconombank’s activities is to assist the state in meeting the challenges of enhancing a competitive edge of Russia’s economy, ensuring its diversification and further stimulating investment activities. This should be achieved by means of investment, guarantee, insurance, consulting and other activities of the Bank, envisaged by the Law and related to implementation of projects both in Russia and abroad, including those with the participation of foreign capital.

Vnesheconombank is a national bank for development, an instrument of the state economic policy called to help fulfil the tasks of:

- removing infrastructural restrictions impeding economic growth;

- enhancing the efficiency of natural resources utilisation;

- developing high-tech sectors of economy;

- unleashing innovative and industrial potential of small-and medium-sized enterprises (SMEs);

- ensuring support for exports of national production.

Vnesheconombank is a financial intermediary between state and business that actively contributes to developing public-private partnership (PPP) and introducing internationally accepted PPP expertise and practices, to fostering, among other things, the development of the market of the PPP projects.

The governing bodies of Vnesheconombank include:

Supervisory Board (a supreme governing body);

Board (a collegial executive body);

Chairman of Vnesheconombank (a sole executive body).

The members of the Bank's Supervisory Board are appointed by the Government of the Russian Federation. The Chairman of the Russian Federation Government is the Chairman of Vnesheconombank's Supervisory Board. The Chairman of Vnesheconombank is on the Supervisory Board ex officio.

The Bank engages in effecting banking operations, set out in the Law, without a license extended by the Bank of Russia.

Vnesheconombank acts in a capacity of the State Trust Management Company to ensure trust managing of the pension savings funds.

Vnesheconombank engages in banking servicing of the former USSR and the Russian Federation indebtedness, as well as in arranging the respective record keeping, settlements and verification of this indebtedness.

Vnesheconombank is a professional participant in the securities market.

In 2007, the Bank's charter capital was increased by RUB 180 billion worth of an asset contribution made by the Russian Federation.

Among 10 top Russian banks (in terms of assets volumes *)

Vnesheconombank ranked:

2 nd	in terms of loans and deposits raised from banks;
3 rd	in terms of equity;
3 rd	in terms of loan portfolio growth rate;
6 th	in terms of income before income taxes;
8 th	in terms of the volume of loans extended to Russian non-financial companies.

Remarkably, in 2007, Vnesheconombank's long-term credit ratings (BBB+) were confirmed by the leading foreign rating agencies Fitch Ratings and Standard & Poor's. Equally important, the Standard & Poor's agency changed the Bank's rating outlook from "stable" to "positive". The Baa2 rating, assigned to Vnesheconombank in 2005 by the Moody's agency, was placed in March 2008 on review for possible upgrade. Long-term ratings assigned to the Bank are at par with the sovereign credit ratings of the Russian Federation.

* In accordance with Russian Accounting Rules data.

REPORT ON VNESHECONOMBANK'S ACTIVITIES

1

Development dynamics: major financial highlights

Vnesheconombank's major financial performance indicators evidence further development dynamics and a successful start of its activities in a new legally established status of a bank for development.

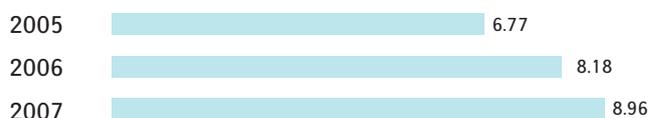
Thus, in 2007, the Bank's net income made RUB 8.96 billion (RUB 8.18 billion – in 2006).

An asset contribution of RUB 180 billion into Vnesheconombank's charter capital made by the Russian Federation at the end of November 2007 was a major factor that ensured an increase of its equity at the year-end 2007 by 7 times, while the Bank's total assets posted a 63 percent rise.

In 2007, the Bank continued its activities related to enhancing its resource base by way of raising term funds from banks, mainly from foreign credit institutions.

Within the past few years, the Bank pursued a consistent policy aimed at increasing volumes of financial and guarantee support. As of December

Net Income, RUB billion



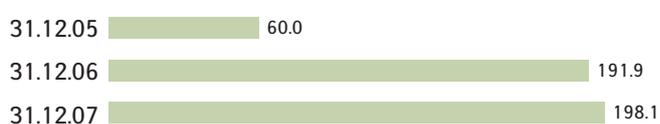
Equity, RUB billion



Assets, RUB billion



Loans and Other Placements from Banks, RUB billion



31, 2007, the volume of loans extended to customers grew by 26 percent, as compared to the year-start 2007, the aggregate volume of guarantees issued – by 58 percent.

The volume of the securities portfolio* within the year did not undergo any drastic changes.

As of the year-end 2007, the Bank's return on equity (ROE) stood at 4.1 percent (26.4 percent in 2006), while return on assets (ROA) was 1.7 percent (2.5 percent in 2006). The reduced indicators are attributed to a considerable rise, as was mentioned above, in the Bank's equity and assets as a result of having its charter capital increased. Alongside that, a "payoff" in the form of a return on the investment of funds, obtained by the Bank as an asset contribution by the Government of the Russian Federation at the year-end 2007, might obviously be expected beyond the period under review, since it is only then that an increased volume of the Bank's

earning assets (due to capital injection) might have an enhancing effect on the amount of income.

*Note: The information contained in the subsequent sections of the annual report refers exclusively to the activities of Vnesheconombank proper (but for the financial indicators as of the closing dates of the reported periods presented in accordance with **consolidated** financial statements).*

Loans to Customers, RUB billion



Guarantees, RUB billion



Securities Portfolio, RUB billion



* As of December, 31, 2007, the shares of the European Aeronautic Defence and Space Company (EADS) in the sum of RUB 32.2 billion are excluded from the portfolio. The above securities were purchased, as envisaged by the Bank's Supervisory Board, with the aim to be used in the transaction planned to obtain the package of new issue shares of OJSC "United Aircraft Corporation".

2

Lending and investment activities, guarantee support

Investment process and Vnesheconombank's role

Strategically, in confronting the challenges of globalisation, climate change and damaged planet ecology, Russia has little choice, but to follow an innovation-based development scenario in the key areas of the state activities. It should be noted that the country's leadership has repeatedly and expressly stated the ambitious idea. Obviously, it is only this way of Russia's social-economic development that could ensure, within reasonably acceptable timeframes, sustainable and long-term economic growth, help diversify economy by placing a sharp focus on high-tech sectors and enhancing Russia's producers' competitive strengths. Principally, the innovation development scenario opens up opportunities for a considerable enhancement of the Russian citizens' living standards and could ultimately ensure for Russia a role and place of an industrialized state that would create a most accommodating environment for every Russian

citizen and would also be secure and attractive for foreign investors' businesses.

Clearly, for implementing a strategy of an innovation-based and socially oriented economy, it would be critically important to create in the Russian Federation a system of innovation and ensure high dynamics of the investment process, with an increased emphasis on investment concentration in the areas that are of priority importance for sustainable economic growth.

The selected strategic investment areas include: developing economic and social infrastructure to remove infrastructural restrictions on economic growth, laying innovative groundworks for fundamental scientific research and applied scientific-technical developments, introducing (commercialising) innovations.

We recognise that in meeting these challenges Vnesheconombank has a special role to play. A key area of the Bank's focused activities is to

bridge “the market gaps” i.e. consolidating and channeling financial resources into industries/sectors, where, for a number of reasons (huge volumes of investment resources required, long payback periods and/or high risks), private commercial capital would hardly go, as well as ensuring capital investment for these industries/sectors by way of extending Vnesheconombank’s guarantees.

Vnesheconombank’s financial results in lending and investment activities, as well as guarantee support

The results delivered are as follows:

■ RUB 56.4 billion* — overall volume of loans** extended by the Bank in 2007, inclusive of RUB 33.0 billion — to finance investment projects, the rest of the loans having been extended mainly for financing current activities of Russian exporters;

■ RUB 23.8 billion — the volume of credit lines opened in 2007;

■ RUB 34.0 billion — the volume of guarantees issued by the Bank in 2007;

■ RUB 217.8 billion — the volume of the loans extended to customers (hereinafter — loan portfolio), as of December 31, 2007 (+26 percent on December 31, 2006).

* Here and henceforth, unless specified otherwise, all the data are presented in the rouble equivalent.

** Less reverse repurchase transactions and promissory notes.

■ RUB 44.0 billion — the volume of investment into charter capitals of legal entities***, as of December 31, 2007;

■ RUB 46.2 billion — the volume of guarantees issued by the Bank as of December 31, 2007 (a 1.6 time rise on the year-end 2006).

Participation in implementing investment projects

Notably, still before its transformation into the bank for development, Vnesheconombank devoted special attention to the support of investment projects aimed at developing the priority sectors/branches of Russia’s economy.

At the start of 2007, the Bank was participating in implementation of investment projects, whose execution goal complied with *the lending, investment and guarantee business priorities of a bank for development*, which were later defined in Memorandum on financial policies of Vnesheconombank (hereinafter referred to as the “Memorandum”).

Among these projects primarily come those oriented towards the development/modernisation of infrastructure facilities in the area of:

transport infrastructure

■ construction of the “Sheremetyevo-3” air terminal complex; the total project costs — USD 1.1 billion, Vnesheconombank’s participation amount at the first stage of the project — USD

*** Including the package of shares of the European Aeronautic Defence and Space Company (EADS).

243 million, the tenor of financing under the first stage – 13 years. Sheremetyevo-3 will be the first transport/transit hub in Russia with the capacity of 12 million passengers per annum. The project implementation allows to bring the minimum connection time in line with the standards of the best international airport hubs and reduce transit time from 90 to 45 minutes;

■ reconstruction of the passenger terminal at the “Khrabrovo” airport (the city of Kaliningrad); the total project costs – USD 70 million, Vnesheconombank’s participation amount – USD 34 million, the tenor of financing – 7 years. The project implementation allows to increase the capacity of the airport up to 5 million passengers per annum;

■ construction of a tanker terminal complex in the commercial port of Ust-Luga; Vnesheconombank’s guarantee support – Euro 241 million. The project is aimed at enhancing the efficiency of natural resources utilisation and diversifying the routes of export deliveries of oil and oil products to West European countries. This project is implemented jointly with OJSC “Neftegazinkor”. The projected capacity of the terminal – 10.5 million tons of oil and oil products per annum;

social infrastructure

■ reconstruction of the surgery and resuscitation units of the Murmansk regional clinic named after P.A. Bayandin; Vnesheconombank’s participation amount – RUB 920 million. The project is of major social significance. It is implemented together with the Administration of the Murmansk region within the framework of the “Healthcare” national project.

Apart from it, the Bank participated in investment projects *on construction/modernisation of facilities in non-infrastructural sectors of industry* that come within the lending and investment priorities established by the Memorandum. Among the major projects are:

■ creating a new line of civil medium-range aircraft SSJ;

■ devising a 4++ generation multifunctional fighter (SU-35).

Management acknowledges that providing support for leasing companies, inclusive of those that engage in delivering Russian aircraft to foreign markets, was another important area of Vnesheconombank’s activities.

In 2007, the Bank, also when acting in its new status of a bank for development, started financing **11 new investment projects**. The most important projects were:

■ modernisation of the first- and second-generation power units of six nuclear power stations; Vnesheconombank’s participation amount – RUB 3.7 billion. The project is implemented by the federal state unitary enterprise “Rosenergoatom” with a view of extending operational life of power units of Beloyarskaya, Leningradskaya, Kolskaya, Kurskaya, Novovoronezhskaya and Smolenskaya nuclear power stations. The project envisages construction and reconstruction of the facilities relating to handling of radioactive waste and irradiated nuclear fuel, as well as to treatment of radioactive waste;

■ the first stage of the project on the “Con-

struction of the 'Nagatino-ZIL' Moscow city technopark". The project costs make USD 462 million. The project envisages construction of a technopark covering an area of 900 thousand square meters, inclusive of 35 buildings and a number of engineering facilities, roads and territorial improvement facilities on a plot of land with a total area of 32 hectares. The project is implemented by OJSC "Moscow Business Incubator", Vnesheconombank's participation amount in financing the first stage of the project makes USD 200 million;

■ acquisition and modernisation of industrial assets in the Republic of Serbska (Bosnia and Herzegovina); Vnesheconombank's participation amount — Euro 350.5 million. The project envisages acquisition and reconstruction of industrial assets of the Rafinerija Nafte a.d. oil refinery, the Rafinerija Ulja a.d. motor oil plant and the Petrol a.d. supply/sale company on the territory of the Republic of Serbska. This project is viewed as particularly significant in terms of support for exports of industrial production and services delivered by Russian companies within the framework of enterprise reconstruction;

■ construction of a pig-breeding farm (the city of Orsk). The project is implemented by CJSC "Orskiy Meat-Processing Plant", Vnesheconombank's participation amount — RUB 2.3 billion. The project is realised with the support of the Orenburg region administration and the Ministry of Agriculture of the Russian Federation. Implementation of this project, which is included into a priority national project "Development of Agricultural-Industrial Complex", is obviously instrumental for developing the agro-industry in the region.

Overall, in 2007, Vnesheconombank engaged in implementing 39 investment projects.

The Bank financed 38 projects in a creditor capacity. In two of the projects (on acquisition and modernisation of industrial assets in the Republic of Serbska and on acquisition of the "Malev" airline shares), Vnesheconombank also acted as a guarantor, within the frames of the project on construction of a tanker terminal complex in the commercial port of Ust-Luga — as an investor and a guarantor, in the project on construction of the "Sheremetyevo-3" air terminal complex — as an investor.

Besides, the Bank, as a co-investor, participated in the project on "Complex Development of the Nizhneye Priangariye region".

Apart from engaging in an investor capacity in projects carried out by legal entities, Vnesheconombank participates in charter capitals of a number of companies.

Starting from 2003, the Bank has been holding 94.64 percent of the equity of CJSC ROSEXIMBANK — an agent of the Government of the Russian Federation for providing state financial (guarantee) support for exports of industrial production. Vnesheconombank, together with ROSEXIMBANK, concluded a number of cooperation agreements with foreign financial institutions with the aim of rendering financial, as well as guarantee and insurance support for Russian exporters. Participation of ROSEXIMBANK and Vnesheconombank in two syndicated term loan facilities (the third participant is OJSC VTB Bank) extended to finance deliveries of aircraft Il-96-300 to Cuba serves as a good example of the two

banks' joint effort in ensuring support for exports of the Russian high-tech goods.

Within the list of the Bank's major investments in 2007 come transactions related to acquiring:

■ a controlling stake of OJSC "Belvnesheconombank" equity, Minsk. This investment is designed to foster cooperation between the Russian Federation and the Republic of Belarus;

■ shares of a major European aircraft concern EADS (for the amount of Euro 995 million). Currently, Vnesheconombank is considering the possibility of using this company's shares in the transaction planned to obtain the package of new issue shares of OJSC "United Aircraft Corporation";

■ a blocking stake of voting shares of OJSC "National trade bank" (the city of Togliatti), which carries out its operations in one of Russia's highly developed industrial regions (the Privolzhskiy federal district) and which has gained in-depth expertise in extending loans to SMEs. The Bank's clients are enterprises operating in those sectors of economy that come within the list of Vnesheconombank's priorities.

Within the period under review, the Bank's energies were devoted to making up a portfolio of potentially worthwhile projects. Among the projects scrutinised by the Bank in 2007 in the context of possible participation in their implementation were:

■ a project on constructing a timber processing complex in the Boguchansk district of the Krasnoyarsk region within the framework

of an investment project "Complex Development of Nizhneye Priangariye", initiated by OJSC "Corporation for the Krasnoyarsk Region Development". Vnesheconombank acts as one of the founders of the Corporation. The Corporation was created on the initiative of the Krasnoyarsk region Administration with the aim of giving a new quality dimension to the Krasnoyarsk region's socio-economic development by way of implementing major investment PPP projects in the region. Within the framework of the project, the Bank intends to finance the construction of a timber processing complex, inclusive of its own sources of raw wood material, as well as the production facilities with the capacity of 800 thousand tons of cellulose, 250 thousand cubic metres of medium-density fibreboards, 500 thousand tons of firm cardboard and 700 thousand cubic metres of sawn timber per annum in the Boguchansk district of the Krasnoyarsk region. This project is one of the first projects implemented in pulp-and-paper industry for the past 30 years. The project has a status of a priority investment project in the area of forest exploitation;

■ a project implemented by OJSC "Angstrom-T" on launching in the city of Zelenograd of the first Russian facility to produce submicron semiconductor elements, with the topological norms of 0,11–0,13 micrometers. The project is designed to foster the development of the national electronics industry, as well as other high-tech industries. To finance the project, the Bank aims to open a credit facility in the amount of Euro 815 million for a 9-year term;

■ a project on commercialization of the Global Navigation Satellite System (GLONASS);

projects implemented by OJSC "United Aircraft Corporation". Within the framework of these projects, the Bank intends, among other things, to participate in financing the construction of a scientific-industrial aircraft building cluster on the basis of the Central Aerohydrodynamic Institute (the town of Zhukovskiy), and in financing OJSC "Aircraft Holding Company 'Sukhoi'" with the aim of carrying out a programme on building and equipping of a new type "SSJ-100" aircraft, ensuring the respective certification, launching serial production, as well as creating a system of an after-sale service (both in Russia and abroad). Apart from it, the Bank will engage in financing the respective activities and investment projects within the framework of the Programme on deliveries of new Russian aircraft up to 2015, approved by OJSC "United Aircraft Corporation";

a project on developing the city water supply and drainage infrastructure in the Rostov region within the framework of the Complex Programme for construction and reconstruction of water supply facilities initiated by OJSC "Evraziyskiy". This is the first project implemented on a concessionary basis, with the participation of the Administration of the Rostov region and the city of Rostov-on-Don. The respective investment program is scheduled for implementing up to 2021 and comprises 3 five-year stages. The total project costs, in terms of the year 2006 prices and current prices, make RUB 22.1 billion and RUB 41.5 billion respectively, inclusive of the private sector funds – RUB 32.7 billion, the RF Investment Fund's money – RUB 6.6 billion, the Rostov region and the city of Rostov-on-Don funds – RUB 2.2 billion. Within the framework of financing an investment program of a private investor (OJSC "Evraziyskiy"), the Bank participates in the capital

of OJSC "Evraziyskiy" and intends to open a credit facility in the amount of RUB 4.5 billion for a 14-year term to implement the first stage of the project carried out on the territory of Rostov-on-Don;

projects in the area of transport infrastructure within the framework of an investment program of OJSC "Russian Railways", inclusive of a project on modernising a part of the railway between Kuzbass and the Far Eastern Transport Hub (the total project costs – RUB 40 billion, the projected volume of Vnesheconombank's financing in 2008 – RUB 6.3 billion);

projects in the area of transport infrastructure in relation to which decisions were made to ensure state support by way of the RF Investment Fund's financing (the Bank will define the terms and conditions of its participation in the projects depending upon the results of concessionary tenders):

construction of the Orlovskiy Tunnel under the Neva river in St-Petersburg;

construction of a highway "Moscow–St. Petersburg" (15–58 km);

construction of a highway "Western High Speed Diameter" in St. Petersburg;

construction of a toll highway "the Odintsovo Bypass Road" – within the framework of a project on constructing a new connection of the federal highway M1 "Belarus" (Moscow-Minsk) with the Moscow circular highway.

Financial and guarantee support of other projects

In the year under review, Vnesheconombank was intent on ensuring financial and guarantee support for current activities of the Russian legal entities engaged in:

■ manufacturing exports-oriented industrial production;

■ manufacturing high-tech industrial goods that are in demand in those sectors of economy that come within the Bank's investment priorities;

■ producing import-substituting goods;

■ importing high-tech equipment and technologies.

The major indicators that characterise the Bank's activities in this area are as follows:

■ RUB 23.4 billion — the total amount of loans extended by the Bank in 2007 for the above purposes;

■ RUB 18.8 billion — the volume of guarantees issued in 2007 to support exports of Russian goods and services.

It is worth noting that, seeking to ensure guarantee support for Russian exporters, Vnesheconombank applies a wide spectrum of instruments: sureties, stand-by L/Cs, bank guarantees of various types, inclusive of advance payment guarantees, tender guarantees, performance bonds.

Support for small- and medium-sized enterprises

Rendering financial and guarantee support for SMEs is one of the Bank's highly potential areas of activity.

The Bank's major SME-related goals are:

■ ensuring equal access for SMEs to medium- and long-term financial resources on the whole territory of the Russian Federation, first and foremost, in the regions that lack sufficient financial resources;

■ arranging financial assistance to SMEs, primarily, to those sectors of economy that have a high-tech and innovative potential;

■ financing projects contributing to the development of the SMEs support infrastructure.

In delivering SME support goals, the Bank's Supervisory Board approved the Interim procedures and terms to apply to extending guarantees, sureties and loans to credit institutions and other legal entities that engage in rendering support for SMEs. Currently, Vnesheconombank is involved in these activities together with the Russian Development Bank. In 2008, the Government of the Russian Federation is to transfer 100 percent of the Russian Development Bank equity to Vnesheconombank's charter capital as an asset contribution.

Financial consulting

In this particular area, Vnesheconombank acted as a financial advisor on projects in relation to which decisions were made to ensure state support by way of the RF Investment Fund's financing:

■ development of the Volga-Baltic waterway infrastructure;

■ construction of a highway "Moscow–St. Petersburg" (15–58 km);

■ construction of a new connection of the federal highway M1 "Belarus" (Moscow–Minsk) with the Moscow circular highway.

Borrowing on Capital Markets

As of the year-end 2007, the overall volume of resources raised by Vnesheconombank from financial institutions totalled RUB 198 billion.

Long-term funds were borrowed on most favourable pricing terms. Admittedly, high credit ratings of the Bank, which are traditionally at par with Russia's sovereign ratings, as well as

a reputation of a reliable partner noted for an impeccable record of honouring obligations, considerably enhanced the Bank's borrowing opportunities.

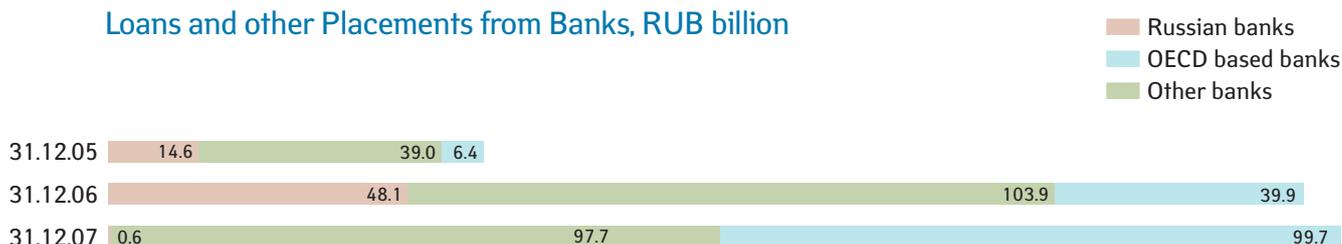
It should be noted that resources from banks were raised in the form of syndicated loans and within the frames of bilateral agreements concluded with foreign partner-banks.

"Tied" resources procured within the frames of bilateral loan agreements with a view of financing specific projects and/or borrowers also served as a major source of financing.

In 2007, "tied" resources were obtained from such foreign banks as Sumitomo Mitsui Banking Corporation, Mediobanca, Deutsche Bank, KfW Bankengruppe, Japan Bank for International Cooperation, etc. These targeted credit resources were utilised for financing projects, whose major implementation goal was infrastructure development (primarily in transport infrastructure), as well as investment projects intended to facilitate industrial production in such sectors as aircraft- and machine-building.

Within 2007, the Bank signed framework agreements with a number of major foreign banks, inclusive of no-limit agreements (i.e. without any limits set on the amounts of borrowing).

Loans and other Placements from Banks, RUB billion



Development of Partnership Relations

In an effort to establish new partnership relations and give a fresh impetus to the ongoing business contacts in the area of investment activities, Vnesheconombank, throughout 2007, **signed memorandums of understanding and cooperation agreements with 15 national banks and development institutions**, inclusive of:

■ on arranging financing investment projects on the territory of the Krasnoyarsk region – with the China Development Bank;

■ on assisting to infrastructure development in the Russian Federation and the Republic of Kazakhstan – with the Eurasian Development Bank;

■ on establishing a fund of direct investment to finance large-scale investment projects in the Russian Federation and the Republic of Kazakhstan – with the Foundation for sustainable development “Kazyna” (Kazakhstan);

■ on enhancing cooperation in the area of mutual investment and developing state supported patterns of investment – with the Czech Export Bank and First Czech –Russian Bank.

Throughout 2007, to bolster cooperation between Russian and foreign companies in the area of Russian goods, services and technologies exports, Vnesheconombank concluded a number of agreements. Under the agreements, the Bank will deliver advisory services and facilitate fund

raising to implement investment projects. The agreements concluded are as follows:

■ an agreement with LLC “Managing Company “Gas” Group and the Ural India Ltd. company on creating a Russian-Indian joint venture for the purpose of industrial assembly of the “Ural” brand lorries in the state of Western Bengal (India);

■ an agreement with a Russian company OJSC “Holding Company “Technochim-Holding” and an Indian company “Saraf Agencies Private Ltd” on cooperation in elaborating schemes for projects implemented on the territory of India within the frameworks of creating a joint Russian-Indian chemical-metallurgical complex to produce titanium dioxide and other titanium products;

■ a memorandum of mutual understanding with the companies “TANA Computerised Medical Systems” and Continental Health Holdings (Pty) Ltd – to implement a project on creating in the South African Republic and other countries in the South of Africa a system of delivering medical services to the inhabitants of the remote and hard-to-access regions with the use of televised medical technologies developed in Russia;

■ an agreement with the Malev aviation company (Hungary), CJSC “Sukhoi Civil Aircraft”, LLC “AirUnion” on cooperation in arranging financing of a serial production of the “SSJ-100” civil medium range aircraft and financing the aircraft deliveries to OJSC “Aviation Company “AirUnion” and Malev.

In 2007, to address the priority tasks of socio-economic development of Russia's regions and strengthening their economic and industrial potential, Vnesheconombank *signed cooperation agreements with the governments (administrations) of 7 subjects of the Russian Federation*: the Republic of Bashkortostan, the Republic of Kabardino-Balkaria, the Republic of Tatarstan, the Krasnodar, Voronezh, Samara and Kaluga regions.

Also, in the reported period, Vnesheconombank, in pursuit of the goal to implement investment projects and programs strategically important for Russia's economic development, signed a number of other protocols of intentions and agreements. Among them are:

■ an investment agreement "On co-financing an investment project "Complex Development of the Nizhneye Priangarie" region by the Russian Federation Investment Fund and commercial organizations'. The agreement is concluded between the Federal Highway Agency, the Federal Railway Transport Agency, the Federal Energy Agency, the Krasnoyarsk region Administration Council and the Corporation for Development of the Krasnoyarsk region.

The investment project "Complex Development of the Nizhneye Priangarie" was one of the first projects related to creating infrastructure facilities, whose co-financing by the Investment Fund (in the amount of RUB 34.2 billion) was approved by the Government of the Russian Federation.

■ an agreement on cooperation with the Russian Scientific Centre "Kurchatovskiy Institute", which envisages a program of current and

prospective interaction. The objectives to be met are: developing close partnership relations by the parties, arranging and ensuring innovative activities in the area of nano-technologies with the aim of creating on the basis of Kurchatovskiy Institute a scientific-technological centre for nano-technologies and arranging the financing of the whole series of works from devising a high potential innovative product to an industrial launch of high-tech goods.

■ a memorandum on interaction in implementation of investment projects with the Federal Hydrogenerating company (OJSC "HydroOGK"). The memorandum envisages joint participation in implementing investment projects oriented towards ensuring sustainable development of electric power production on the basis of renewable energy sources.

■ a protocol on intentions with OJSC "United Aircraft Corporation". The subject of the protocol is fostering cooperation in the area of developing the Russian aircraft building industry to create on its basis a sector of the national economy that would be competitive on the global market.

3

FX and money market operations

In 2007, the FX market witnessed further appreciation of the Russian rouble against the US dollar (from RUB 26.33 against USD 1 to RUB 24.55 against USD 1 at the year-ends 2006 and 2007 respectively) and the rouble depreciation against euro (from RUB 34.70 to euro 1 to RUB 35.93 to euro 1).

Overall, the dollar/rouble dynamics followed that of euro/dollar, the latter being at first reflective of the expectations of a rise in the ECB's main refinancing rate (with the respective dollar rate level unchanged). Later, the euro/dollar dynamics was under the influence of the market participants' pessimistic sentiments regarding a possible adverse impact of the US credit crunch on the country's economy and a subsequent reduction of the FED's main refinancing rate. Within the year, a decrease of the dollar exchange rate against the major global currencies was posted (The DXY dollar index, calculated on the New-York futures exchange, dropped from 83.7 to 76.7).

The Bank of Russia's actions to curb further appreciation of the rouble to the dollar ensured lower dollar/rouble depreciation (7 percent), as compared to the dollar/euro depreciation (10.5 percent). This trend evidences certain changes in the regulator's approach to the formation of the domestic exchange rate in comparison with that practised in the previous periods, when the rouble/dollar appreciation rates outstripped those of the euro/dollar. The year under review saw further correction of the Bank of Russia's bi-currency basket in favour of euro, with the dollar /euro weight ratio changing from 60/40 to 55/45.

Obviously, the global liquidity squeeze resulting from the US mortgage market crisis seriously impacted the dynamics of the rates on the Russian interbank money market. Largely as a consequence of the global liquidity crisis, which spilt over into Russia in August 2007, a considerable rise of interest rates on the domestic market was witnessed (for example, overnight

interest rates posted more than a 3-time rise). It is only due to appropriate measures undertaken by the Bank of Russia that a more serious crisis was avoided. To illustrate, a lombard list of securities accepted by the Bank of Russia under REPO operations was enhanced, rates under currency "swap" operations, as well as mandatory reserve requirements were lowered. By the year-end, as the foreign markets situation improved and with the inflow of extra funds into the Russian banking sector, the interbank money market rates went back to those witnessed at the year-start.

An influx into the market of temporarily idle funds from Vnesheconombank also had a significant role to play in stabilizing the liquidity of the market. Assets that were contributed to the charter capital of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" by the Russian Government made a considerable part of the above funds. The matter is that on the date the Bank received the asset contribution, this amount actually made more than 1/4 of all the banks' balances on the correspondent accounts with the Bank of Russia and was comparable with the maximum daily volumes of REPO operations effected by the Bank of Russia with the Russian commercial banks.

At the end of November, Vnesheconombank's Supervisory Board made a decision to fix a maximum amount of cash allocated for management of temporarily idle funds. It also defined maximum tenors to place the above funds

on the interbank market, as well as set limits for a single borrower exposure for operations with resident banks. Also, requirements for the values of minimum indicators, that characterize borrowers' financial sustainability, were expressly formulated.

In December alone, a daily volume of the rouble funds, placed by Vnesheconombank on the interbank money market totalled, on average, RUB 140 billion.

In the period under review, Vnesheconombank, with a view of placing temporarily idle funds and/or managing its own liquidity, engaged in placing/raising short-term resources on the interbank money market with Russian and foreign counterparties (interbank loans of up to 30 days). Starting from H2 2007, the respective activities of the Bank were undertaken in full compliance with the provisions of the Memorandum on financial policies and the requirements set out by the Bank's Supervisory Board for the above-mentioned operations.

Over 2007, the aggregate turnover under the Bank's operations related to placing/raising funds for the above purposes on the short-term interbank money market grew by 1.7 times on 2006 to reach RUB 4.99 trillion (inclusive of RUB 2.55 trillion in the period following the Bank's registration as a bank for development). The placing/raising volume ratio for short-term interbank loans stood at 13/1. Almost half of the total volume of the above transactions was rouble-denominated.

Turnovers under Operations on Money Market (Short-Term Interbank Loans), RUB billion



Apart from it, the Bank engaged in FX operations, with the volume of the respective deals slightly reduced on the previous year and approximating to RUB 3 trillion.

“Currency swaps”, effected to address current liquidity needs in respective currencies, accounted for the bulk of the operations turnover.

To enhance its capabilities in managing temporarily idle funds (liquidity), the Bank was continuously seeking to expand the number of counterparties represented by Russian and foreign banks. It is worth noting that, within the year, 9 new agreements on general provisions related to effecting operations on FX and money markets were signed. Limits on new counterparties were set, while limits on major Russian and foreign banks were reviewed and enhanced.

Among Vnesheconombank’s counterparties that have clean lines set on it, apart from Russian banks, are leading European and American financial institutions.

4

Securities market operations

In managing its securities portfolio, the Bank was abiding by the principles of a well-measured and conservative policy. It was based on the current and future estimates of the market environment, including the projections of a possible change in the market conditions that might go beyond the period under review.

Fixed income financial instruments represented the bulk of the Bank's portfolio*. Actually, they were called to serve as a counterbalance against a possible decline in share prices in the event of worsening global economic environment.

In the period under review, the Bank continued to redistribute securities investments in fa-

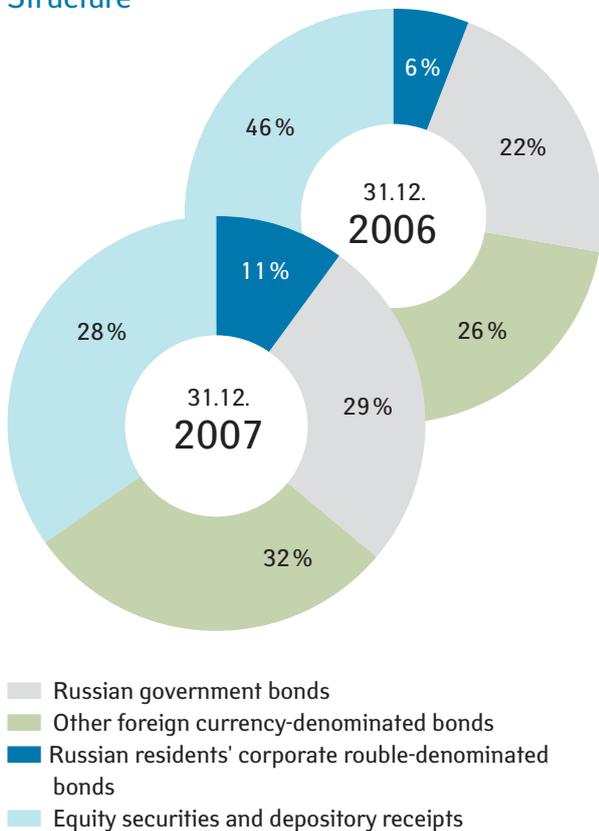
vor of fixed income instruments. To illustrate: if at the start of the period under review, fixed income instruments accounted for 54 percent of the portfolio volume, then by the year-end 2007, they already made the bulk, namely, 72 percent of the portfolio volume.

An increase in the volume was achieved, due to, among other things, purchase of Russian government foreign currency-and rouble-denominated bonds: Russian Federation eurobonds with the final maturities falling in 2030, as well as OFZs due for redemption in Q1 of 2008.

An improved outlook for the domestic corporate bonds market and a positive experience of making up the respective instruments portfolio in the previous years enhanced an opportunity for securities portfolio further diversification through increased volumes of investment in the above financial instruments. As of December 31, 2007, the volume of Russian corporate eurobonds in the Bank's portfolio witnessed a 1.7 rise, as compared

* As of December, 31, 2007, the shares of the European Aeronautic Defence and Space Company (EADS) in the sum of RUB 32.2 billion are excluded from the portfolio. The above securities were purchased, as envisaged by the Bank's Supervisory Board, with the aim to be used in the transaction planned to obtain the package of new issue shares of OJSC "United Aircraft Corporation".

Securities Portfolio Structure



to the start of the year. With a view of minimising credit risks, preference was given to eurobonds of leading Russian companies and major banks that operate under the state control.

Simultaneously, a focus was placed on operations with credit-linked notes of non-residents that are linked to Russia's sovereign risk or corporate risks of sound Russian companies. These derivative instruments were used to ensure higher yields than those earned with the use of traditional foreign currency-denominated bonds. Bonds of non-residents with an investment grade rating (mainly sovereign bonds of Germany, the USA and Great Britain) continued to serve as an extra strategic reserve (a source of liquidity). The

volume of the Bank's investment into the respective instruments portfolio remained practically unchanged on the year-start 2007.

The Bank's portfolio of the Russian rouble-denominated non-sovereign bonds demonstrated considerable growth (+85 percent). Investment into new issues of corporate bonds of financially stable and sound Russian companies and banks, inclusive of those with state participation, proved to be most attractive (in terms of profitability and reliability).

Admittedly, expectations of a possible drop in the Russian equity market indices (against the background of a rising RTS index and a falling Dow Jones index in October 2007 – January 2008) brought about the need to take profits by way of selling part of the Russian equities from the Bank's portfolio before the year-end 2007. That tactics enabled the Bank to partially offset the adverse effects on the Bank's financial result of a decrease in the prices of the Russian shares that followed in January 2008. As of the year-end 2007, the volume of the equity securities in the Bank's portfolio decreased by 1.8 times.

At the year-end 2007, the overall volume of the Bank's securities portfolio totalled RUB 70.2 billion, as compared to RUB 75.2 billion posted at the year-start 2007.

5

Depository activities

Vnesheconombank has been carrying out custody activities on the basis of a license of a professional securities market participant since 1999. After Vnesheconombank was registered as a development bank in 2007 the Federal Financial Markets Service issued a new license to the Bank to execute depository activities stipulated by Federal Law "On Bank for Development".

Vnesheconombank traditionally delivers a full spectrum of high quality depository-settlement services for investors and securities market professional participants effecting operations with securities traded on both the Russian and global markets.

Servicing the Russian Federation government securities market is a major component of the Bank's custody activities. In the past year, Vnesheconombank acted as an authorised depository and the main payment agent of the Ministry of Finance of the Russian Federation to service MinFin bonds. Besides, the Bank con-

tinued servicing the 1999 MinFin bonds Global Certificate.

In November 2007, the Bank redeemed utilising the budget funds the remaining 50 percent of the 1999 Minfin bonds principal amount for the total sum of USD 444.9 million (the 1999 MinFins were issued to restructure the indebtedness under the III tranche Minfins).

The Bank participated in preparation of Directive by the Government of the Russian Federation of June 20, 2007 № 387 "On the procedure to apply to concluding indemnity and redemption agreements with the holders of the III tranche Minfin bonds, who did not effect novation under the bonds".

In 2007, within the frameworks of the given Directive, and with Vnesheconombank's participation, the indebtedness of the state towards all the holders of the III tranche Minfins was redeemed.

Over the period under review, Vnesheconombank also executed coupon payments under the IV,V,VII tranche Minfin bonds and the 1999 Minfins, as well as payments under the IV tranche Minfins principal amount, presented for redemption in 2007. The total amount of the payments reached USD 120.4 million.

In 2007, Vnesheconombank performed the functions of a payment agent to service 9 bond issues of OJSC "Agency for Housing Mortgage Lending" (OJSC AHML). These functions were fulfilled on the basis of trilateral agreements concluded between Vnesheconombank, the Ministry of Finance of the Russian Federation and OJSC AHML. Repayments under OJSC AHML's bonds are secured by the sovereign guarantee of the Russian Federation. Funds raised from the bonds' origination are used to finance the federal target program "Housing", which is part of a priority national project "Affordable and Comfortable Housing for the Citizens of Russia".

Special attention was attached to improving the technologies of effecting operations related to record keeping of securities pledging, as well as to developing information support for the pledge deals participants.

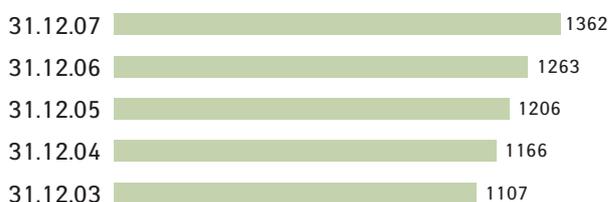
Over the period under review, more than 144 client depo accounts were opened (inclusive of 45 accounts opened after the registrations of the bank for development). As of 31.12.2007, the overall number of depo accounts was running at 1362.

The yearly average volume of securities held in safe-keeping by the Bank's Depository

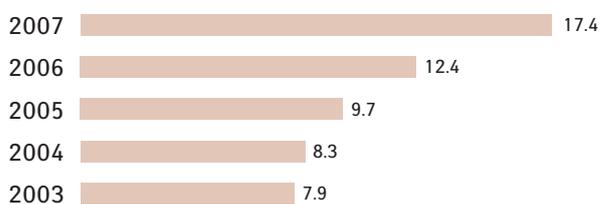
throughout 2007 reached USD 17.4 billion (USD 12,4 billion in 2006).

According to the rating drawn up by the Financial Research Development Fund "The Infrastructure Institute" (INFI) jointly with the Professional Association of Registrars, Transfer-Agents and Depositories (PARTAD), Vnesheconombank's Depository (based on H1 2007 results) ranked among top 10 Russia's major depositories in terms of the value of assets held in safe-keeping.

Number of Depository Accounts



Yearly Average Volumes of Securities at Face Value, USD billion



6

Agent for the Government of the Russian Federation

Vnesheconombank, acting as an agent for the Government of the Russian Federation, is authorised to service Russia's sovereign foreign debt and centralised foreign economic operations of the Russian Federation, manage state external financial assets, as well as settle Russian borrowers' bad debts towards the federal budget.

Priority was given to tasks, whose accomplishing would help reduce the volume of the sovereign foreign debt of the Russian Federation and the respective servicing costs. Also, in pursuit of the goals set, the Bank was seeking to ensure maximum possible receipts for the federal budget as a result of debt redemption by debtor-countries and Russian borrowers. The above tasks included:

- ensuring verification and proper record-keeping, (inclusive of budget record-keeping), as well as effecting relevant payment/settlement operations under the bulk of the sovereign for-

ign debt and the state external financial assets of the Russian Federation;

- participating, jointly with Russia's Ministry of Finance, in developing and agreeing with foreign creditors/debtors the terms and procedures to apply to the settlement/redemption of Russia's sovereign liabilities/claims;

- participating in in-court and out-of-court settling of debts owed by legal entities, the subjects of the Russian Federation, and municipal entities under federal budget loans, as well as in settling indebtedness arising out of targeted financing provided for Russian legal entities in exchange for equities transferred into the Russian Federation ownership;

- participating in the preparation of the respective legal, information- analytical and methodological documentation related to the Bank's agency capacity activities.

In 2007 (after effecting throughout the two preceding years an unprecedented in scale operation to finally redeem the former USSR indebtedness towards the Paris Club creditor-countries), the Bank's primary focus was placed on resolving the issues related to verification, settlement and redemption of *the sovereign foreign debt of the Russian Federation towards the creditors outside the frames of the Paris Club*.

A meaningful outcome of the Bank's activities in an agency capacity was a successful completion of a protracted multi-staged negotiating process on the settlement of the former USSR debt towards the United Arab Emirates. With Vnesheconombank's active and direct participation, the Russian party managed to reach final arrangements on the debt settlement. Largely as a consequence, the relevant agreements were signed and a whole set of appropriate measures was duly and promptly implemented to write off the original indebtedness.

As a result of a more than 5-year long negotiating process with Bulgaria, work on agreeing and signing interbank documents on the former USSR obligations with the designated Bulgarian banks was completed. Vnesheconombank's consistent position on the given issue enabled the Bank to fully ensure the interests of the Russian Federation. Bulgarian claims related to the Soviet-Bulgarian intergovernmental agreements on constructing the Yamburgskiy gas pipeline and the Krivorozhskiy mining complex were finally and unconditionally written off.

As a result of a break-up of the state of Serbia and Montenegro into the Republic of Serbia and the Republic of Montenegro, a relevant

agreement on the split-up of assets and liabilities was signed between them. In this context, Vnesheconombank's professionals carried out prompt and thorough preparation, agreeing and signing a trilateral interbank agreement between Vnesheconombank, the National Bank of Serbia and the Central Bank of Montenegro. The agreement ensured redistribution of the remaining balance of the former USSR clearing indebtedness towards the former Serbia and Montenegro under the trade turnover between the former USSR and the former SFRYU.

After the respective intergovernmental agreements were signed, Vnesheconombank effected operations designed to take the clearing claims off the Bank's records and to register the US dollar-denominated indebtedness on the Bank's books. Part of the indebtedness was redeemed through offsetting the debt of Serbia for Russia's natural gas. The remaining debt is to be redeemed through supplies of Russian goods.

The Bank pressed ahead with its effort to settle the debt owed to the Sultanate of Oman. To this end, the Bank's professionals carried out a set of measures resulting in redemption of the bulk of Russia's indebtedness through goods supplies.

Also, measures were undertaken to implement intergovernmental arrangements related to the settlement and/or redemption of indebtedness towards China, Hungary, South Korea, Croatia and Slovenia. The Bank's specialists participated in preparing and agreeing the terms and conditions of an agreement (signed in 2007) between the Government of the Russian Federation and the International Bank for

Economic Development on settling mutual financial claims under the former USSR operations.

In the course of the preparation for the final stage of exchange of the former USSR commercial indebtedness, work was continued to ensure verification and acknowledgement of foreign creditors' claims under this category of the sovereign foreign debt. The Bank's professionals directly participated in activities undertaken by the Ministry of Finance of the Russian Federation and designed to prepare regulatory and information documents of the Government of the Russian Federation on the completion of the former USSR commercial indebtedness settlement.

Vnesheconombank is an active participant in the process of settling and redeeming *the indebtedness of the countries that are Russia's debtors*.

On the basis of an intergovernmental agreement with Afghanistan that, in 2006, obtained the status of a client of the Paris Club of creditors, an initial settlement of the country's obligations towards the Russian Federation was effected in line with the Club's arrangements.

Besides, a set of measures was implemented to ensure redeeming overdue payments by a group of Russia's debtor-countries that, by the year-end 2006, terminated their participation in the extended initiative of the IMF and the World Bank designed to ease debt pressures for heavily indebted poor countries (HIPC initiative): Benin, Guyana, Zambia, Madagascar, Mozambique, Tanzania, Ethiopia. As of December 31, 2007, all

the above countries (with the exception of one debtor) redeemed the indebtedness.

The Bank's professionals also participated in settling India's overdue technical indebtedness under the state credits. Largely as a consequence, the Indian party acknowledged a whole number of obligations arising out of payments, which, as was identified, were made in insufficient amounts, or as a result of an additional adjustment of the sums of payments in redemption of the restructured indebtedness.

The year 2007 witnessed several rounds of Russian-Libyan intergovernmental negotiations conducted with the participation of Vnesheconombank's employees. The negotiations resulted in initialling the text of an intergovernmental agreement on trade-economic and financial relations. The agreement envisages settlement of Libyan obligations towards the Russian Federation, records of which are kept with Vnesheconombank.

Also, the Bank's specialists ensured preparation of an appropriate banking documentation related to the procedure of settlements under intergovernmental agreements on the settlement of Moldova's indebtedness towards Russia under state credits.

Special energies were devoted to *information-analytical activities* designed to facilitate the Bank's function of an agent for the Government of the Russian Federation in servicing Russia's sovereign foreign debt, effecting centralized foreign economic operations of the Russian Federation and managing state external financial assets.

Over the period under review, the Bank's professionals took part in the work of the Russian delegation (representing Russia as a Paris Club creditor) in all the 9 sessions of the Club, inclusive of 4 rounds of multilateral negotiations. Prior to each session of the Paris Club, Vnesheconombank's professionals forwarded to the Ministry of Finance the Bank's proposals on defining the Russian delegation's negotiating stance on the sessions agenda issues, including those relating to the methodological aspects of the Paris Club activities.

The year 2007 was marked by the 10th anniversary of Russia's joining the Paris Club. In this context, the Ministry of Finance of the Russian Federation prepared information-analytical materials devoted to the event. In light of this, Vnesheconombank's professionals elaborated and submitted to the Ministry of Finance a comprehensive report. The Bank's survey comprised the volumes of indebtedness owed to the Russian Federation by its debtors that was settled and written off within the period of 1997–2007. Also, the report presented data on the amounts of funds delivered to the Federal budget, as well as the volumes of current obligations owed to the Russian Federation by its debtors.

Regular work to update information on the debt and macroeconomic standing of debtors, viewed as potential beneficiaries or beneficiaries under the HIPC initiative, was continued. Every half year, the respective analytical surveys "HIPC Initiative Implementation" were submitted to the Ministry of Finance of the Russian Federation.

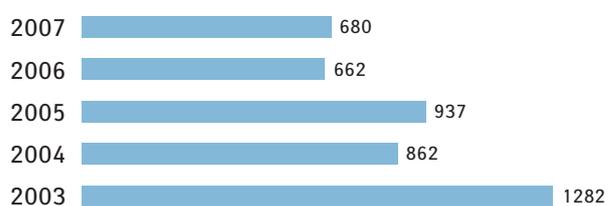
In an agency capacity, Vnesheconombank also places a tight focus on resolving the issues

related to *settlement of bad debts owed by legal entities, the subjects of the Russian Federation, and municipal entities* under federal budget loans, as well as to settlement of indebtedness arising out of targeted financing provided for Russian legal entities in exchange for equities transferred into the Russian Federation ownership.

A significant volume of the Russian borrowers' indebtedness towards the Russian budget, settled with the participation of Vnesheconombank's professionals (employees of a specialised department staffed with qualified lawyers, financial analysts and economists), might be viewed as solid evidence of the achievement in this particular area of the Bank's activities. Over the past 5 years alone, the volume of indebtedness settled exceeded the equivalent of USD 4.4 billion, inclusive of USD 680 million worth of indebtedness settled in 2007.

Within the period under review, Vnesheconombank's professionals participated in more than 280 court hearings. The sum of USD 218 million worth of indebtedness towards the federal budget was acknowledged under the court rulings. Within the in-court and out-of-court settlement of indebtedness procedure, USD 373 million worth of funds were transferred to the

Volume of Indebtedness Settled, USD million



federal budget. In accordance with the federal law "On the Federal Budget for the Year 2007" the debtors' property in the total amount of USD 305 million was transferred to the state ownership.

As of December 31, 2007, claims for the sum of USD 334 million were under arbitration courts consideration.

Apart from it, Vnesheconombank performs the functions related to rehabilitation of strategic enterprises (within the frameworks of a cooperation agreement, concluded with the Ministry of Industry and Energy of the Russian Federation).

7

State Trust
Management
Company

Since 2003, Vnesheconombank, acting as the State Trust Management Company (STMC), has been engaged in trust managing the pension savings funds of the insured citizens of the Russian Federation, who haven't 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 funds management are effected in strict compliance with the legislation in force, the principle of independence and segregation of the above operations from the Bank's proprietary activities, as well as those related to executing customer instructions, being invariably observed.

To efficiently embrace the functions of the STMC, the Bank was primarily intent on meeting the following tasks and goals:

- elaborating a strategy of investment of the pension savings funds;

- making up the STMC's investment portfolio and managing the respective portfolio in the interests of the insured citizens;

- elaborating proposals related to developing and upgrading the legislative framework to primarily ensure enhanced return on investment;

- improving the mechanism of interaction with the participants in the process of trust management of the pension savings funds;

- optimizing internal business processes that regulate pension savings funds trust management operations.

As of December 31, 2007, the market value of the STMC's assets portfolio totalled RUB 267.3 billion. Over 2007, the Pension Fund of the Russian Federation transferred to Vnesheconombank for trust management RUB 90.5 billion worth of pension savings funds (as compared to

RUB 83.5 billion over 2006). The newly transferred funds were invested into eligible types of assets specified in the investment declaration and in timeframes envisaged by the trust management agreement.

Within 2007, the portfolio formation was ensured primarily through investment in state federal loan bonds (OFZs) and state savings bonds (GSOs). As a result of lifting in February 2007 limitations on the maximum share of the Russian government rouble-denominated securities in the STMC's portfolio, the turnovers under operations with these financial instruments saw a substantial increase (by 1.5 times). As of the year-end 2007, the aggregate share of OFZs-GSO* in the STMC's portfolio reached 84.3 percent of the portfolio market value (versus 78.5 percent at the end of the previous period).

To mitigate currency risks (the STMC is not authorised to hedge against them), the Russian eurobonds exposure was reduced by 1.7 times, with the respective instruments share making 4.3 percent of the STMC's portfolio market value at the year-end 2007 (10 percent as of December 31, 2006).

To address the need of ensuring better return on the funds invested, measures were taken to reduce the volume of temporarily idle funds. Largely as a consequence, the yearly average balances of cash on the trust manager's accounts decreased from 13.7 percent in 2006 to 7.5 percent in 2007.

As of December 31, 2007, the market value

* Here and henceforth in this section of the report, the securities market value less accrued coupon is used for calculations.

of the assets portfolio formed from the pension savings funds amounted to RUB 363.1 billion, inclusive of RUB 321.8 billion — the market value of the securities.

At the year-end 2007, the investment income ran at RUB 17.76 billion (RUB 12.35 billion — in 2006). The yield on the investment portfolio stood at 5.98 percent per annum**. Despite a deteriorating market environment that resulted in reduced prices for all of the OFZs issues (in particular those with long-term maturities, which accounted for the bulk of the trust manager's portfolio), the yield on investment portfolio at the year-end 2007 exceeded that delivered in 2006 (5.67 percent per annum).

Reporting related to pension savings funds management operations was prepared in strict accordance with the standard formats and in timeframes specified in the regulatory documents issued by the respective federal executive bodies.

The information on the pension savings funds investment was presented on Vnesheconombank's web site in compliance with the formats and in timeframes set forth in the document "Standards of Information Disclosure with respect to Pension Savings Funds Investment".

Within 2007, the Bank, seeking to ensure enhanced efficiency of the pension savings funds trust management, came up with the proposals designed to upgrade the respective legislative framework. In particular, these proposals were aimed at expanding the list of instruments eli-

** Based upon the value of net assets as of the last calendar day of 2007 and closing business day of the year 2006.

gible for investment by inclusion of Russian corporate and mortgage bonds, as well as deposits placed with Russian commercial banks. In view of the need to maintain a well-measured and conservative approach and ensure high reliability of the pension savings funds investment, the enhancement of the list of instruments eligible for investment envisaged a simultaneous introduction of limitations both in terms of securities quality and the structure of the investment portfolio.

In 2007, the accounting procedures of the STMC, its financial statements regarding the formation and investment of the pension savings funds, as well as financing payments made from these funds, were subject to an annual auditing procedure made by the "Ernst & Young Vneshaudit" CJSC, an independent auditing company acting on a special assignment. The accuracy of the reports presented by the STMC was confirmed by a respective auditor's opinion.

8

Corporate governance

The system of corporate governance, which was developed by the year-end 2007, was, just as in the past year, targeted on ensuring improved efficiency and transparency of the Bank's activities, winning the trust and confidence of the existing and prospective partners, creating a benign environment for enhancing the professional level of the Bank's staff.

The major components of the system of corporate governance include a system of the Bank's interaction with external world and a system of internal corporate governance.

The transformation of Vnesheconombank USSR into a state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" in June 2007 predetermined certain changes primarily in the system of the Bank's internal corporate governance.

In the first place, these changes concerned the structure of Vnesheconombank's govern-

ing bodies, the procedures to apply to their formation and the allocation of powers among them.

The scale and scope of the tasks the bank for development is called to accomplish, the functions it is entrusted with, brought about the need to upgrade the system of planning and analysis of the Bank's financial performance (including the system of risk management), the internal control system, as well as the Bank's organisational structure.

Governing Bodies

Before the transformation into a development bank, Vnesheconombank of the USSR was headed by the Chairman appointed to the office by the President of the Russian Federation on the nomination of the Russian Government. The Bank was managed by the Board of Directors, a collegial body, whose members were appointed

by the Government of the Russian Federation on the nomination of the Chairman of the Bank.

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

The Supervisory Board is Vnesheconombank's supreme governing body. The Chairman of the Russian Federation Government is the Chairman of Vnesheconombank's Supervisory Board. The Supervisory Board consists of eight members appointed by the Government of the Russian Federation and the Chairman of Vnesheconombank, who is on the Supervisory Board ex officio.

In its activities, the Supervisory Board is guided by the provisions of Federal Law "On Bank for Development", other legal and regulatory documents, as well as the Provisions on Vnesheconombank's Supervisory Board, approved by the Government of the Russian Federation.

Among the key functions of the Supervisory Board are: defining the major areas of the Bank's activities, approving the Bank's budget, annual report and other internal documents that underlie the Bank's activities, making decisions to approve transactions (within the respective competences), approving an independent auditor and appointing Head of the Bank's Internal Control Service.

Within the period of its activities in 2007, the Supervisory Board held 9 meetings, in the course of which 15 documents, critically important for arranging the Bank's activities in a capacity of a development bank, were approved. They includ-

ed: Provisions on the Board and the Chairman of Vnesheconombank, Procedures to Regulate the Activities of Vnesheconombank's Board, Provisions on Internal Control Service, Directive on the Credit Policy, Provisions on Vnesheconombank's Funds, the Methodologies of Calculation of the Capital Adequacy Ratio, as well as Calculation of the Bank's Equity, Procedure related to Calculation of Indicators and Limits to Mitigate Credit Risks. The Supervisory Board considered and approved the parameters of the Bank's transactions/deals that come within the area of the Supervisory Board's respective competences.

The Board is a collegial executive body consisting of eight Board members, appointed by Vnesheconombank's Supervisory Board on the nomination of Vnesheconombank's Chairman. The Board is headed by the Chairman of Vnesheconombank.

The Board acts within the powers assigned to it by Vnesheconombank's Provisions on the respective body. In compliance with the established procedures, the Board, on a regular basis, at least once a month, holds meetings. Apart from issues related to effecting transactions/deals that were subject to the Board's consideration within the reported period, the Board also approved a number of internal documents, inclusive of those defining the Bank's organisational structure and the staff pay system.

The Chairman of Vnesheconombank is appointed to office by the President of the Russian Federation on the nomination of the Chairman of the Government. Vnesheconombank's Chairman acts as the sole executive body and manages the Bank's day-to-day operations.

With a view of supporting the governing bodies activities, working collegial bodies, namely, the Credit Committee, Committee for Investment Operations Development and the Technology Committee are functioning on a continuous basis. These working bodies ensure preliminary consideration of issues that come within the competences of the Bank's governing bodies and produce the respective recommendations.

Risk Planning and Assessment Systems

The most significant interrelated components of the internal corporate management system are the system of planning and analysis of the Bank's activities (hereinafter referred to as "the planning system") and the risk management system.

The above systems are organized taking full account of the approaches recognized in the global banking community in the given areas.

The methodological approaches in the area of **planning the Bank's current activities (for the coming fiscal year)**, inclusive of cost limits planning, introduced at Vnesheconombank, comply with the best global practices. In 2007, the task was to continue the work started in 2006 and designed to help switch over the current planning system to a principally new technological level. The period under review saw an experimental launch of a software package devised on the basis of advanced technologies. The software product is intended to streamline and rationalise information flows and automate processes within the frameworks of the cost

limits planning procedure, inclusive of forming relative contracts/agreements and making payment schedules within the contractual obligations undertaken by the Bank's counterparties, as well as in ensuring due and prompt control over their fulfillment. Introducing this software product will enable the Bank to upgrade the processes of drawing up its cost limits and preparing the respective reports. Moreover, the launch of the software package will considerably contribute to reducing the level of operational risks and to optimizing the documentation turnover process. Besides, it will ensure an enhanced control over of the cost limits observance.

A special focus is placed by Vnesheconombank on upgrading the methodological base underlying **strategic planning and analysis**. This, primarily, embraces an area of an external situational analysis, oriented towards assessing the state of the external environment (the current state of affairs and prospects for the development of macroeconomics, industries and regions).

Vnesheconombank's professionals have put into place **a risk management system** that is successfully functioning. The system, in terms of methodological and technological support for market risks assessment and the respective control procedures, can be evaluated as a most advanced one for a Russian bank. It fully complies with the Basel Committee recommendations in the above area and the best globally accepted practices.

On a daily basis, market risk assessment is made through the use of Value-at-Risk (VaR) methodology augmented by the results of a

regularly carried out stress testing procedure. To evaluate model risks, back testing of VaR risk assessment is effected. The above activities are carried out by way of applying a specialised software product devised by a Russian company with an active participation of Vnesheconombank's professionals.

In 2007, the work to upgrade the risk management system was continued. The key areas in the period under review embraced developing: a methodological base related to a quantitative assessment of credit and project risks and structural risks (in terms of currency risk and interest rate risk), as well as a technological base related to liquidity risk management. An urgent need to resolve these tasks drawing on advanced approaches to risk management can be obviously attributed to an enhanced scale and scope of the Bank's activities in implementing major long-term investment projects.

Among the Bank's major risk management mechanisms come: limits, allowance for assets impairment and provisions, hedging and pledge acceptance.

The structure of the system of limits introduced at the Bank is extensive and intricate. Credit limits are set by borrowers/groups of "tied" borrowers, by types and maturities of operations, as well as by countries.

To limit market risks, portfolio limits, set on the volumes of securities by types of securities, are approved. With the aim of exercising control over actual accumulation of losses under operations with trading securities, indicative *stop-loss* limits are set.

In terms of the currency risk, the volume of an open position in each currency is controlled. The level of FX risk under the FX trading operations is limited by setting intraday limits, *stop-loss* limits.

Within the liquidity risk management procedure, liquidity assessment is made through the use of a method of cash flow analysis. The Bank exercises control over the amount of cumulative gaps between claims and liabilities in terms of maturities (inclusive of those in rubles and separately in foreign currency).

Apart from the limits set by the Bank, the following restrictions are imposed in line with Memorandum on financial policies of Vnesheconombank: limit of exposure for a single borrower (or a group of "tied" borrowers) – 25 percent of the Bank's equity, the aggregate volume of large exposures – 800 percent of the Bank's equity.

Internal Control System

The system of Vnesheconombank's internal control is organised in full compliance with the legislation of the Russian Federation and the regulatory documents of the authorized state executive bodies and the Bank of Russia. The major principles underlying its organization are its continuity, autonomy, impartiality and professional competence.

Actually, the system of internal control runs through the Bank's whole management structure starting from the governing bodies down to units and professionals engaged in internal control procedures. The system embraces all areas of

the Bank's activities and is, primarily, designed to ensure:

■ observing the requirements set out by the Russian legislation and internal regulatory documents, as well as international rules and standards related to procedures to apply to effecting banking operations, formalizing the respective documents, ensuring an accurate, full, objective and timely recognition of operations in book-keeping and tax accounting, as well as ensuring information security;

■ adhering by the Bank's professionals to the principle of segregation and division of powers and duties, to the established decision-making procedures that would primarily impact the interests of the Bank and/or its clients, as well as to the principle of avoidance of the conflict of interest;

■ undertaking in due time a comprehensive set of measures designed to counteract money laundering of illicit gains and financing terrorism;

■ providing in due time a whole set of measures related to control over the Bank's activities as a professional participant in the securities market, as well as, its activities in a capacity of the state trust management company (STMC) to trust manage pension savings funds;

■ securing the safety of the Bank's property.

At the Bank's units level, internal control is exercised through special control procedures that are in-built into various business processes and

aimed at preventing, spotting and correcting errors and distortions that can occur in effecting operations/deals, in making analytical estimates or in other actions that are an integral part of a business process.

The key structural element of the internal control system is the Bank's specialised unit – Internal Control Service (ICS), whose head is appointed by the Supervisory Board of Vnesheconombank. The ICS is accountable to Vnesheconombank's Supervisory Board and, in terms of its day-to-day activities, it is accountable to the Chairman of Vnesheconombank. A major goal of the ICS activities is monitoring the functioning of the internal control system, evaluating the extent of its compliance with the Bank's goals and functions, spotting problems and analysing the underlying causes, as well as elaborating proposals designed to upgrade the system and make it more efficient and reliable.

In 2007, to ensure compliance with the provisions of the Memorandum, the ICS worked out 18 methodologies of monitoring the internal control system. Actually, 18 checks were conducted, inclusive of complex audits and assignment checks of the Bank's units' activities.

Based on the results of the monitoring of the most critical business processes in various areas of Vnesheconombank's activities, 12 reports were prepared and submitted to the Bank's top management. The reports made by the Internal Control Service were presented to the Supervisory Board in line with the procedure established by the Memorandum.

Vnesheconombank's Internal Control Service is staffed with highly professional employees which can be evidenced by the fact that 7 employees have certificates of the Russian Ministry of Finance authorizing them to engage in banking audit activities, 11 professionals – the certificates of the FCSM/FFMS to engage in various areas of activities on the securities markets and 1 person – an ITIL certificate.

Organisational Structure

In 2005–2006, special emphasis put on developing such strategically important for the Bank areas as lending and investment activities and risk management ensured the creation by the year-start 2007 of an organisational structure that served as a foundation for arranging Vnesheconombank's activities in its new status. The process of forming the Bank's organisational structure was marked by such a significant event as consolidation of business units, whose remit and competences embraced lending and guarantee support for non-banking organisations, as well as raising funds on capital markets. These business units were consolidated in larger units, namely, directorates. Setting up an independent risk management unit within the organisational structure also proved to be a meaningful outcome of the process.

Legally formulated goals and functions of the bank for development, that envisage Vnesheconombank's active participation in meeting the challenges of reforming Russia's economy and the social sphere by means of, among other things, financial and guarantee support for nationally important investment

projects and SMEs, clearly required further upgrading organisational approaches.

The Bank's investment group has obviously undergone major organisational changes. Its structure was transformed and rationalised by areas of activities (raising/placing funds), by goals (participation in implementing investment projects, support for participants in foreign economic activities, SMEs), as well as by industrial and regional aspects of lending and investment activities. In the process of business transformation, front offices were separated from middle- and back-offices.

HR Management

The new tasks set for the Bank motivated enhanced requirements to the Bank's managers' and specialists' professional knowledge and skills. In light of this, central to the Bank's HR policy is encouraging staff to further develop their professional capacity.

Over the period under review, within the framework of a targeted training and professional development program, 623 employees of the Bank took part in various training events held both in Russia and abroad.

Currently, a special program that would address the need to ensure professional training of the staff in such critically important for the Bank areas as investment projects expertise, support for SMEs, export credits insurance, as well as a continuously operating training program designed to enhance efficiency of the Bank's employees activities, are being elaborated.

To foster the spread of the best HR practices, Vnesheconombank arranged the following conferences and seminars:

- Second International Interbank HR Conference “Human Capital. Management and Efficiency Assessment Technologies”, that was followed by a Round Table “Reorganisations and Mergers. Problems and Solutions”;

- Conference “Topical Issues of Trade Finance in Russia”;

- Seminar “Preparation for a Transition to a New Version of Uniform Customs and Practice for Documentary Credits (UCP 600)”.

- Seminar “Syndicated Term Loan Facilities”.

Among the participants in the conferences and seminars were Vnesheconombank's employees, as well as representatives of Russian and foreign banks, financial companies, mass media, etc.

The Bank's top management devotes special energies to developing the system of personnel motivation. Alongside remuneration incentives, special emphasis was placed on moral motivation and encouragement of the Bank's staff. Among special award ceremonies come: presenting employees with honorary titles “Exemplary Employee of Vnesheconombank” and “The Best Performing Employee of Vnesheconombank”, as well as awarding them a grade of merit by the Chairman of Vnesheconombank. Putting the names of the most professional employees into the “Book of Honorary Employees

of Vnesheconombank” and on the “Board of Honorary Employees of Vnesheconombank” also serves as an additional motivation incentive.

The Bank operates the system of preferential internal hiring, i.e. when a vacancy arises, the Bank first seeks to fill it in with an employee from among its own personnel reserve and only then does it start headhunting on the labour market. It allows the employees to develop their professional potential and ensures career advancement either in their own division or some other one.

In 2007, to efficiently realise the employees' managerial and professional skills, within the frames of the “Employee Career Management” program, a special program designed to help create Vnesheconombank's personnel reserve (Managerial and Expert) was elaborated. It embraces employees focused on successful, dynamic and fruitful work, who are capable of ensuring team spirit. Within the program, 174 employees of Vnesheconombank went through the procedure of professional qualification and managerial potential assessment. Consequently, 15 best participants were selected for the Managerial reserve, while 10 others were chosen for the Expert reserve.

For those, who were identified as a personnel reserve, individual 2-year long career advancement plans were devised.

Traditionally, the Bank has been maintaining focus on social support for the Bank's employees and veterans.

The social package offered to the employees includes, among other things, optional medical insurance, insurance for employees of the Bank's cash services center against accidents at work, private pensions.

Vnesheconombank has a special program to ensure optional (private) pensions for employees and the Bank's veterans put in place. The program is realised through two private pension fund, namely, "Support" and "Vnesheconomfund".

Remarkably, in 2007, according to the rating of Hewitt Associates company Vnesheconombank ranked among the best Russia's employers and took an honorable 7th place.

Information Policy

The major goal of Vnesheconombank's information policy is to ensure for the Bank an impeccable reputation of a trustworthy and reliable financial institution that is well respected both in Russia and abroad. In this context, in 2007, the Bank was committed to repositioning its image to respond to its new status of a state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)".

Ensuring Continuity

In H1 2007, increased focus was placed on ensuring availability to the general public of the information on the forthcoming reorganisation of Vnesheconombank of the USSR into a state corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank) and the

assignment to it of all the rights and obligations of Vnesheconombank of the USSR. To this end, official notifications of the Bank's reorganisation, as well as a number of articles on behalf of the Bank were published in the Russian and foreign media, their main objective being to inform public that all the rights and obligations of Vnesheconombank of the USSR were assigned to the bank for development.

With a view of increasing international audience awareness of the Bank's transformation aims and objectives, presentations designed to highlight Vnesheconombank's new status were arranged at a number of major financial centres both in Europe and the North America. Remarkably, these events aroused lively interest of the representatives of the business community. Obviously, due to these measures the Bank's reorganisation process was perfectly transparent and won the Bank's customers and partners understanding and comprehension.

Experience and innovations

To ensure that Vnesheconombank's new image is a combination of its long-standing experience and impeccable reputation with its new status, a meticulous audit of Vnesheconombank's brand was undertaken. The analysis of Vnesheconombank's ongoing brand revealed strong points and highlighted the key areas that required enhanced information activities. Actually, the results of the analysis laid groundworks for the strategy of enhancing Vnesheconombank's brand recognition. The strategy sets out the key mid-and long-term tasks of the Bank's information policy.

New level of transparency

The principle of transparency, set out in the Memorandum on financial policies, motivates the need to highlight and explain the key principles underlying activities of the bank for development, its approaches to identification, selection and implementation of investment projects. Ensuring availability of information regarding the Bank's activities and its openness to public is a priority for the Bank as an institution responsible for efficient investment of huge financial resources in the interests of the whole society.

Guided by the above principle, the Bank, throughout the year, was seeking to timely and duly inform the public (through, among other things, publications in mass media) of the most important events related to Vnesheconombank's activities both in its old capacity and its new status of the bank for development. Participation in major investment projects, signing agreements that envisaged developing cooperation with foreign and international development institutions, ensuring trust management of the pension savings funds and the process of the charter capital formation – all these issues were in the spotlight of the Russian and foreign press.

Continuous information support for Vnesheconombank top executives' participation in international and Russian forums, conferences, foreign visits (also as members of official delegations) was provided.

Current approaches and instruments

In mass media, the Bank was positioned as a key instrument of the state investment policy. Benefiting from stepped-up and consistent information activities, the Bank in 2007 ranked 6th in the press rating of the Russian financial institutions.

Over the year, the Bank participated in the XIth Economic Forum in St. Petersburg and the International Aerospace Show "MAKS-2007". In H2 2007, a number of presentations of the Bank in the federal regions were held.

Obviously, Vnesheconombank's website (www.veb.ru), that provides prompt and detailed information on all the innovations at the Bank, has an important role to play in delivering the information policy goals. A big number of user visits to the site (on average, 25 000 per month) is solid proof of the public ever-growing interest in the Bank's activities in a new status.

9

Accounting and reporting

In accordance with Federal Law N 82-FZ dated 17.05.2007, "On Bank for Development", Vnesheconombank organizes its accounting procedure in compliance with the accounting and reporting rules established for Russian credit institutions, with full regard for certain accounting procedure specifics provided for Vnesheconombank by the Central Bank of Russia.

Over 2007, the Bank engaged in accounting procedure in line with the Accounting Rules to Apply to Credit Institutions on the Territory of the Russian Federation, as approved by the CBR Directive N 205-P dated 05.12.2002.

The Bank's Board approved the formats of the Bank's balance sheet, statement of income, statement of cash flow, statement of changes in equity, statement of the profit utilised, as well as statement of the formation and utilisation of reserves and funds .

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 N 9 (St.-Petersburg).

In compliance with Memorandum on financial policies of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)", as approved by Directive of the Russian Government № 1007-r dated 27.07.2007, and with the aim to comply with requirements set by the global financial community, Vnesheconombank prepares and submits to the Russian Government and external users its financial statements in full conformity with international financial reporting standards (IFRS). The Bank has been preparing its financial statements in accordance with IFRSs since 1998.

10

Information technology activities

Information technology support for Vnesheconombank's activities embraces both upgrading IT model elements that are already in operation and creating new ones. Also important is further developing the Bank's hard- and software platform and general- purpose telecommunication systems. In this context, top management recognizes that the Bank's ongoing and long-term priority tasks and objectives should be taken fully into account.

The IT-activities management system of the Bank is created on the basis of leading-edge banking technologies and overall meets the current needs of Vnesheconombank. The above system is created in strict conformity with the principles and recommendations of standards of the quality management system (ISO 9000) and on the basis of the methodology of the Information Technology Service Management (ITSM). Using as a base the process models, offered by quality management standards and by the Information Technology Infrastructure Library (ITIL),

the Bank's professionals defined the IT-activities management system as the system comprising 15 processes. A catalogue comprising 107 IT-services has been created at the Bank.

A software package was introduced ensuring accounting in conformity with the Bank of Russia's provision "On Accounting Rules to Apply to Credit Institutions on the Territory of the Russian Federation" № 302-P.

In 2007, a system of planning, analysis and monitoring of investment projects was successfully put into operation. The system is distinguished by enhanced functional capacities designed for project managers. Also, the input of statistical and economic data from external sources into the system is ensured.

To facilitate the Bank's function of an agent for the Government of the Russian Federation, "Budget Accounting" system was devised ensuring record keeping of the Bank's operations with the federal budget funds.

11

Participation in the activities of non-commercial organisations

Vnesheconombank is a member of a number of non-commercial associations, unions, funds, partnerships and public organisations both in Russia and abroad. The benefits derived by the Bank from its membership in these organisations ensure its better and more streamlined integration into the Russian and international business community, contribute to efficient cooperation with partners and facilitate establishing new business contacts.

Obviously, among the most well-recognised international non-commercial organisations is the International Chamber of Commerce (ICC). For years, Vnesheconombank has been its active member. Within the framework of the Commission on Banking Technique and Practice that is a working body of the ICC, the Bank's professionals applied their specialised knowledge in the preparation of a new wording of "Uniform Customs and Practice for Documentary Credits".

Vnesheconombank's participation in such well-established and representative interna-

tional organisations as the International Capital Market Association (ICMA), the Financial Market Association (ACI) enables the Bank to effect operations on financial markets in line with the approaches and practices generally accepted by the global financial community, contributes to its cooperation with foreign partners.

The Bank's relentless efforts to increase awareness and understanding by the Russian business community of its position on corporate ethics issues, the principles and conditions underlying an appropriate operation of the participants in the domestic financial market is realised through the Bank's participation in the following non-commercial organisations: the Association of Russian banks, the Russian Trading System Stock Exchange, the National Foreign Exchange Association, the Russian National Association of Securities Market Participants, the National Securities Market Association, the Association of Bill Market Participants, the Professional Association of Registrars, Transfer Agents and Depositories.

Work was carried out to further upgrade the technological support for the Bank's activities in the area of trust management of the pension savings funds. To this end, a software package was developed designed to ensure recording OTC operations and FX deals.

In 2007, in compliance with the S.W.I.F.T. community requirements, a set of measures was introduced which enabled the Bank's professionals to switch the TurboSWIFT/Telex system over to the SWIFTNet Phase 2. The measures undertaken ensured the use of advanced means of information protection and communication when applying the system, as well as allowed the Bank's specialists to make enhancements to the list of SWIFT services.

The development of a software module that ensured forming financial statements in conformity with IFRS was continued.

The Bank pressed ahead with work to upgrade IT applied to risk control: the capacity of the module for analysing risks inherent to operations effected with the non-financial organisations was enhanced.

In 2007, an electronic archives system for the Bank's business day documents was launched.

To enhance the quality level of client servicing, the Bank carried out work intended to modernise the "Bank-Client" system in terms of expanding the range of documents processed by the system.

The Bank is staffed with highly qualified IT professionals: by the end of the period under review, 27 employees had international certificates on the ITIL basics, with 2 of them being awarded the highest qualification of IT Service Manager in IT Service Management.

In 2007, Vnesheconombank became a member of a Non-commercial partnership "National Depository Centre", a major settlement depository of Russia fully servicing OFZs and GKO market, as well more than 90 percent of transactions on the organised market of corporate bonds and equities.

Information gained by Vnesheconombank through participation in international cooperation-oriented organisations (the World Economic Forum, the Russo-British Chamber of Commerce, the Italian-Russian Chamber of Commerce, the American-Russian Business Council, the Russian-American Business Council, the Russian-Chinese Business Council, the Russian-Arab Business Council etc.), numerous business contacts with other members of these organisations are primarily used by the Bank to develop its lending and investment activities. In 2007, within the frames of the Russian-Arab Business Council the Russian-Bahraini Business Council was created, the Russian part of which is headed by Vnesheconombank's Chairman.

In the reported period, Vnesheconombank obtained the status of an observer in the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), which is a major regional association of development institutions, comprising 87 members from 37 countries (inclusive of Canada, Australia, India, China, Korea, Japan). The membership in the association will enable the Bank to exchange with participants experience in the area of financing the priority national investment projects, to use the capabilities of the association as a founding member of the World Federation of Development Financing Institutions (WDFDI), as well as the capabilities of

the ADFIAP as a consultant of the UN Economic and Social Council.

To bolster joint effort in enhancing the role of banks and other financial institutions in the processes of trade, economic and investment cooperation of the CIS member states, Vnesheconombank, in 2007, acted as one of the founders of "the CIS Financial and Banking Council" non-commercial partnership.

The Bank effectively cooperates with the Russian Union of Industrialists and Entrepreneurs taking an active part in the events arranged by the Union. Vnesheconombank's Chairman is a member of the Board of the Union. Business contacts with such a well-established organisation and the opportunities offered by it help increase public awareness of the Bank's position related to such pressing issues as investment activities, SMEs development, corporate governance. This tangibly contributes to creating a benign investment environment and to enhancing Russia's investment attractiveness.

In the context of the new objectives and tasks set for the bank for development, a new impetus was given to bolstering cooperation with the Russian regional non-commercial organisations ensuring an investment influx into the priority economy sectors of various regions of the Russian Federation. In particular, interaction was fostered with the Fund for investments support operating under the auspices of the Governor of the Sverdlovsk region. The Fund's major objective is to unite the efforts of the executive bodies and authorities, financial organisations, industrial enterprises of the given region in pursuit of the goal to improve an investment climate of the Sverdlovsk region and to implement investment projects with a high potential.

12

Social responsibility

Within the past few years, Vnesheconombank has been involved in charitable activities rendering support for those in extreme need: critically ill children, families of the wounded or killed military men, orphanages.

Traditionally, in the focus of the Bank's charitable activities are healthcare, culture and arts, education and sports. Annually, the Bank allocates funds to hold charitable festive events in commemoration of the Victory Day, renders assistance to veterans and invalids of the Great Patriotic War. Besides, special attention is devoted to the support for the Russian Orthodox Church.

Just as before, healthcare, first and foremost child healthcare, is a priority for the Bank. In 2007, Vnesheconombank, on a regular basis, made donations for the First Hospice for children with cancer diseases.

For many years, the Bank provided funds for arranging, jointly with the Research Institute

of Children's Oncology and Hematology of the Russian Oncology Science Centre named after N.N. Blokhin, an annual festive event for children. The year under review was no exception: the "Sunny Day – 2007" event was held. Apart from that, the Bank financed the purchase for the Institute of medical equipment for surgery. Moreover, funds were transferred to the Moscow region psycho-neurological clinic for children with the central nervous system disorders to finance the purchase of diagnostic equipment for examining the cerebral vessels and the cardiovascular system.

Furthermore, the Bank acquired and presented 3 ambulances to the Russian Black Sea Navy Hospital; financed the purchase and repair of medical equipment for the 7th Central Military Clinical Aviation Hospital of the RF Ministry of Defense.

In 2007, among the major cultural projects sponsored by the Bank, was the XXIXth Moscow International Film Festival; the Bank also con-

tinued providing support for the "P.N. Fomenko Studio" theatre.

Eight years ago, Vnesheconombank instituted annual prizes for the soloists of the Mariinskij Theatre. Seeking to maintain the tradition of encouraging and promoting young and talented performers, the Bank awarded prizes to the soloists of the Academy of young opera singers for taking part in the premiere performances on the stage of the famous theatre.

Participation in the interstate program "The Year of Russia in China and the Year of China in Russia" was one of Vnesheconombank's charity highlights of the year 2007. With the sponsorship of the China Development Bank and Vnesheconombank, the Museums of the Moscow Kremlin and the Imperial Palace in Beijing jointly arranged an exhibition "The Forbidden City. Treasures of Chinese Emperors". The exhibition was held in the One-Pillar Chamber of the Moscow Kremlin Patriarchal palace. Actually, it was for the first time in its history that the exposition of the GuGong Museum was exhibited outside the Beijing Imperial Palace.

Aspiring to preserve Russia's intrinsic spiritual and historic values, the Bank engaged in restoration of a number of churches on the territory of Russia, including the Russian New Martyrs and Confessors Church in the town of Zheleznodorozhny; the Presvyataya Bogoroditsa Pokrov Church in the village of Tyunezh, the Tula region; the Spasskaya Church in the village of Ubory, the Odintsovo district, the Moscow region; the Vvedenskaya Church in the village of Gavrilovskoye, the Spasskiy district of the Rязan region. Within the framework of support for

the Moscow Danilov Monastery, the Bank transferred funds to ensure repairs of the Monastery's underground communications and heating system. Besides, among the charitable aid recipients were the representative offices of the Russian Orthodox Church in the Council of Europe and the Patriarchy Centre for Spiritual Development of Children and Young people at the Moscow Danilov Monastery.

Continuing a long-established tradition, the Bank was fostering and encouraging the development of Russia's sports, actively supporting handball and some combat sports. Within the past few years, the Bank has been acting as a sponsor of the All-Russian Chess Federation and Volleyball Federation.

In the year under review, the Bank acted as a sponsor of various forums and conferences, both domestic and international, devoted to the major issues of Russia's economic development and international cooperation. By way of example, the Bank sponsored the XIth St. Petersburg International Economic Forum, the IVth Krasnoyarsk Economic Forum "Industrial Basis for Russia's Development", the IInd Russian-Chinese Economic Forum, the "Russia and EU: Development of Common Strategy" Forum, the Vth Annual Investment Forum "Moscow Business-Dialogue", the VIth Session of the Russian Economic and Financial Forum in Switzerland, the Congress of the Russian Banks Association. Also, Vnesheconombank participated in such meaningful events as the VIth International Economic Forum "Sochi-2007" and the Conference of the Military-Industrial Commission under the Government of the Russian Federation held in Ekaterinburg.

The Bank rendered assistance in holding a number of major exhibitions, both in Russia and abroad, inclusive of the Russian National Exhibition in Bratislava (Slovakia) and the International Aerospace Show “MAKS-2007” in the town of Zhukovsky.

State corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”, being an assignee of Vnesheconombank of the USSR, regards extensive charitable activities and sponsorship as a particular continuous responsibility. In this area, the Bank views as a priority projects intended to ensure social support for low income groups of population, projects related to national healthcare, culture and arts, as well as the program of support for the Russian Orthodox Church.

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INDEPENDENT AUDITORS' REPORT

To the Supervisory Board of state corporation "Bank for development and foreign economic affairs ("Vnesheconombank")"



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We have audited the accompanying consolidated financial statements of state corporation "Bank for development and foreign economic affairs ("Vnesheconombank")" (the "Bank") and its subsidiaries (together – "the Group"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

May 15, 2008

Ernst & Young the audit

CONSOLIDATED BALANCE SHEET

in millions of Russian rubles

Group of state corporation "Bank for development and foreign economic affairs ("Vnesheconombank")"

	Notes	December 31 2007	December 31 2006
1	2	3	4
ASSETS			
Cash and cash equivalents	8	158,038	40,130
Precious metals		1,485	—
Trading securities	9	39,598	45,870
Due from other banks	10	39,447	28,826
Available-for-sale securities	12	62,808	29,340
Loans to customers	13	217,815	172,772
Due from the Russian Government	14	1,290	1,230
Receivable from the Russian Government under London Club arrangements	6	905	970
Income tax assets		482	518
Investments in associates	16	4,463	2,471
Property and equipment	17	4,351	2,789
Other assets	18	2,422	2,329
Total assets		533,104	327,245
LIABILITIES AND EQUITY			
Due to other banks	20	208,750	200,002
Derivative financial liabilities	11	1,040	15
Due to the Russian Government and the Bank of Russia	6	59,682	57,886
Due to London Club creditors	6	905	970
Amounts due to customers	21	38,544	26,447
Debt securities issued	22	5,262	5,415
Income tax liabilities	15	13	4,075
Provisions	19	31	19
Other liabilities	18	2,872	1,469
Total liabilities		317,099	296,298

(CONTINUED)

Group of state corporation "Bank for development and foreign economic affairs ("Vnesheconombank")"

1	Notes	December 31 2007	December 31 2006
1	2	3	4
Charter capital	23	180,001	1
Retained earnings		38,276	32,410
Unrealized revaluation of available-for-sale securities	24	(3,073)	752
Translation differences		144	(2,313)
Equity		215,348	30,850
Minority interest		657	97
Total equity		216,005	30,947
Total liabilities and equity		533,104	327,245

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

Vladimir A. Dmitriev

Chairman of the Bank

Vladimir D. Shaprin

Chief Accountant

May 15, 2008

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



CONSOLIDATED STATEMENT OF INCOME

(in millions of Russian Rubles)

Group of state corporation "Bank for development and foreign economic affairs ("Vnesheconombank")"

1	Notes	Year ended December 31 2007	Year ended December 31 2006
1	2	3	4
INTEREST INCOME:			
Loans to customers		16,397	8,087
Placements with other banks		2,597	2,768
Securities		2,434	2,064
		21,428	12,919
INTEREST EXPENSE:			
Due to other banks		(13,241)	(6,830)
Amounts due to customers		(1,622)	(347)
Debt securities issued		(334)	(59)
		(15,197)	(7,236)
Net interest income		6,231	5,683
Provision for impairment of interest earning assets	10,13	(11)	(521)
Net interest income after provision for impairment of interest earning assets		6,220	5,162
Fee and commission income	25	1,955	1,299
Fee and commission expense		(83)	(397)
Net fee and commission income		1,872	902
Gains less losses from securities		2,652	7,364
Gains less losses from dealing in foreign currencies		(584)	(382)
Gains less losses from foreign currencies – translation differences		752	2,280
Share in net income of associates	16	346	135
Dividend income		337	301
Other operating income	26	3,170	52
Total other income		6,673	9,750

(CONTINUED)

Group of state corporation "Bank for development and foreign economic affairs ("Vnesheconombank")"

1	Notes	Year ended December 31 2007	Year ended December 31 2006
1	2	3	4
Payroll and other staff costs		(3,184)	(2,262)
Occupancy and equipment		(890)	(631)
Depreciation		(240)	(147)
Taxes other than income taxes		(261)	(283)
Reversal of (provision for) other impairment and provisions	19	106	(46)
Other operating expenses	27	(4,456)	(1,903)
Total operating expenses		(8,925)	(5,272)
Income before income tax		5,840	10,542
Income tax benefit (expense)	15	3,115	(2,363)
Net income		8,955	8,179
Attributable to:			
Equity holder of the parent		8,914	8,178
Minority interest		41	1
		8,955	8,179

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

Vladimir A. Dmitriev

Chairman of the Bank

Vladimir D. Shaprin

Chief Accountant

May 15, 2008

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



CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of Russian Rubles)

Group of state corporation "Bank for development and foreign economic affairs ("Vnesheconombank")"

	Charter capital	Retained earnings
	1	2
December 31, 2005	1	24,232
Net change in fair value of available-for-sale securities, net of tax	—	—
Currency translation differences	—	—
Total income and expense recognized directly in equity	—	—
Net income	—	8,178
Total income and expense for the year	—	8,178
December 31, 2006	1	32,410
Net change in fair value of available-for-sale securities, net of tax	—	—
Currency translation differences	—	—
Effect of change in functional currency	—	(3,051)
Total income and expense recognized directly in equity	—	(3,051)
Net income	—	8,914
Total income and expense for the year	—	5,863
Contribution of the Russian Government	180,000	—
Acquisition of a subsidiary	—	—
Contribution to the share capital of subsidiaries from minority shareholders	—	—
Increase in the share capital of subsidiary	—	3
December 31, 2007	180,001	38,276

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

Attributable to the Russian Government				
Unrealized revaluation of available-for-sale securities	Translation differences	Equity	Minority interest	Total equity
3	4	5	6	7
615	(118)	24,730	96	24,826
137	—	137	0	137
—	(2,195)	(2,195)	0	(2,195)
137	(2,195)	(2,058)	0	(2,058)
—	—	8,178	1	8,179
137	(2,195)	6,120	1	6,121
752	(2,313)	30,850	97	30,947
(3,825)	—	(3,825)	1	(3,824)
—	(594)	(594)	(28)	(622)
—	3,051	—	—	—
(3,825)	2,457	(4,419)	(27)	(4,446)
—	—	8,914	41	8,955
(3,825)	2,457	4,495	14	4,509
—	—	180,000	—	180,000
—	—	—	539	539
—	—	—	4	4
—	—	3	3	6
(3,073)	144	215,348	657	216,005

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Russian Rubles)

Group of state corporation "Bank for development and foreign economic affairs ("Vnesheconombank")"

	Year ended December 31 2007	Year ended December 31 2006
1	2	3
Cash flows from operating activities		
Net income	8,955	8,179
Adjustments for:		
Depreciation and amortization	270	166
Deferred income taxes	(3,867)	824
Impairment and provisions (reversal)	(95)	567
Share in net income of associates	(346)	(135)
Changes in unrealized appreciation of securities and derivatives	663	(12,687)
Other changes	(1,221)	(2,179)
Operating income before changes in net operating assets	4,359	(5,265)
(Increase) decrease in operating assets:		
Due from other banks	(9,504)	19,894
Precious metals	(7)	—
Trading securities	5,785	537
Available-for-sale securities	(37,244)	(2,272)
Loans to customers	(41,067)	(133,295)
Due from the Russian Government	(60)	(404)
Other assets	449	(306)
Increase (decrease) in operating liabilities:		
Due to other banks	11,185	124,648
Financial trade liabilities	12	(4,934)
Due to the Russian Government and the Bank of Russia	328	(1,642)
Amounts due to customers	4,420	14,750
Debt securities issued	(439)	4,961
Other liabilities	881	211
Net cash used in operating activities	(60,902)	16,883

(CONTINUED)

Group of state corporation "Bank for development and foreign economic affairs ("Vnesheconombank")"

1	Year ended December 31 2007	Year ended December 31 2006
1	2	3
Cash flows from investing activities		
Purchases of premises and equipment	(554)	(549)
Investments in subsidiaries and associates less cash acquired with subsidiary	(636)	(2,110)
Net cash flows from investing activities	(1,190)	(2,659)
Cash flows from financing activities		
Contribution to charter capital from the Russian Government	180,000	—
Net cash flows from financing activities	180,000	—
Net change in cash and cash equivalents	117,908	14,224
Cash and cash equivalents at beginning of period	40,130	25,906
Cash and cash equivalents at end of period (Note 8)	158,038	40,130
Supplemental information:		
Income taxes paid	685	2,282
Interest paid	19,389	4,006
Interest received	24,055	9,248
Dividends received	337	301

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

NOTES TO 2007 CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activities

The Group of state corporation “Bank for development and foreign economic affairs (Vnesheconombank)” and its subsidiaries (the “Group”) comprises state corporation “Bank for development and foreign economic affairs (Vnesheconombank)” (“Vnesheconombank” or the “Bank”), two Russian banks, one CIS based bank and other Russian and foreign companies controlled by the Group.

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

In accordance with Federal law №395-1 “On banks and banking activity” dated December 2, 1990 Vnesheconombank performs banking operations as stipulated by Federal law №82-FZ dated May 17, 2007. The Bank has no right to attract deposits from individuals. The legislation on banks and banking activity shall apply to the Bank only to the extent that it does not contradict the mentioned Federal Law and with certain specifics.

Main principles and areas of the Bank’s activity are set out in Federal Law №82-FZ “On Bank for development” and the Memorandum on Financial Policies, approved by the Resolution of the Russian Government №1007-P dated July 27, 2007. The Memorandum on Financial Policies provides for main areas of the Bank’s investment 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 Federal Law the Chairman of the Bank is appointed by the President of the Russian Federation for a term, which can not exceed 5 years.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

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

As more fully described in Note 23, the Bank's charter capital is being formed by means of monetary contributions of the Russian Government and contribution of state owned shares of OJSC "Russian Bank for Development" and CJSC ROSEXIMBANK.

At December 31, 2007 the Bank as legal successor of the Vnesheconombank of the USSR was party to two separate agency agreements (collectively, the "Agency Agreements"), as follows:

■ An agreement dated July 30, 1992 (amended March 17, 1993) with the Russian Government requires the Bank to carry out banking operations necessary to service the centralized foreign economic activities of the Russian Federation. The agreement has an indefinite term, and provides for certain commissions and fees to be paid to the Bank based upon the volume of transactions serviced. Additionally, the mentioned amendment stipulates that the Russian Government will provide resources in rubles and foreign currencies as necessary for servicing the external debt of the former USSR, and managing and using the assets of the former USSR.

■ An agreement dated September 30, 1993 with the Ministry of Finance requires the Bank to service bonds issued to replace funds on frozen accounts with Vnesheconombank held by Russian legal entities. The agreement has an indefinite term, and provides for certain servicing fees to be paid to the Bank based upon the nominal value of bonds issued.

As more fully described in Note 6, at December 31, 2007 and 2006, the Russian Government owed Vnesheconombank RUB 905 million and RUB 970 million, respectively, relating to the London Club debt obligation of Vnesheconombank. These amounts have been presented in the Bank's balance sheet and are not subject to offset. No allowance has been provided with respect to the Russian Government receivable under the London Club debt.

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

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

In January 2003, the Bank was nominated as the State Trust Management Company for the trust management of pension savings funds accumulated by the State Pension Fund of the Russian Federation. As the State Trust Management Company, the Bank is entitled to invest accumulated pension savings funds in accordance with the Investment Declaration approved by the Resolution of the Government of the Russian Federation No. 540 dated September 1, 2003. During 2007 the Bank mainly invested in Federal Loan Bonds (OFZs) nominated in Russian Rubles. Since 2006 the Bank also invested funds in State Saving Bonds nominated in Russian Rubles. At December 31, 2007 total trust assets managed by the Bank were RUB 363,107 million (2006 – RUB 267,288 million).

The Bank performs functions of the State Trust Management Company until the date determined by the Russian Government.

The Bank's head office is located in Moscow, Russia, the Bank has representative offices in St. Petersburg, Russia, the United States of America, India, Italy, China, Republic of South Africa, France and Great Britain. The Bank's principal office is located at prospect Akademika Sakharova 9, Moscow.

At December 31, 2007 and 2006, the Group had 3,758 and 1,507 employees, respectively.

2. Basis of preparation

General

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

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

The accompanying consolidated financial statements are presented in million of Russian Rubles ("RUB million"), unless otherwise indicated.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

Functional Currency

Historically, management used US dollar (“USD”) as functional currency for the purpose of preparation of IFRS financial statements. In course of reorganization the Bank performed a re-assessment of the functional currency in accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” due to following reasons:

- the activity of the Bank after reorganization is mainly focused on financing of investment projects within Russia, which is the Bank’s primary economic environment;
- increased volume of operations in Russian Rubles;
- the Bank’s customer base is expanding to include more Russian corporate customers whose revenue is mainly generated in Russian Rubles.

As a result the Bank concluded to change the functional currency from US dollar to Russian Rubles (“RUB”) effective from the reorganization date and to apply it when preparing financial statements at December 31, 2007 and for the year then ended, accordingly.

In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” the effect of change in functional currency is accounted for prospectively. All items were translated into RUB using exchange rate at June 8, 2007. The resulting translated amounts for non-monetary items were treated as their historical cost. Exchange differences previously raised from the translation of a subsidiary’s financial statements into USD and recognized in equity are not recognized in profit or loss until the disposal of subsidiary.

London Club debt amounts denominated in foreign currencies are recorded at the official rates of the Bank of Russia at December 31, 2007 and 2006.

Clearing currencies are the settlement currencies for bilateral trade between the Russian Federation and designated countries. Clearing currencies are regularly traded on special auctions held by the Bank under the supervision of the Ministry of Finance. Clearing currencies — denominated assets and liabilities have been translated into RUB at the official rates of the Bank of Russia at December 31, 2007 and 2006.

Changes in accounting policies

During the year the Group has adopted the following new and amended IFRS. Adoption of these standards did not have any effect on the financial performance or position of the Group. The principal effects of these changes are as follows:

IFRS 7 "Financial Instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

Amendment to IAS 1 "Presentation of Financial Statements"

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 31.

IFRSs and IFRIC interpretations not yet effective

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

IAS 23 "Borrowing Costs"

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Groups expects that this standard will have no material impact on the Group's financial statements.

Amendment to IFRS 2 "Share-Based Payments"

Amendment to IFRS 2 was published in January 2008 and becomes effective for annual periods beginning on or after January 1, 2009. The amendment restricts the definition of "vesting condition". The Group has not entered into share-based payment schemes and, therefore, this amendment will have no material impact on the Group's financial statements.

Revised IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements"

The revised standards were issued in January 2008 and become effective for financial years beginning on or after January 1, 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change

(IN MILLIONS OF RUSSIAN RUBLES,
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in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IAS 1 Revised Presentation of Financial Statements

The revised IAS 1 was issued in September 2007 and becomes effective for financial years beginning on or after January 1, 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements"

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after January 1, 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

IFRIC 12 "Service Concession Arrangements"

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.

IFRIC 13 "Customer Loyalty Programmes"

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and there-

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fore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group.

Segregation of Operations

Until the date determined by the Russian Government the Bank, in its agency capacity, maintains and services certain assets and liabilities on behalf of the Russian Government. Such balances have not been included in the accompanying balance sheets given the agency nature of the relationship and in accordance with the underlying Agency Agreements and specific guidelines (the "Guidelines") approved by the Bank's Board of Directors and the Ministry of Finance in 1997.

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

1. Liabilities to foreign creditors including all accrued interest which are serviced and redeemed at the expense of the Russian Government, except some remaining London Club obligations (Note 6);

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

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

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

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

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Vnesheconombank, and equity participations financed by borrowings, the responsibility for which was assumed by the Ministry of Finance;

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

Subsidiaries

The main subsidiaries of the Group are CJSC State Specialized Russian Export-Import Bank (ROSEXIMBANK) and OJSC "Belvnesheconombank".

At December 31, 2007 the Group owned 94,64% of ROSEXIMBANK's equity. Vnesheconombank of the USSR acquired 90,000 shares of ROSEXIMBANK 10,000 RUB par value each on January 5, 2003 by contributing RUB 1,582 million. ROSEXIMBANK was created in 1994 to support and promote Russian machinery exporters, import-substituting production and attraction of investments in the Russian economy. ROSEXIMBANK holds a license for banking operations of the Central Bank of the Russian Federation and all licenses of the professional participant of the Russian securities market.

At December 31, 2007 the Group owned 53,56% of OJSC "Belvnesheconombank" equity. The Group owns 129,389,851 ordinary shares par value 100 Belorussian rubles (about RUB 1.1) purchased mainly during 2007 at 403 Belorussian rubles per share (about RUB 4.5). At December 31, 2007 the aggregate cost of purchased shares was RUB 625 million. The Group gained control over OJSC "Belvnesheconombank" on May 16, 2007. OJSC "Belvnesheconombank" was established in 1991 as a result of the separation of the Belarus branch of the Vnesheconombank of the USSR; primary areas of its operations include granting loans to exporting industries, issuing and processing export and import letters of credits, transferring payments and exchanging foreign currencies upon demand of its customers and for currency trading purposes.

Other subsidiaries of the Bank included in consolidated financial statements at December 31, 2007, are LLC Russian Leasing Company (100%), A.F.C. s.r.l. (100%), Bumofin KFT (98.8%) and LLC "Kraslesinvest" (100%). At December 31, 2006, included in consolidated financial statements are LLC Russian Leasing Company (100%), A.F.C. s.r.l. (100%), Bumofin KFT (98.8%).

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

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

1	2007		2006	
	Equity	Net income	Equity	Net income
	2	3	4	5
Before adjustments and reclassifications	211,535	7,168	24,733	6,880
Translation differences	410	483	518	1,725
Initial recognition of financial instruments	—	830	(830)	59
Expenses recorded directly to equity	—	(203)	—	(468)
Impairment and provisions	1,448	(360)	1,808	(200)
Accrued interest income and expense	1,093	(285)	1,378	620
Taxation	37	3,672	(4,080)	(824)
Effect of consolidation	1,582	521	554	64
Derivatives	(773)	(952)	179	5,485
Fair value re-measurement of trading securities	3,422	(3,102)	6,524	(4,192)
Fair value re-measurement of available-for-sale securities	(3,257)	(24)	867	(121)
Other income and expense	508	1,207	(704)	(849)
International Financial Reporting Standards	216,005	8,955	30,947	8,179

3. Summary of significant accounting policies

Subsidiaries

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

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

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

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

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights or participation shares, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated statement of income, and its share of movements in reserves is recognized in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

Recognition and presentation of financial instruments

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

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

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

Cash and cash equivalents

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

Trading securities

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

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

Due from other banks

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

Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading or available-for-sale securities. The corresponding liability is presented within amounts due to other banks or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents,

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amounts due from other banks or commercial loans as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

Derivative financial instruments

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

Available-for-sale securities

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

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

In determining fair value, marketable securities are valued at last deal prices on stock exchange. Securities traded over-the-counter are valued at last bid prices. When market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value

is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions.

Promissory notes

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

Loans to customers

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

Allowance for impairment of financial assets

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

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

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

Changes in allowances are reported in the statement of income of the related period. When an asset is not collectable, it is written off against the related allowance for impairment; if the amount of impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the statement of income.

Taxation

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 reporting date to taxable base.

Deferred tax assets and liabilities are calculated in respect of all 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 utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

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

Various operating taxes, which are assessed on the Group's activities are included as a component of operating expenses in the statement of income.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)**London club receivable and debt**

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

Property and equipment

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

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

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

Goodwill

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

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

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

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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.

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

Intangible assets

Intangible assets include computer software and licences.

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 amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised 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. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Amounts due to banks and to customers

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

Debt securities issued

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

Provisions

Provisions are recognized when the 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 obligation can be made.

Retirement and other benefit obligations

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

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

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

Contingencies

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

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 derecognised where:

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

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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 recognised 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 Bank 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 derecognised when the obligation under the liability is discharged or 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 recognised in the consolidated statement of income.

Income and expense recognition

Income and expense are recognised 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 recognised:

Interest and similar income and expense

For all financial instruments measured at amortised 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 recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and 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 recognised 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 recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

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Foreign currency translation

The consolidated financial statements are presented in Russian Rubles, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at December 31, 2007 and December 31, 2006, were 24.55 Rubles and 26.33 Rubles to 1 USD, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Russian Rubles at the rate of exchange ruling at the balance sheet date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to 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 recognised in equity relating to that particular entity is recognised 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.

4. Significant accounting estimates

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

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

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the 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 judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. In addition, certain provisions of Belarusian 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 may be challenged by the relevant tax authorities. Tax authorities may take a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be accrued.

As at December 31, 2007, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

5. Business combinations

At December 31, 2007 the Group owns 53,56% of OJSC "Belvnesheconombank" equity. The Group owns 129,389,851 ordinary shares purchased mainly during 2007 following the approvals given by the National Bank of Republic of Belarus. OJSC "Belvnesheconombank" is registered and operates mainly in the Republic of Belarus.

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At December 31, 2007 the fair value of the identifiable assets and liabilities acquired was determined provisionally and did not differ significantly from carrying value of respective assets and liabilities. Independent valuation of the fair value of acquired assets and liabilities will be finalized in 2008.

	Provisional fair value recognised on acquisition 2007
Cash and cash equivalents	1,593
Due from other banks	715
Loans to customers	6,222
Investment securities available-for-sale	149
Property and equipment (Note 17)	1,088
Other assets	208
	9,975
Due to other banks	896
Amounts due to customers	7,684
Deferred tax liability	21
Other liabilities	214
	8,815
Net assets	1,160
Less: Minority interest	539
Net assets acquired	621
Goodwill arising on acquisition	4
Cost of acquisition, paid by cash	625

Cash inflow on acquisition of the subsidiary:

Net cash acquired with the subsidiary	1,593
Less: Cash paid	(625)
Net cash inflow	968

From the date of acquisition, OJSC "Belvnesheconombank" has contributed RUB 85 million to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the year of the Group would have been RUB 11 million higher at RUB 8,966 million.

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6. Operations with the Russian Government and its authorized institutions

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

	2007	2006
Settlements related to redemption of Russian Government loans	28,356	28,722
Special purpose funds	27,429	25,460
External debt payment funds	1,913	2,560
Current accounts in precious metals	1,470	—
Interest bearing deposits from the Bank of Russia	443	1,108
Current accounts of the Russian Government	71	36
	59,682	57,886

Settlements related to redemption of Russian Government loans represent amounts deposited by the Ministry of Finance with the Bank to facilitate the servicing and redemption of the external debt obligations of the Russian Government and the former USSR. These deposits and the processing of payments are managed and conducted by the Bank in accordance with the Agency Agreements. The balance also includes funds received from borrowers as repayment for loans granted by the Russian Government. At December 31, 2007, these amounts are regarded as due to the Russian Government.

At December 31, 2007 and 2006, special purpose funds included proceeds from export sale and other funds, which were regarded as subject to further negotiation between the Ministry of Finance and Vnesheconombank. Earlier those balances were reclassified and consolidated on Special purpose funds" accounts.

Current accounts in precious metals represent amounts due to the Russian Government and were transferred to the Bank's balance sheet in course of reorganization.

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

London Club

As a legal successor of the Vnesheconombank of the USSR the Bank is a party to certain rescheduling agreements with various foreign commercial bank creditors (the "London Club"). The London Club represents liabilities of the former USSR due to foreign banks and financial institutions. These

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liabilities were primarily reconciled and restructured under a series of agreements and other legal documentation between the Bank and foreign creditors dated October 6, 1997, which became effective on December 2, 1997. These agreements required the original debts and the accrued interest thereon, denominated in various currencies, to be converted into Restructured Loans ("PRINs") and Interest Arrears Notes ("IANs") in base currencies (Swiss Francs, Japanese Yen, Deutsche Mark, European Currency Units, and US Dollars).

The London Club debt was issued as a legal obligation of the Vnesheconombank of the USSR. Based on Russian Government resolution No. 1167 "Concerning the Settlement of the Indebtedness of the Former USSR to Foreign Commercial Banks and Financial Institutions (the London Club)" dated September 15, 1997 and the Declaration of Support dated November 28, 1997, the Russian Government expressed its willingness, without right of legal recourse from creditors or specific commitment, to provide financial resources to enable the 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 February 11, 2000, an agreement was reached between representatives of the London Club creditors and the Russian Government, under which the outstanding London Club debt of approximately USD 31.7 billion (at March 31, 2000) was exchanged for a new issue of Eurobonds issued by the Government of the Russian Federation and maturing in 2010 and 2030. As the exchange process substitutes obligations of the Bank with obligations of the Russian Government, receivables from the Russian Government under London Club and amounts due to London Club have been excluded from the Bank's balance sheet to the extent that the bondholders have presented their PRINs and IANs for exchange.

At December 31, 2007 and 2006, most holders of PRINs and IANs have participated in the exchange, with 99.8% of the face value of PRINs and IANs being submitted for exchange to Eurobonds. The remaining 0.2% of the face value of the PRINs and IANs continues to be carried as a liability of the Bank, along with the corresponding receivable from the Russian Government.

At December 31 the London Club debt comprised:

	2007	2006
IANs	822	881
PRINs	13	14
Accrued interest on the PRINs and IANs, including overdue and default interest	70	75
	905	970

7. Agency operations

Paris Club

Vnesheconombank of the USSR served as the debt manager and maintained the applicable records related to the Paris Club debt of the former Soviet Union. Paris Club debt represented the obligations contracted or guaranteed on behalf of the Government of the former Soviet Union which were due to foreign official creditors including the governments of most European countries, Australia, Canada, Japan and the United States of America, among others (the "Participating Creditor Countries") which were recognized in a Memorandum of Understanding dated October 28, 1991 on the Debt to Foreign Creditors of the USSR and Its Successors and a subsequent Agreement on the Deferral of the Debt of the USSR and Its Successors to Foreign Official Creditors dated January 4, 1992 (the "Paris Club Agreement"). The Russian Government agreed to be responsible for these debts as evidenced by a declaration acknowledging the foreign debts of the former USSR signed by the Russian Government on April 2, 1993.

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

Commercial indebtedness

The Russian Government has announced its intention to assume the legal responsibility for certain commercial indebtedness (also referred to as the "trade indebtedness") of the former USSR, identified as obligations of the Government of the former USSR and other bodies and entities acting on its behalf, within the Declaration of the Government of the Russian Federation dated October 1, 1994 "On the Restructuring of Commercial Indebtedness of the former USSR to Foreign Creditors" (the "Declaration").

The Government of the Russian Federation has authorized the exchange of Russian Federation Eurobonds for eligible uninsured trade debt of the former USSR in accordance with the Resolution No. 931 dated December 29, 2001 "On the Settlement of the Trade Indebtedness of the Former USSR to Foreign Trade Creditors". During 2002–2006 the Ministry of Finance conducted two stages of exchange of Russian Federation Eurobonds for eligible uninsured trade debt of the former USSR, Vnesheconombank of the USSR acted as sub-agent under the exchange.

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Other agency operations

At December 31, 2007 and 2006, other assets and liabilities maintained by the Bank under the applicable Agency Agreements represent predominantly claims against foreign governmental and corporate debtors, former USSR companies, Russian state companies, and non-club debt to foreign creditors.

Vnesheconombank is not a legal obligor under mentioned categories of external debt and, therefore, corresponding amounts were not included in the Bank's balance sheet.

Agency operations of OJSC "Belvnesheconombank"

OJSC "Belvnesheconombank" performs servicing functions in a number of loans received from foreign banks for investment projects in the Republic of Belarus under the guarantee of the Government of the Republic of Belarus. In accordance with agreements concluded between OJSC "Belvnesheconombank" and the Government of the Republic of Belarus the functions of OJSC "Belvnesheconombank" comprise the support of settlements for receipts and repayment of loans between foreign banks, authorized government bodies and ultimate borrowers (Belarusian enterprises). OJSC "Belvnesheconombank" bears no credit or other risk under those agency operations.

8. Cash and cash equivalents

Cash and cash equivalents comprise:

	2007	2006
Cash on hand	969	343
Due from the Bank of Russia	3,573	2,584
Correspondent nostro accounts with Russian banks	32,965	1,808
Correspondent nostro accounts with OECD based banks	5,929	2,771
Correspondent nostro accounts with other banks	656	250
Interest-bearing loans and deposits with Russian banks	100,221	3,305
Interest bearing loans and deposits with OECD based banks	9,442	25,915
Interest bearing deposits with a non-OECD based bank	454	1,055
Reverse repurchase agreements	3,829	2,099
	158,038	40,130

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At December 31, 2007, interest-bearing loans and deposits with Russian banks are represented by short-term RUB placements that bear annual interest rates from 2% to 8% (2006 – from 1% to 6.5%). At December 31, 2006 interest-bearing loans and deposits with Russian banks also included short-term placements in USD bearing annual interest rate of 5.9%.

Interest-bearing loans and deposits with OECD based banks, at December 31, 2007, are represented by short-term USD, EURO, CAD and CHF deposits that bear annual interest rates from 0.9% to 4.4% for USD deposits (2006 – from 2.4% to 5.3%), 4% for EURO deposits (2006 – from 3.5% to 3.6%), 4.2% for CAD deposits and 1.8% for CHF deposits. At December 31, 2006, interest-bearing loans and deposits with OECD based banks also included short-term GBP deposits that bear annual interest rates from 5.1% to 5.2%.

At December 31, 2007, reverse repurchase agreements include loans of RUB 3,349 million granted to Russian banks, which are collateralized by debt securities of Russian companies with fair value of RUB 3,734 million, and loans of RUB 480 million granted to Russian banks, which are collateralized by equity securities of Russian companies with fair value of RUB 610 million. At December 31, 2006, reverse repurchase agreements include a loan of RUB 1,052 million granted to a Russian bank, which is collateralized by equity securities of Russian company with a fair value of RUB 1,514 million, and a loan of RUB 1,047 million granted to a Russian bank, which is collateralized by promissory notes of Russian company with a fair value of RUB 1,050 million.

9. Trading securities

Trading securities owned comprise:

	2007	2006
Debt Securities:		
Russian Government securities:		
Federal Loan Bonds (OFZs)	180	351
Russian Ministry of Finance bonds, tranche V	3,512	3,002
Russian Ministry of Finance bonds, tranche VII	76	—
Russian corporate bonds and bonds of regional and municipal authorities	1,286	1,062
	5,054	4,415
Eurobonds issued by the Russian Federation	13,301	11,955
Eurobonds issued by Russian entities	3,376	—
Eurobonds issued by governments of OECD countries	314	—
	22,045	16,370

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	2007	2006
Equity Securities:		
OJSC "Gazprom"	9,275	18,866
RAO UES	3,103	-
OJSC "OGK-5"	585	6,784
American and Global Depositary Receipts	2,938	348
Other marketable equity securities	1,652	3,502
	39,598	45,870

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

	2007		2006	
	%	Maturity	%	Maturity
	1	2	3	4
Federal Loan Bonds (OFZs)	Up to 10%	September 2008 – September 2029	Up to 10%	July 2007 – September 2029
MinFin Bonds Tranche V	3%	May 2008	3%	May 2008
MinFin Bonds Tranche VII	3%	May 2011	3%	May 2011
Russian corporate bonds and bonds of regional and municipal authorities	5.9–11%	April 2008 – September 2017	6.7–11%	April 2007 – June 2015
Eurobonds issued by the Russian Federation	7.5–12.8%	March 2010 – March 2030	5–12.8%	March 2010 – March 2030
Eurobonds issued by Russian entities	6.3–10.3%	January 2008 – July 2035	–	–
Eurobonds issued by governments of OECD countries	3.8–4.8%	January 2017 – February 2037	–	–

Russian Ministry of Finance bonds are USD-denominated bearer securities, which are guaranteed by the Ministry of Finance of the Russian Federation. The bonds were purchased at a discount to nominal value.

At December 31, 2007 other marketable equity securities consist of shares of leading Russian companies, including OJSC "Rosneft", OJSC "Lukoil", OJSC "Surgutneftegaz" (2006 – OJSC "Lukoil", OJSC "MTS", OJSC "Surgutneftegaz") and others. At December 31, 2007 and 2006, equity securities of the Group are stated at fair value.

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10. Due from other banks

Amounts due from other banks comprise:

	2007	2006
Non-interest bearing deposits with other banks	709	236
Non-interest-bearing deposits in clearing currencies	26,475	26,291
Interest-bearing deposits with Russian banks	11,490	1,410
Interest-bearing deposits with OECD based banks	46	35
Interest-bearing deposits with non-OECD banks	774	923
	39,494	28,895
Less allowance for impairment	(47)	(69)
	39,447	28,826

Use of non-interest-bearing deposits in clearing currencies (gross RUB 26,475 million and RUB 26,291 million at December 31, 2007 and 2006, respectively) is subject to certain restrictions as stipulated in the agreements between governments of the respective countries. The funds can be used for purchase of goods and services by Russian importers who purchase clearing currencies in tenders organized by the Bank under the supervision of the Ministry of Finance.

At December 31, 2007 interest-bearing deposits with Russian banks are USD and RUB-denominated and carry annual interest ranging from 7% to 10% for RUB denominated deposits, from 5.6% to 10% for USD denominated deposits. At December 31, 2006 interest-bearing deposits with Russian banks are USD, RUB and EURO-denominated and carry annual interest ranging from 7.3% to 9.5% for RUB denominated deposits, from six-months LIBOR plus 0.7% to 10% for USD denominated deposits and three-months LIBOR plus 3.3% for EURO denominated deposits.

At December 31, 2007 interest bearing deposits with non-OECD banks are denominated in USD and bear interest from 5.5% to 8.8% (2006 – 5.5% to 9.8%)

The movements in allowance for impairment of amounts due from other banks were as follows:

	2007	2006
1 January	69	1,078
Reversal	(6)	(1,009)
Write-offs	(16)	—
31 December	47	69

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11. Derivative financial instruments

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

	2007			2006		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
	1	2	3	4	5	6

Foreign exchange contracts

Swaps – foreign	28,239	107	400	12,411	138	–
Swaps – domestic	76,252	122	320	395	–	1
Options – foreign	719	8	–	–	–	–

Securities contracts

Forwards

Shares	110	–	3	–	–	–
US Treasury Bonds	3,778	6	1	5,229	49	–
Russian Eurobonds	–	–	–	2,519	9	2
Credit linked Notes	2,455	–	0	–	–	–
Eurobonds issued by Russian entities	2	–	0	–	–	–
Credit default swap	123	0	–	263	1	–

Options

Equity securities	–	–	–	1,254	–	12
Interest rate swap	6,332	5	316	–	–	–
		248	1,040		197	15

Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

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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.

Derivative financial instruments held or issued for trading purposes

Most of the Group's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Group may also take positions with the expectation of profiting from favourable movements in prices, rates or indices.

12. Available-for-sale securities

Available-for-sale securities comprise:

	2007	2006
Debt Securities:		
Federal Loan Bonds (OFZs)	3,161	—
Russian Ministry of Finance bonds, tranche VIII	—	968
Eurobonds issued by governments of OECD countries	1,321	583
Debt obligations issued by governments of non-OECD countries	1,879	1,787
Eurobonds and other debt obligations issued by OECD based financial institutions	1,044	2,376
Eurobonds issued by the Russian entities	4,631	4,755
Russian corporate bonds	6,782	3,303
Credit linked notes	9,818	10,168
State long-term bonds of the Republic of Belarus	177	—
	28,813	23,940
Equity Securities:		
EADS N.V.	32,205	—
Other corporate equities	1,798	5,409
Allowance for impairment	(8)	(9)
	33,995	5,400
	62,808	29,340

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

	2007		2006	
	%	Maturity	%	Maturity
	1	2	3	4
Federal Loan Bonds (OFZs)	6.3%–10%	March 2008 – April 2008	–	–
MinFin Bonds Tranche VIII	–	–	3%	November 2007
Eurobonds issued by governments of OECD countries	3.3%–5%	August 2008 – November 2017	3.3%–4.3%	August 2008 – August 2015
Debt obligations issued by governments of non-OECD countries	–	January 2008	–	January 2007
Eurobonds and other debt obligations issued by OECD based financial institutions	9.6%	October 2014	LIBOR + 1.4%–9.6%	June 2009 – October 2014
Eurobonds issued by the Russian entities	6.1%–10.9%	June 2008 – August 2037	5.6%–10.5%	February 2007 – July 2035
Russian corporate bonds	5.9%–9.9%	June 2008 – September 2017	6.2%–9.5%	January 2007 – July 2014
Credit linked notes	6.5%–14%	October 2008 – April 2030	6.5%–13.6%	March 2007 – March 2030
State long-term bonds of the Republic of Belarus	10.1%–11%	October 2008 – March 2010	–	–

Russian Ministry of Finance bonds are USD-denominated bearer securities, which are guaranteed by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value.

Debt obligations issued by governments of non-OECD countries are denominated in Indian Rupees for clearing settlements. These securities are purchased at a discount to nominal value and carry no interest.

At December 31, 2007 and 2006, credit linked notes are issued by OECD-based financial institutions and are linked to debt obligations of the Russian Federation, OJSC “Gazprom”, OJSC “VTB”, OJSC “Rosselhozbank”, OJSC “AHML”. At December 31, 2006, credit linked notes are also linked to debt obligations of OJSC “Eurofinance Mosnarbank” and CJSC “Gazprombank”.

At December 31, 2007, corporate equities are mainly represented by shares of OJSC “Evraziysky” and OJSC “Terminal” (at December 31, 2006 – OJSC “Avtovaz”, OJSC “Evraziysky” and OJSC “Aeroflot”).

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13. Loans to customers

Loans to customers comprise:

	2007	2006
Pre-export finance	107,588	13,086
Project finance	71,311	57,334
Commercial loans	22,517	21,556
Reverse repurchase agreements	9,693	7,855
Financing of operations with securities	6,170	74,160
Promissory notes	2,418	1,506
Other	1,124	301
	220,821	175,798
Allowance for loans impairment	(3,006)	(3,026)
	217,815	172,722

Allowance for impairment of loans to customers by class

	Pre-export Finance	Project Finance	Commercial loans	Promissory notes	Other	Total
	1	2	3	4	5	6
December 31, 2006	264	1,256	1,466	33	7	3,026
Charge	—	101	—	52	—	153
Reversal	(29)	—	(107)	—	—	(136)
Write-off	—	—	(37)	—	—	(37)
December 31, 2007	235	1,357	1,322	85	7	3,006
Individual impairment	—	—	1,128	40	0	1,168
Collective impairment	235	1,357	194	45	7	1,838
Gross amount of individually impaired loans before deducting allowance for impairment	—	—	5,351	40	0	5,391
December 31, 2005	179	411	2,038	21	2	2,651
Charge	85	845	583	12	5	1,530
Write-off	—	—	(1,155)	—	—	(1,155)
December 31, 2006	264	1,256	1,466	33	7	3,026
Individual impairment	—	—	1,165	—	0	1,165
Collective impairment	264	1,256	301	33	7	1,861
Gross amount of individually impaired loans before deducting allowance for impairment	—	—	1,857	—	0	1,857

At December 31, 2007 and 2006, no allowance for reverse repurchase agreements and loans on financing operations with securities was created.

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At December 31, 2007, the annual contractual interest rates charged by the Group on commercial loans are from 7% to 23% for RUB loans (2006 – from 8% to 17%), from 7.8% to 14.5% for EURO loans (2006 – from 6.8% to 12%), from six-month LIBOR plus 0.5% to 27.5% for loans in USD (2006 – from 5% to 15%), from 8.9% to 10.8% for loans in GBP (2006 – 10.8%) and from 11% to 29% for loans in other currencies.

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at December 31, 2007, comprised RUB 132 million (2006 – RUB 102 million).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at December 31, 2007 amounts to RUB 3,447 million (2006 – RUB 489 million). Loans may only be written off with the approval of the authorized management bodies and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For pre-export finance – pledge 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.

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Reverse repurchase agreements

At December 31, 2007 the Group has entered into reverse repurchase agreements with seven Russian companies and one individual. The subjects of these agreements are mainly marketable securities with total fair value of RUB 13,017 million. At December 31, 2006 the Bank entered into reverse repurchase agreements with two Russian companies and one non-OECD based company. The subjects of these agreements were marketable equity securities with total fair value of RUB 31,685 million.

Concentration of loans to customers

At December 31, 2007 the total outstanding amount of the loans to three major borrowers is RUB 110,038 million, equivalent to 49.8% of the total loan portfolio (2006 – RUB 70,210 million or 40% of the loan portfolio). These loans include a loan to an oil and gas company, a related party to the Bank, which accounts for 41.5% of the loan portfolio. At December 31, 2007, an allowance of RUB 361 million was made against these loans (2006 – no allowance was created for loans to three major borrowers).

Apart from these three largest borrowers at December 31, 2007 and December 31, 2006, loans issued to the next ten largest borrowers / groups of related borrowers amounted to RUB 49,840 million and RUB 61,314 million, respectively, which represent 22.6% and 35% of the Group's gross loan portfolio, respectively. An allowance of RUB 755 million and RUB 1,149 million was made against these loans, respectively.

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

	2007	%	2006	%
	1	2	3	4
Oil and gas	109,156	49	15,720	9
Manufacturing, heavy machinery and military	46,984	21	41,172	23
Finance companies	30,054	14	93,900	53
Construction	11,242	5	8,188	5
Agriculture	8,182	4	6,141	3
Energy	5,333	3	892	1
Telecommunication	3,393	2	4,568	3
Trade	2,845	1	1,465	1
Individuals	870	0	2	0
Mass media	717	0	1,314	1
Regional authorities	42	0	559	0
Mining	—	0	477	0
Foreign State	—	0	139	0
Other	2,003	1	1,261	1
	220,821	100	175,798	100

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Loans have been extended to the following groups of customers:

	2007	2006
State-controlled companies	147,818	119,577
Private companies	67,707	53,367
Companies under foreign state control	4,280	1,343
Individuals	870	2
Individual entrepreneurs	104	811
Regional authorities	42	559
Foreign state	—	139
	220,821	175,798

14. Due from the Russian Government

At December 31, 2007, amounts due from the Russian Government include claims to the Russian Government of RUB 1,126 million (2006 – RUB 1,208 million) purchased under four assignment contracts. The nominal values of these claims are denominated in USD and CHF and total RUB 1,617 million including claims of RUB 1,149 million denominated in USD and of RUB 468 million, denominated in CHF, respectively.

At December 31, 2007, other amounts due from the Russian Government of RUB 164 million (2006 – RUB 22 million) represent settlements with the Ministry of Finance related to release of funds on correspondent accounts.

15. Taxation

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

	2007	2006
Current income tax expense	752	1,539
Deferred income tax expense	(3,867)	824
	(3,115)	2,363

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than interest income on state securities was 24% for 2007 and 2006. The tax rate for companies other than banks was also 24% for 2007 and 2006. The tax rate for interest income on state securities was 15% for Federal taxes.

The aggregate income tax rate effective in the Republic of Belarus for 2007 was 26.28%.

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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 the period from June 8, 2007 to December 31, 2007 are not included into taxable base for income tax purposes, which had significant impact on the Group's effective income tax rate for 2007.

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:

	2007	2006
Income before tax	5,840	10,542
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	1,402	2,530
State securities non-taxable income	(17)	(34)
Income taxed at different rate	(6)	(73)
Non-deductible expenses:		
legal and consulting services	58	61
charity	31	88
representative expenses	24	58
business trip costs	16	17
other	63	201
Currency translation effect	(142)	—
Effect of change in taxpayer status of Vnesheconombank due to reorganization and other permanent differences	(4,512)	(243)
Change in unrecognized deferred tax assets	(32)	(242)
Income tax expense	(3,115)	2,363

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

	2005	Origination and reversal of temporary differences		2006	Origination and reversal of temporary differences			2007
		In the statement of income	Directly in equity		In the statement of income	Directly in equity	Effect of business combination	
	1	2	3	4	5	6	7	8
Deferred tax asset:								
Allowances for losses	—	—	—	—	(4)	—	37	33
Initial recognition of loans at fair value	214	(18)	—	196	(196)	—	—	—
Premises and equipment	—	—	—	—	6	—	—	6
Changes in fair value of available-for-sale securities	—	—	—	—	—	1	—	1
Accrued income and expense	—	—	—	—	6	—	—	6
Currency translation differences	37	421	—	458	(458)	—	—	—
Derivatives	1,274	(1,274)	—	—	19	—	—	19
Other	2	(2)	—	—	25	—	14	39
	1,527	(873)	—	654	(602)	1	51	104
Unrecognized deferred tax asset	(242)	242	—	—	(32)	—	—	(32)
	1,285	(631)	—	654	(634)	1	51	72
Deferred tax liabilities:								
Unrealized gains on trading securities	(3,719)	(127)	—	(3,846)	3,846	—	—	—
Premises and equipment	(308)	83	—	(225)	226	—	(26)	(25)
Allowances for losses	(203)	(6)	—	(209)	207	—	—	(2)
Changes in fair value of available-for-sale securities	(187)	—	(87)	(274)	37	234	(1)	(4)
Accrued income and expense	—	—	—	—	6	—	(41)	(35)
Derivatives	—	(43)	—	(43)	43	—	—	—
Other	(32)	(100)	—	(132)	136	—	(4)	—
	(4,449)	(193)	(87)	(4,729)	4,501	234	(72)	(66)
Net deferred tax liabilities	(3,164)	(824)	(87)	(4,075)	3,860	234	(21)	(2)
Net deferred tax assets	—	—	—	—	7	1	—	8

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

16. Investments in associates

Associates

The following major associates are accounted for under the equity method:

Associates	Ownership / Voting, %	Country	Industry	Date of acquisition
2007	1	2	3	4
OJSC "National trade bank"	24.2 / 25.1	Russia	Banking	April 2007
OJSC "Ilyushin Finance Co."	21.4	Russia	Aircraft leasing	August 2006
LLC "Interbank Trading House"	50	Russia	Trade and investment	June 2006
LLC "Interfax – Center of economic analysis"	49	Russia	Media	August 2005
OJSC "Corporation of development of Krasnoyarsk Territory"	25	Russia	Finance intermediary	December 2006
CJSC "Konsultbankir"	34	Russia	Publishing	October 1996
CJSC "CentrEnergoSroyMontazh"	25	Russia	Construction	March 2007
LLC "OboronImpeks"	25	Russia	Foreign trade	November 2001

Associates	Ownership / Voting, %	Country	Industry	Date of acquisition
2006	1	2	3	4
OJSC "Ilyushin Finance Co."	20.5	Russia	Aircraft leasing	August 2006
LLC "Interbank Trading House"	50	Russia	Trade and investment	June 2006
LLC "Interfax – Center of economic analysis"	49	Russia	Media	August 2005
OJSC "Corporation of development of Krasnoyarsk Territory"	25	Russia	Finance intermediary	December 2006
CJSC "Konsultbankir"	29	Russia	Publishing	October 1996
LLC "OboronImpeks"	25	Russia	Foreign trade	November 2001

Movement in investments in associates was:

	2007	2006
Balance, beginning of the period	2,471	75
Purchase cost	1,604	1,303
Reclassifications	—	1,042
Share of net income (loss)	346	135
Effect of acquisition of subsidiary	14	—
Allowances for impairment	77	(116)
Translation effect	(49)	32
Investments in associates, end of the period	4,463	2,471

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

The following table illustrates summarized financial information of the associates:

Aggregated assets and liabilities of associates	2007	2006
Current assets	30,346	18,369
Non-current assets	13,766	6,620
Current liabilities	(16,804)	(7,600)
Non-current liabilities	(10,554)	(6,394)
Net assets	16,754	10,995

Aggregated revenue and net income of associates	2007	2006
Revenue	7,374	4,555
Net income	994	483

17. Property and equipment

Property and equipment comprise:

	2007	2006
Assets under construction	1,661	913
Buildings	1,508	820
Computers and other equipment	1,169	1,114
Furniture and fixtures	458	255
Motor vehicles	358	374
	5,154	3,476
Less – Accumulated depreciation	(803)	(687)
	4,351	2,789

During 2007 and 2006 there were RUB 727 million and RUB 430 million of additions and RUB 137 million and RUB 92 million of disposals of property and equipment, respectively. The effect of acquisition of subsidiary amounts to RUB 1,088 million. The respective depreciation charge for 2007 is RUB 240 million (2006 – RUB 147 million). Accumulated depreciation related to disposed property and equipment is RUB 124 million (2006 – RUB 63 million).

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

18. Other assets and liabilities

Other assets comprise:

	2007	2006
Settlements with suppliers and other debtors	1,568	916
Accrued commissions	331	199
Derivative financial assets	248	197
Intangible assets	137	70
Pre-paid expenses	64	44
Other	82	113
Prepaid investments	—	807
	2,430	2,346
Less — Allowance for impairment of other assets	(8)	(17)
	2,422	2,329

Included in other assets are intangible assets in the amount of RUB 285 million (2006 — RUB 188 million), net of accumulated amortization of RUB 148 million (2006 — 118 million). The respective amortization charge for 2007 and 2006 is RUB 30 million and RUB 19 million, respectively, which is included in other operating expense in the accompanying statements of income.

Other liabilities comprise:

	2007	2006
Settlements on operations with securities	1,112	—
Settlements with credit institutions	869	769
Settlements with clients on export revenues	204	218
Future period income	174	302
Settlements on regular way transactions	—	3
Other	513	177
	2,872	1,469

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

19. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets and securities available- for-sale	Investments in associates	Claims	Guarantees	Total
	1	2	3	4	5
December 31, 2005	59	3	—	56	118
Charge (reversal)	(33)	116	—	(37)	46
December 31, 2006	26	119	—	19	164
Effect of acquisition of subsidiary	—	—	18	13	31
Reversal	(10)	(77)	—	(19)	(106)
December 31, 2007	16	42	18	13	89

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

20. Due to other banks

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

	2007	2006
Correspondent loro accounts from Russian banks	5,017	6,643
Correspondent loro accounts from other banks	5,682	1,502
Loans and other placements from Russian banks	580	48,054
Loans and other placements from OECD based banks	97,735	103,882
Loans and other placements from other banks	99,736	39,921
	208,750	200,002

At December 31, 2007, loans and other placements from Russian banks include loans denominated in RUB and USD with interest rate of 9.8% for RUB placements (2006 — from 6.9% to 7.4%) and 10.3% for USD (2006 — from 5% to 5.4%) placements and collateral under letters of credit.

At December 31, 2007 the Bank received loans totaling RUB 20,217 million (2006 — RUB 29,517 million) from OECD based banks denominated in USD, bearing annual interest from 6% to 6.1% (2006 — from 5.2% to six-months LIBOR plus 0.8%), which are collateralized by securities of RUB 26,514 million (2006 — RUB 37,362 million). At December 31, 2006 annual interest rates for RUB-denominated loans were from 5.6% to 6.5%.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

Other placements from OECD based banks at December 31, 2007 include:

■ Syndicated loan of RUB 19,513 million (2006 – RUB 21,124 million). The syndicated loan is denominated in USD with interest rate of three-month LIBOR plus 0.4% and matures from October 2008 to July 2009. According to the Facility Agreement the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100% and tangible net worth of no less than RUB 14,728 million (equivalent of USD 600 million). This loan was used to refinance RUB 12,273 million (equivalent of USD 500 million) syndicated loan and for trade related finance;

■ Deposits totaling RUB 22,869 million (2006 – RUB 17,845 million), denominated in RUB with interest rates from 6.4% to 7.1% (2006 – from 6.4% to 7.1%) and with maturity from January 2008 to February 2012. They may be applied towards general corporate purposes of the Bank;

■ Loans of RUB 5,077 million (2006- nil) denominated in USD with interest rates from three-month LIBOR plus 0.5% to three-month LIBOR plus 1%, maturing from June 2008 to May 2019. These loans were used to finance investment projects of Russian companies;

■ Loans of RUB 4,939 million (2006 – RUB 8,184 million) denominated in USD with interest rates ranging from 6.4% to 6.5% and maturing in May 2009. According to Framework Agreement these loans were used to finance a Russian oil and gas company;

■ Loans of RUB 3,251 million (2006 – nil) denominated in euro with interest rate of six month LIBOR plus 0.6% and maturing in April 2008 and in May 2008. According to the Facility Agreement the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100% and tangible net worth of no less than RUB 14,728 million (equivalent of USD 600 million);

■ Loans of RUB 3,219 million (2006 – RUB 3,491 million) denominated in USD with interest rate of annual LIBOR plus 0.6% and maturity in August 2008. According to Term Credit Facility Agreement this loan was used to finance a non-resident company;

■ Loans of RUB 3,177 million (2006 – RUB 587 million) denominated in euro with interest rates from 3.4% to annual EURIBOR plus 1.3% and maturing from March 2008 to February 2015. According to Term Credit Facility Agreement these loans were used to finance investment projects of Russian companies;

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■ Loan of RUB 2,468 million (2006 – RUB 3,971 million) denominated in USD with interest rate of 6.4% and maturing from February 2008 to May 2009. According to the Facility Agreement the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100% and tangible net worth of no less than RUB 13,255 million (equivalent of USD 540 million);

■ Loan of RUB 1,988 million (2006 – RUB 2,623 million) denominated in USD with interest rate of six-month LIBOR plus 1% and maturity in December 2012. According to Term Credit Facility Agreement this loan was used to finance a Russian “blue-chip” company

■ Loan of RUB 1,751 million (2006 – nil) denominated in USD with interest rate of six month LIBOR plus 1% and maturing in January 2008. This loan was used for general corporate purposes of the Bank.

■ Syndicated loan of RUB 1,729 million (2006 – RUB 1,859 million) denominated in USD with interest rate of six-month LIBOR plus 0.7% and maturing in December 2010. According to Credit Agreement this loan is guaranteed by the Government of the Russian Federation and is used for export and import financing;

■ Loan of RUB 1,482 million (2006 – RUB 1,589 million) denominated in USD with interest rate of 6.5% and with maturity in November 2009. This loan was used to finance foreign trade activity of the Bank’s clients.

■ Loan of RUB 1,225 million (2006 – RUB 1,314 million) denominated in USD with interest rate of three-month LIBOR plus 0.5% and with maturity in March 2008;

■ Loans of RUB 1,218 million (2006 – nil) denominated in USD, bearing interest of 6.4% and maturing in June 2013. According to the Facility Agreement the Bank is required to comply with certain financial covenants, including minimal ratio of allowance for impairment to overdue loans of 100% and tangible net worth of no less than RUB 13,255 million (equivalent of USD 540 million). According to Credit Agreement this loan is used for financing a defense-industry firm;

■ Loans of RUB 785 million (2006 – nil) denominated in USD with interest rate of six-month LIBOR plus 1.5% and maturing from September 2008 to April 2014. These loans were used to finance investment projects of Russian companies;

■ Loans of RUB 471 million (2006 – RUB 583 million) denominated in USD with interest rate of six-month LIBOR plus 1.8% and with maturity in October 2010;

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Loan of RUB 465 million (2006 – 0) denominated in USD with interest rate of 7.6% and with maturity up to August 2016. According to Credit Agreement this loan is used for financing a Russian company;

Loans of RUB 365 million (2006 – RUB 321 million) denominated in GBP with interest rates ranging from 5.7% to 7.9% and with maturity up to November 2019. These loans were used to finance investment projects of Russian companies;

Loan of RUB 308 million (2006 – RUB 29 million) denominated in USD with interest rate of LIBOR plus 0.5% and maturing from August 2008 to August 2011. According to Credit Agreement this loan is used for financing a Russian company;

Loan of 299 million RUB (2006 – nil) denominated in USD with interest rate of 5.9% and with maturity in March 2010. According to Credit Agreement this loan is used for financing a Russian company;

At December 31, 2007, loans and other placements from other banks, included:

Deposit of RUB 91,730 million (2006 – nil) denominated in USD, bearing interest rate of month LIBOR plus 0.7% and maturing in January 2011. This deposit was used to finance a Russian oil and gas company;

Loan of RUB 3,739 million (2006 – RUB 8,080 million), denominated in USD and bearing interest of six-month LIBOR plus 1.2% and maturing in November 2008. In accordance with the loan agreement the Bank uses the attracted credit facilities for the pre-export financing of Russian companies;

Loan of RUB 2,734 million (2006 – RUB 4,283 million), denominated in USD and bearing annual interest of six-month LIBOR plus 1%. This loan is used for financing of pre-export activities of Russian companies and has maturity up to March 2009;

Loans of RUB 331 million (2006 – nil), denominated in EURO and bearing annual interest of EURIBOR plus 0.5% and maturing from January 2008 to July 2013;

Loan of RUB 318 million (2006 – RUB 393 million), denominated in USD and bearing annual interest of six-month LIBOR plus 1.8% and maturing in October 2010;

Short-term loans of RUB 193 million (2006 – nil), denominated in GBP and bearing interest rates from 5.5% to 5.8%, and maturing in January 2008;

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Short-term loan of RUB 101 million (2006 – nil), denominated in EURO and bearing interest rate of 3.9%, and maturing in January 2008;

21. Amounts due to customers

Amounts due to customers include the following at December 31:

	2007	2006
Customer current accounts	31,616	17,848
Term deposits	6,928	8,599
	38,544	26,447

At December 31, 2007, term deposits have annual interest rates from 1% to 10% for USD-denominated deposits, from 3% to 10% for EUR-denominated deposits, from 3% to 25% for RUB-denominated deposits and from 3% to 16% for BYR-denominated deposits. At December 31, 2006, term deposits have annual interest rates from 3.5% to 6.3% for USD-denominated deposits, from 3.5% to 6.3% for EUR-denominated deposits and from 3% to 25% for RUB-denominated deposits.

At December 31, 2007 and 2006, amounts due to the Bank's four largest customers amounted to RUB 20,508 million and RUB 14,303 million, which represent 53% and 54%, respectively, of the aggregate amount due to customers.

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

	2007	2006
Infrastructure development	11,907	6,497
Manufacturers of heavy machinery and military related goods	5,667	4,031
Non-commercial organizations	4,759	—
Telecommunication	2,381	—
Financial organizations	839	7,503
Air transportation	—	775
	25,553	18,806

(IN MILLIONS OF RUSSIAN RUBLES,
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Amounts due to customers include accounts with the following types of customers:

	2007	2006
State and state controlled companies	21,220	14,865
Private companies	10,644	7,455
Employees and other individuals	5,863	4,127
Companies under foreign state control	817	—
	38,544	26,447

22. Debt securities issued

Debt securities issued at December 31, 2007, represent USD, EURO, GBP and RUB-denominated interest-bearing promissory notes maturing up to 2012 as well as deposit and saving certificates issued by subsidiary. The promissory notes bear annual effective interest rates from 1.2% to 6.5% for USD-denominated notes, up to 3.5% for EURO-denominated notes, 5.5% for GBP-denominated notes and from 5% to 5.5% for RUB-denominated notes. Deposit and saving certificates are denominated in BYR, bear interest rates from 9% to 14% and mature up to March 2008.

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

23. Charter capital

In accordance with Federal Law №82-FZ the Bank's charter capital is being formed from monetary contributions of the Russian Government and contribution of state-owned shares of OJSC "Russian Bank for Development" and CJSC ROSEXIMBANK.

In accordance with the Resolution №1687-P dated November 27, 2007, issued pursuant to Federal law №246-FZ dated November 2, 2007 "On introducing amendments to Federal law "On Federal budget for 2007", the Russian Government contributed RUB 180,000 million to the charter capital of Vnesheconombank. No shares have been issued with respect to the charter capital of the Bank. The Bank is not required to accrue or pay dividends.

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In accordance with the Resolution №1766-R dated December 7, 2007 the Russian Government decided to contribute 100% state-owned shares of “Russian Bank for Development” and 5.2% state-owned shares of CJSC State Specialized Russian Export-Import Bank (ROSEXIMBANK) to the charter capital of Vnesheconombank. Currently the valuation of the fair value of transferred shares, which is necessary to accomplish transfer process in accordance with the Russian legislation, is in process.

24. Unrealized revaluation of available-for-sale securities

Movements in unrealized revaluation of securities available-for-sale were as follows:

	Unrealised gains/(losses) on available-for-sale securities
At January 1, 2006	615
Net unrealised gains on available-for-sale securities	615
Realised gains on available-for-sale securities reclassified to the income statement	(391)
Tax effect of net gains on available-for-sale securities	(87)
At December 31, 2006	752
Net unrealised losses on available-for-sale securities	(4,322)
Realised losses on available-for-sale securities reclassified to the income statement	262
Tax effect of net gains on investment securities available-for-sale	235
At 31 December 2007	(3,073)

25. Fee and commission income

Fee and commission income comprise:

	2007	2006
Guarantee operations	1,005	563
Cash and settlement operations	555	346
Trust management of Pension funds	198	182
Operations with securities	61	34
Other operations	136	174
	1,955	1,299

(IN MILLIONS OF RUSSIAN RUBLES,
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26. Other operating income

Included in other operating income for 2007 is a penalty in the amount of RUB 2,903 million received by the Bank from a Russian company for use of funds prepaid by the Bank under a purchase and sale transaction with securities, which was subsequently recognized null and void.

27. Other operating expenses

Other operating expenses comprise:

	2007	2006
Penalty paid	1,962	—
Advertising expenses	594	382
Administrative expenses	305	142
Marketing and research	213	115
Charity	192	369
Audit and consulting	189	109
Legal services	174	128
Sponsorship	107	98
Amortization of intangibles	30	19
Insurance expenses	29	30
Contributions to non-state pension fund	—	300
Other	661	211
	4,456	1,903

Penalty in the amount of RUB 1,962 million was paid by the Bank for breaches of settlement agreement with the client.

28. Financial commitments and contingencies

Operating Environment

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

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The economy of the Republic of Belarus is characterized by relatively high rates of taxation and extensive statutory regulation. Laws and regulations defining the business environment in the Republic of Belarus are at the stage of development and subject to frequent changes. The future economic development depends to a large extent on the efficiency of the measures taken by the Government of Belarus and other actions beyond the Group's control. The future direction of the economic policy of the Government of the Republic of Belarus can have an effect on the recoverability of the Group's assets and the ability of the Group to maintain or pay its debt as they mature.

The management of the Group made its best estimate on the recoverability and classification of recorded assets and completeness of recorded liabilities. However, the uncertainty described above still exists and the Group may continue to be affected by it.

Legal

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

At December 31, 2007, the subsidiary of the Group was subject to a lawsuit that was filed by an executing bank in Austria under letter of credit issued by order of a Belarusian importer. At December 31, 2007, provision of RUB 18 million was recognized under this lawsuit in the consolidated financial statements.

Financial commitments

At December 31, financial commitments comprise:

	2007	2006
Guarantees	46,157	29,163
Undrawn loan commitments	11,688	31,533
Uncovered letters of credit	1,217	4,282
	59,062	64,978
Less – Provisions	(13)	(19)
Financial commitments (before deducting collateral)	59,049	64,959
Less – Cash held as security against guarantees and letters of credit	(1,973)	(1,318)
	57,076	63,641

(IN MILLIONS OF RUSSIAN RUBLES,
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Operating lease commitments

	2007	2006
Not later than 1 year	92	89
Later than 1 year but not later than 5 years	115	115
Later than 5 years	177	173
	384	377

Insurance

The Bank's premises are insured for RUB 1,546 million. The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

29. Financial risk management policies

At the end of 2007, the Group's risk management policies were under development as the Group was incorporated only recently. Since Vnesheconombank's transactions account for the major portion of the Group's operations, below is the description of the financial risk management policies of Vnesheconombank as the Group's parent.

Introduction

Management of risk is an essential element of the Bank's operations. The risk is managed through a process of ongoing identification, measurement and monitoring as well as by taking steps towards reducing the level of risk both by setting limits and applying other controls. The process of risk management is critical to ensure that risks accepted by the Bank would not affect its financial stability and each business division within the Bank involved in operations that are subject to risk is accountable for controlling the level of risks inherent in its activities to the extent provided in the internal regulations. The Bank is exposed 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. In addition to financial risks, the Bank is subject to operational risk and strategic risk. Strategic risk is defined by the Bank as a risk of a negative effect on the Bank's operations arising from a change in operating environment, banking technologies, developments in banking industry. Strategic risk is managed by the Bank in the course of strategic planning process.

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Risk management structure

The Supervisory Board is the supreme management body of the Bank. Within the scope of powers delegated to that body by the Memorandum on Financial Policies and Federal Law "On Bank for Development", the Supervisory Board is responsible for establishing specific parameters of the Bank's investment 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 Regulations on the Supervisory Board, powers of the Supervisory Board in the area of risk management include the approval of procedures governing the activities of the internal control function, credit policy regulations, procedures for providing guarantees, collaterals and loans to credit institutions and legal entities, methods and procedures for measuring credit risk parameters and limits, methods of calculating own capital of the Bank and capital adequacy ratio, regulations on allowance for impairment and other losses, 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 percent of the Bank's equity.

The Supervisory Board sets limits on the amount of guarantees, collateral and loans extended to credit institutions and legal entities, establishes the maximum amount of funds allocated to manage the Bank's temporarily idle cash (liquidity).

Within the scope of powers delegated to it by the Memorandum on Financial Policies and Federal Law "On Bank for Development", the Supervisory Board establishes parameters of the Bank's investment and financing activities, sets limits and establishes limitations on the structure of the Bank's loan portfolio.

Management Board

The risk management-related authorities of the Management Board include making decisions to approve transactions or a number of interrelated transactions associated with acquisition, disposal or potential disposal of assets whose carrying value accounts for 2 to 10 percent 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 to 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.

Internal Control Function

The Internal Control Function is responsible to monitor, 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 to develop methods and procedures for the assessment of various types of risks, draft proposals to limit the level of risks, perform follow-up monitoring of compliance with the established risk limits and relevant risk decisions, and prepare reporting documents for each type of risks and each line of the Bank's business.

The Risk Management Department is responsible for monitoring compliance with risk policies and principles, and for assessing risks of new products and structured transactions. The Risk Management Department is composed of units that are responsible to control the level of exposures by each type of risk and each line of the Bank's business.

Directorate for Currency and Financial Operations

To control the Bank's day-to-day liquidity, the Directorate for Currency and Financial Operations monitors compliance with the established minimum levels of liquidity and maturity mismatch in assets and liabilities. The Directorate prepares regular forecasts of the Bank's estimated leverage by source of funding, performs daily monitoring of open position limits by class of financial instruments

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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 methodologies to manage 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 management 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 regulations issued by the CBR and with regard to the generally acceptable international practices used for the computation of capital adequacy ratio. 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 identify early 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 either electronically or on paper. 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, 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.

Information about credit risks by customer and group of customers is provided to the Bank's management on a weekly basis. In accordance with internal regulatory framework, the Bank regularly revises the existing allowance for loan impairment. Information on the level of credit risk assumed by the Bank is communicated to the Bank's Board of Directors on a quarterly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

The Risk Management Department, jointly with other responsible business divisions, regularly monitors the existing limits, analyzes risk factors associated with counterparties, financial instruments, and the Bank's position in a given market segment and reviews changes in the level of risk.

Risk mitigation

As part of its overall risk management, the Bank may use derivatives and other instruments to manage exposures arising from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see above for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features, or when their ability to meet contractual obligations will be similarly affected by possible changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are controlled and managed accordingly.

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 percent of the Bank's equity (capital);

■ the aggregate volume of major exposures shall not exceed 800 percent of the Bank's equity (capital).

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 percent of the Bank's equity (capital).

The Bank adopts a systemic approach for 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.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

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 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 risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Bank makes available to its customers documentary operations which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee / letter of credit given. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown in gross, before the effect of mitigation through the use of master netting and collateral agreements and before any allowance for impairment and other losses.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

	Notes	Gross maximum exposure 2007	Gross maximum exposure 2006
	1	2	3
Cash and cash equivalents (excluding cash on hand)	8	157,069	39,787
Trading securities	9	22,045	16,370
Due from other banks	10	39,494	28,895
Derivative financial assets	11	248	197
Loans to customers	13	220,821	175,798
Available-for-sale securities	12	28,813	23,940
Other assets	18	1,899	1,115
		470,389	286,102
Financial commitment	28	59,062	64,978
Total credit risk exposure		529,451	351,080

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

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for measuring the counterparty risk. Credit risk measurement methodology has been approved by the Bank's Supervisory Board.

The table below shows the credit quality by class of assets for credit risk-related balance sheet lines, based on the Bank's credit rating system. The credit quality of assets of a subsidiary foreign bank is independently reviewed by its management using a rating system different to that applied by the Bank. Information on the subsidiary foreign bank is shown as not rated.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

2007	Neither past due	
	Notes	High grade
	1	2
Due from other banks	10	54
Loans to customers	13	
Pre-export finance		96,392
Project finance		15,993
Commercial loans		4,250
Reverse repurchase agreements		9,692
Financing of operations with securities		6,170
Promissory notes		96
Other		106
		132,699
Available-for-sale securities	12	2,365
Total		135,118

2006	Neither past due	
	Notes	High grade
	1	2
Due from other banks	10	45
Loans to customers	13	
Pre-export finance		1,547
Project finance		13,379
Commercial loans		6,015
Reverse repurchase agreements		7,855
Financing of operations with securities		74,160
Promissory notes		993
Other		—
		103,949
Available-for-sale securities	12	2,959
Total		106,953

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

nor impaired		Past due or individually impaired	Not rated	Total
Standard grade	Sub-standard grade			
3	4	5	6	7
38,696	740	4	—	39,494
10,382	814	—	—	107,588
53,905	1,413	—	—	71,311
4,094	6,373	1,762	6,038	22,517
—	1	—	—	9,693
—	—	—	—	6,170
780	1,502	40	—	2,418
150	—	—	868	1,124
69,311	10,103	1,802	6,906	220,821
26,448	—	—	—	28,813
134,455	10,843	1,806	6,906	289,128

nor impaired		Past due or individually impaired	Total
Standard grade	Sub-standard grade		
3	4	5	6
28,824	3	23	28,895
10,644	895	—	13,086
42,469	1,486	—	57,334
5,877	7,804	1,860	21,556
—	—	—	7,855
—	—	—	74,160
—	513	—	1,506
—	301	—	301
58,990	10,999	1,860	175,798
20,981	—	—	23,940
108,795	11,002	1,883	228,633

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

Carrying amount per class of financial assets whose terms have been renegotiated.

The table below shows the carrying amount for renegotiated loans, by class. At December 31, 2007 and 2006, the terms of other financial assets were not renegotiated.

	2007	2006
Pre-export finance	941	425
Project finance	34,298	2,902
Commercial loans	2,715	2,742
Financing of operations with securities	6,170	3,950
Promissory notes	40	—
Total	44,164	10,019

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 or advance payment 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 other financial support and 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 losses on 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 evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impair-

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

ment losses are estimated by taking into consideration of 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 assessed and provision is made in a similar manner as for loans.

Liquidity risk and funding management

Liquidity risk is the risk that due to adverse factors the Bank will be unable to meet its financial obligations when they fall due.

As a part of the liquidity risk management process the Bank performs the following actions limiting the liquidity risk:

- regularly monitors the Bank's liquidity position, supervises the compliance with the established limits and reviews them;

- maintains a diversified structure of funding sources and directions of investments by counterparty and maturity;

- develops plans to raise debt funding;

- assesses sustained balances on customers' accounts, monitors the level of concentration of balances on customers' accounts in order to prevent an abrupt outflow of funds from customers' accounts;

- performs cash flow modeling and supervises liquidity ratios under various scenarios;

- performs stress testing of the Bank's exposure to liquidity risk and financial market conditions on a regular basis and as and when significant changes in external and internal factors arise or are expected;

The Bank assesses the liquidity situation using the cash analysis method, which enables to make a forecast of the volume and maturity structure of Bank's claims and obligations and to determine liquidity gaps (by main currencies and in total).

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

Operational control over Bank's liquidity ratios, including liquidity gaps, is performed by the Directorate for Currency and Financial Operations. 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 Bank's correspondent accounts, cash on hand, cash on accounts in stock exchange and clearing centers, and the net balance of Bank's overnight placements;
- Short-term deposits placed in 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 form or used as a collateralized funding.

In order to take into account any possible changes in projected cash flows, the Bank uses a procedure of liquidity ratios stress testing in accordance with scenarios covering both internal factors, specific to the Bank, and external factors:

- decrease in the market value of the securities portfolio (market risk realization);
- default on loan and debt obligations (credit risk realization);
- unexpected outflow of funds from customers' accounts;
- reduction of the expected inflow of funds to customers' accounts;
- closed access to financial market resources;
- reduction of the Bank's credit rating;
- early repayment of the attracted interbank loans due to the breaches of set financial covenants.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

In case of an emergency the Bank uses the following liquidity support mechanisms:

- selling the portfolio of highly liquid assets (concluding repurchase agreements);
- taking measures to close positions in low liquid securities and to assign loan portfolio-related receivables;
- limiting the volume of transactions with counterparties having a high credit risk level;
- suspending issuance of loans and guarantees and credit lines;
- 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 Bank's operations.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

At December 31, 2007 and 2006, monetary assets and liabilities, excluding receivables from the Russian Government under London Club arrangements and amounts due to London Club creditors, had the following maturities:

2007	Up to 1 Month	1 to 6 months
	1	2
Monetary assets:		
Cash and cash equivalents	158,026	12
Precious metals	—	—
Trading securities	39,598	—
Due from other banks	27,713	8,310
Available-for-sale securities	28,813	—
Loans to customers	15,696	30,814
Due from the Russian Government	—	—
Income tax assets	—	482
Investments in associates	—	—
Other assets	589	460
	270,435	40,078
Monetary liabilities:		
Due to other banks	16,426	7,301
Derivative financial liabilities	993	46
Due to the Russian Government and the Bank of Russia	59,186	—
Amounts due to customers	31,668	2,393
Debt securities issued	57	116
Income tax liabilities	—	—
Other liabilities	1,778	37
	110,108	9,893
Net position	160,327	30,185
Accumulated gap	160,327	190,512

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

6 to 12 months	Over 1 year	No stated maturity	Total
3	4	5	6
—	—	—	158,038
—	—	1,485	1,485
—	—	—	39,598
1,672	1,575	177	39,447
—	—	33,995	62,808
36,038	135,267	—	217,815
—	—	1,290	1,290
—	—	—	482
—	—	4,463	4,463
1,054	112	70	2,285
38,764	136,954	41,480	527,711
28,768	156,244	11	208,750
1	—	—	1,040
451	45	—	59,682
2,097	2,234	152	38,544
44	5,045	—	5,262
—	—	13	13
0	0	1,057	2,872
31,361	163,568	1,233	316,163
7,403	(26,614)	40,247	211,548
197,915	171,301	211,548	

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

2006	Up to 1 Month	1 to 6 months
	1	2
Monetary assets:		
Cash and cash equivalents	40,130	—
Trading securities	45,870	—
Due from other banks	26,252	1,342
Available-for-sale securities	23,940	—
Loans to customers	5,421	64,801
Due from the Russian Government	—	—
Current income tax assets	—	518
Investments in associates	—	—
Other assets	1,232	631
	142,845	67,292
Monetary liabilities:		
Due to other banks	18,720	58,980
Financial trade liabilities	15	—
Due to the Russian Government and the Bank of Russia	57,867	—
Amounts due to customers	18,301	6,570
Debt securities issued	62	96
Deferred income tax liabilities	—	—
Other liabilities	349	69
	95,314	65,715
Net position	47,531	1,577
Accumulated gap	47,531	49,108

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

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

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

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

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

6 to 12 months	Over 1 year	No stated maturity	Total
3	4	5	6
—	—	—	40,130
—	—	—	45,870
763	263	206	28,826
—	—	5,400	29,340
53,279	49,271	0	172,772
—	—	1,230	1,230
—	—	—	518
—	—	2,471	2,471
271	54	71	2,259
54,313	49,588	9,378	323,416
35,638	86,624	40	200,002
—	—	—	15
19	—	—	57,886
1,387	94	95	26,447
116	5,141	—	5,415
—	—	4,075	4,075
31	—	1,020	1,469
37,191	91,859	5,230	295,309
17,122	(42,271)	4,148	28,107
66,230	23,959	28,107	

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)**Analysis of financial liabilities by remaining contractual maturities**

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities As at 31 December 2007	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	1	2	3	4	5
Due to the Russian Government and the Bank of Russia	59,194	443	45	—	59,682
Due to other banks	30,587	76,635	135,608	7,380	250,210
Derivative financial instruments					
— Contractual amounts payable	103,909	7,649	1,214	830	113,602
— Contractual amounts receivable	(103,371)	(7,621)	(976)	(798)	(112,766)
Amounts due to customers	33,540	4,005	2,314	1	39,860
Debt securities issued	85	140	5,602	—	5,827
Other liabilities	1,546	43	206	534	2,329
Total undiscounted financial liabilities	125,490	81,294	144,013	7,947	358,744

Financial liabilities As at 31 December 2006	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	1	2	3	4	5
Due to the Russian Government and the Bank of Russia	57,867	19	—	—	57,886
Due to other banks	46,411	79,686	133,810	1,084	260,991
Derivative financial instruments					
— Contractual amounts payable	22,501	—	—	—	22,501
— Contractual amounts receivable	(22,691)	(2)	—	—	(22,693)
Amounts due to customers	23,982	2,251	248	1	26,482
Debt securities issued	45	204	5,562	538	6,349
Other liabilities	261	708	—	—	969
Total undiscounted financial liabilities	128,376	82,866	139,620	1,623	352,485

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 three months in the tables above.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

The table below shows the contractual expiry by maturity of credit-related contingencies.

Financial liabilities As at 31 December 2007	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	1	2	3	4	5
2007	44,705	2,713	10,247	1,397	59,062
2006	50,302	6,846	7,565	265	64,978

The Group expects that not all of the credit-related contingencies will be drawn before expiry thereof.

As at 31 December 2007, credit-related contingencies presented in "less than 3 months" category include liabilities in the amount of RUB 35,504 million (2006 – RUB 22,562 million) whose maturities are linked to settlements under export contracts.

As at 31 December, financial commitments include liabilities in favour of one counterparty, a state company, in the amount of RUB 19,686 million (2006 – RUB 13,391 million), which accounts for 34% and 21% of all financial commitments, respectively.

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 prices (including those due to changes in interest rates), foreign exchanges, and equity prices.

The purpose of the Bank's market risk management activities is providing a balance between the level of accepted risks and profitability of banking operations.

The Bank daily monitors the market risk level. The key tool to control the market risk level and to set and control its limits is the sensitivity analysis.

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 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 affect the fair values of or future cash flows from financial instruments.

The Bank's interest rate policy is aimed to maintain the balanced structure of claims and obligations sensitive to change in interest rates that provides effective limitation of possible unfavourable change of net interest income and/or equity on acceptable level.

The Bank performs sensitivity analysis of net interest income and equity using different scenarios of market interest rate movements for the purpose of controlling financial losses arising from unfavourable changes in interest rates.

As a part of the sensitivity analysis of net interest income the Bank uses a combination of negative scenarios that take into account the effect of internal risk factors specific to the Bank, and external risk factors related to the market situation.

Scenarios are prepared either based on hypothetical events that can occur in the future or based on past events – historical stress scenarios.

The Bank performs sensitivity analysis of net interest income on regular and unplanned basis. The basis for an unplanned sensitivity calculation is as follows:

■ expected appearance of unusually large or concentrated positions in financial instruments" portfolios or significant changes in their value, which can significantly affect the balance of the structure of interest rate gaps;

■ expectations of significant changes in the market situation, occurrence of socio-political and/or economic events that can have a significant adverse impact on the amount of net interest income of the Bank.

In performing the sensitivity analysis of its net interest income the Bank also uses an interest rate gap method.

The Bank uses the interest rate gap method to assess changes in the amount of net interest income by using data on mismatch of claims and obligations sensitive to interest rate changes aggregated at given maturity intervals.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

The Bank uses two approaches in modeling risk factors. The static 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 balance sheet date and once during the projection horizon.

In addition to the static approach to modeling risk factors, the Bank performs the sensitivity analysis of net interest income 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 following table demonstrates the sensitivity to a reasonably possible change in interest rates by currency, with all other variables held constant, of the Bank's statement of income.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income before tax for one year, based on the floating rate financial assets and financial liabilities and fixed rate trading financial assets and liabilities held at December 31, 2007 and 2006. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at December 31, 2007 and 2006 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	Possible change in interest rates	Effect on income before tax 2007	Effect on equity, 2007
USD (LIBOR)			
Increase	0.75%	(165)	—
Decrease	-1.25%	275	—
EUR (EURIBOR)			
Increase	0.75%	(9)	—
Decrease	-1.50%	18	—
RUB			
Increase	0.80%	(3)	(100)
Decrease	-0.80%	3	100
USD (US T-bonds)			
Increase	0.80%	(739)	(700)
Decrease	-0.80%	739	700
EUR (German government)			
Increase	0.60%	(13)	(43)
Decrease	-0.60%	13	43

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

The sensitivity of net interest income and equity of foreign subsidiary to possible changes in interest rates is presented in the tables below.

Currency	Increase in interest rates	Effect on income before tax, 2007	Effect on equity, 2007
RUR	+1%	(1)	(3)
EUR	+1%	(8)	—
USD	+1%	(22)	—
BYR	+1%	5	—

Currency	Decrease in interest rates	Effect on income before tax, 2007	Effect on equity, 2007
RUR	-1%	1	3
EUR	-1%	8	—
USD	-1%	22	—
BYR	-1%	(5)	—

	Possible change in interest rates	Effect on income before tax 2006	Effect on equity, 2006
USD (LIBOR)			
Increase	0.50%	(380)	—
Decrease	-1.00%	759	—
EUR (EURIBOR)			
Increase	1.5%	(1)	—
Decrease	-0.50%	0	—
RUB			
Increase	1.25%	(46)	(99)
Decrease	-1.25%	46	99
USD (US T-bonds)			
Increase	0.65%	(334)	(232)
Decrease	-0.65%	334	232
EUR (German government)			
Increase	0.60%	—	(20)
Decrease	-0.60%	—	20

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

Currency risk

Currency risk is the risk that the value of a financial instrument will change due to changes in foreign exchange rates.

The Bank calculates on a daily basis open currency positions by balance assets and liabilities, off-balance claims and obligations that are subject to changes in currency and precious metals rates. The Bank sets 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 Bank of Russia.

Currency risk arising from foreign currencies dealing is limited by intraday limits. Intraday limits are set for a unit within the Directorate for Currency and Financial Operations, that is engaged in foreign currencies dealing, as a whole and individually by trader/head of the unit. Individual limits are set according to the absorption principle: the sum of the limits set for the subordinates does not exceed the limit set for their line manager. An open trading position can be carried forward to the next day only by the decision of the head of the Directorate for Currency and Financial Operations.

Operational control over the currency risk arising from open currency positions, including liquidity gaps, is performed by the Directorate for Currency and Financial Operations. The subsequent control is performed by the Risk Management Department. The results of control over open currency positions are reported to the Bank's management and used for making management decisions.

The tables below indicate the currencies to which the Group had significant exposure at December 31, 2007 and 2006 on its monetary assets and liabilities and its forecast cash flows. The analysis illustrates the effect of a reasonably possible change in the currency rates against RUB at December 31, 2007 and against USD at December 31, 2006, with all other variables held constant, on the statement of income (due to the fair value of currency sensitive monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in statement of income or equity, while a positive amount reflects a net potential increase.

(IN MILLIONS OF RUSSIAN RUBLES,
UNLESS OTHERWISE STATED)

Currency	Change in currency rate 2007	Effect on income before tax 2007	Change in currency rate 2006	Effect on income before tax 2006
	1	2	3	4
USD	4.20% -5.80%	(29) 71	— —	— —
RUR	— —	— —	6.00% -4.00%	1,407 (939)
EUR	3.20% -5.40%	(133) 256	8.00% -8.00%	236 (236)
GBP	4.40% -4.40%	160 (160)	8.00% -8.00%	54 (54)
BYR	3.27% -3.27%	80 (80)	— —	— —
AUD	11% -11%	230 (230)	10% -10%	95 (95)
CAD	8% -8%	(65) 65	7% -7%	(145) 145
JPY	5% -5%	(257) 257	8% -8%	(227) 227
CHF	5% -5%	(211) 211	9% -9%	(79) 79
ISK	12% -12%	414 (414)	14% -14%	56 (56)
NZD	13% -13%	249 (249)	11% -11%	50 (50)
ZAR	14% -14%	335 (335)	— —	— —
DKK	3% -3%	(27) 27	— —	— —
MXN	6% -6%	47 (47)	— —	— —
SGD	4% -4%	(76) 76	— —	— —
SEK	6% -6%	(169) 169	— —	— —

At December 31, 2007 and 2006 the Bank entered into exchange agreements of GBP, AUD, CAD, JPY, CHF, ISK and NZD. At December 31, 2007 the Bank also entered into exchange agreements of ZAR, DKK, MXN, SGD and SEK. Those agreements have short-term nature and were executed in January 2008 and 2007, accordingly.

The table above shows the effect of those agreements on income before tax calculated at reporting dates based on yearly volatility rates for respective currencies. The Bank monitors currency positions, opened under mentioned agreements on an ongoing basis, and closes them in case any significant loss risk arises. The currency risk exposure of those positions has short-term nature; therefore

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numbers in the table above are not representative as they do not reflect actual currency risk exposure of the Bank. Below is the effect from those agreements on income before tax calculated based on daily volatility rates of underlying currencies:

Currency	Change in currency rate 2007	Effect on income before tax 2007	Change in currency rate 2006	Effect on income before tax 2006
	1	2	3	4
AUD	0,69% -0,69%	14 (14)	0,63% -0,63%	6 (6)
CAD	0,5% -0,5%	(4) 4	0,44% -0,44%	(9) 9
JPY	0,3% -0,3%	(16) 16	0,5% -0,5%	(14) 14
CHF	0,28% -0,28%	(13) 13	0,57% -0,57%	(5) 5
ISK	0,78% -0,78%	26 (26)	0,86% -0,86%	4 (4)
NZD	0,84% -0,84%	16 (16)	0,71% -0,71%	3 (3)
ZAR	0,89% -0,89%	21 (21)	— —	— —
DKK	0,20% -0,20%	(2) 2	— —	— —
MXN	0,37% -0,37%	3 (3)	— —	— —
SGD	0,22% -0,22%	(5) 5	— —	— —
SEK	0,4% -0,4%	(11) 11	— —	— —

Equity price risk

Equity price risk is the risk of adverse changes in the fair values of equities as the result of changes in the levels of equity indices and the value of individual shares.

The Bank sets aggregate exposure limits for each portfolio by class of securities in order to limit equity price changes. 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 order of the Chairman 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.

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The effect on profit before tax and equity (as a result of change in fair value of equity instruments) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market index	Change in index	Change in equity price, 2007	Effect on profit before tax, 2007	Change in equity price, 2007	Effect on equity, 2007
	1	2	3	4	5
Micex	30% -30%	26.16% -24.34%	4,620 (4,299)	22.72% -19.28%	0 (0)
CAC	17% -17%	— —	— —	15.89% -15.05%	5,680 (5,381)

Market index	Change in index	Change in equity price, 2006	Effect on profit before tax, 2006	Change in equity price, 2006	Effect on equity, 2006
	1	2	3	4	5
Micex	30% -30%	25.24% -22.97%	7,352 (6,766)	23.07% -19.78%	1,004 (861)

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 and legal risks are managed 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'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 the Bank's legal policy 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

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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.

29. Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2007	Fair value 2007	Unrecognized gain / (loss) 2007	Carrying value 2006	Fair value 2006	Unrecognized gain / (loss) 2006
	1	2	3	4	5	6
Financial assets						
Cash and cash equivalents	158,038	158,038	—	40,130	40,130	—
Precious metals	1,485	1,485	—	—	—	—
Trading securities	39,598	39,598	—	45,870	45,870	—
Due from other banks	39,447	39,447	—	28,826	28,826	—
Available-for-sale securities	62,808	62,808	—	29,340	29,340	—
Loans to customers	217,815	217,745	(70)	172,772	172,772	(0)
Financial liabilities						
Due to other banks	208,750	208,750	—	200,002	200,002	—
Derivative financial liabilities	1,040	1,040	—	15	15	—
Amounts due to customers	38,544	38,544	—	26,447	26,447	—
Debt securities issued	5,262	5,262	—	5,415	5,415	—
Total unrecognized change in unrealized fair value			(70)			(0)

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 the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, assets without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments.

Financial instruments recorded at fair value

The fair value of financial instruments is based on quoted market prices.

30. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties include state, key management personnel of the Group and affiliated companies. Since Vnesheconombank is a state corporation, all state-controlled entities are considered to be related parties of the Group and all transactions and outstanding balances with such entities should be disclosed.

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

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2007	State	State controlled entities	Associates	Key management personnel
	1	2	3	4
Cash and cash equivalents at 31 December	3,573	75,475	1,002	—
Precious metals	1,470	—	—	—
Trading securities at 31 December	17,130	17,937	—	—
Due from other banks at 1 January, gross	22	1,120	—	—
Amounts placed during the year	33	26,797	1,896	—
Amounts repaid during the year	(32)	(25,032)	(289)	—
Accruals	—	38	14	—
Due from other banks at 31 December, gross	23	2,923	1,621	—
Less allowance for impairment at 31 December	—	—	—	—
Due from other banks at 31 December, net	23	2,923	1,621	—
Interest income on placements with banks	47	612	74	—
Available-for-sale securities at 31 December	5,773	15,837	—	—
Interest income on securities	991	764	—	—
Loans to customers at 1 January, gross	559	116,664	2,913	—
Loans granted during the year	452	167,652	1,074	9
Loans repaid during the year	(969)	(136,718)	(1,706)	—
Accruals	—	(2,046)	(15)	0
Loans to customers at 31 December, gross	42	145,552	2,266	9
Less allowance for impairment at 31 December	(42)	(936)	(814)	(0)
Loans to customers at 31 December, net	—	144,616	1,452	9
Interest income on loans to customers	22	11,318	219	0
Receivable from the Russian Government under London Club arrangements at 31 December	905	—	—	—
Due from the Russian Government at 31 December	1,290	—	—	—
Other assets at 31 December	198	112	—	—
Correspondent loro accounts at 31 December	—	8,531	181	—
Loans and deposits received at 1 January	—	74,306	—	—
Loans and deposits received during the year	56	161,545	—	—
Loans and deposits repaid during the year	(56)	(233,616)	—	—
Accruals and translation differences, net	—	(2,235)	—	—
Loans and deposits received at 31 December	—	0	—	—
Interest expense on interbank placements	2	2,285	—	—
Derivative financial liabilities at 31 December	—	276	—	—
Due to the Russian Government and the Bank of Russia at 31 December	59,682	—	—	—
Other liabilities	—	251	1	—
Current accounts at 31 December	306	20,107	211	17
Deposits at January 1	182	5,287	82	161
Deposits received during the year	537	88,015	—	186
Deposits repaid during the year	(447)	(93,047)	—	(256)

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2007	State	State controlled entities	Associates	Key management personnel
	1	2	3	4
Accruals	—	0	—	(5)
Deposits at 31 December	272	255	82	86
Interest expense on customer accounts	8	1,136	20	9
Debt securities issued, at 1 January	—	1,349	49	—
Debt securities issued during the year	—	571	31	—
Debt securities redeemed during the year	—	(787)	(50)	—
Accruals	—	45	1	—
Debt securities issued, as at 31 December	—	1,178	31	—
Interest expense on debt securities issued	—	55	0	—
Guarantees issued and undrawn loan commitments	116	44,635	773	—
Fee and commission income, net	215	785	2	—
Dividends	—	164	—	—
Other operating income	2	2,982	—	—
Other operating expense	9	2,056	—	—

2006	State	State controlled entities	Associates	Key management personnel
	1	2	3	4
Cash and cash equivalents at 31 December	2,584	2,997	—	—
Trading securities at 31 December	15,467	26,912	—	—
Due from other banks at 1 January, gross	22	16,758	—	—
Amounts placed during the year	30	1,128	—	—
Amounts repaid during the year	(30)	(15,778)	—	—
Accruals and translation differences, net	—	(988)	—	—
Due from other banks at 31 December, gross	22	1,120	—	—
Less allowance for impairment at 31 December	—	—	—	—
Due from other banks at 31 December, net	22	1,120	—	—
Interest income on placements with banks	183	1,400	—	—
Available-for-sale securities at 31 December	3,905	10,072	—	—
Interest income on securities	858	665	—	—
Loans to customers at 1 January, gross	62	18,085	112	—
Loans granted during the year	804	121,159	1,146	—
Loans repaid during the year	(302)	(21,777)	(16)	—
Reclassification to associate	—	(1,679)	1,679	—
Accruals and translation differences, net	(5)	876	(8)	—
Loans to customers at 31 December, gross	559	116,664	2,913	—
Less allowance for impairment at 31 December	(67)	(928)	(823)	—
Loans to customers at 31 December, net	492	115,736	2,090	—

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2006	State	State controlled entities	Associates	Key management personnel
	1	2	3	4
Interest income on loans to customers	24	4,757	104	—
Receivable from the Russian Government under London Club arrangements at 31 December	970	—	—	—
Due from the Russian Government at 31 December	1,230	—	—	—
Other assets at 31 December	189	865	—	—
Correspondent loro accounts at 31 December	—	7,726	—	—
Loans and deposits received at 1 January	—	9,338	—	—
Loans and deposits received during the year	—	403,639	—	—
Loans and deposits repaid during the year	—	(340,331)	—	—
Accruals and translation differences, net	—	1,660	—	—
Loans and deposits received at 31 December	—	74,306	—	—
Interest expense on interbank placements	—	2,583	—	—
Financial trade liabilities at 31 December	—	1	—	—
Due to the Russian Government and the Bank of Russia at 31 December	57,886	—	—	—
Current accounts at 31 December	205	7,721	1,418	32
Deposits at 1 January	430	179	82	131
Deposits received during the year	519	5,258	45	145
Deposits repaid during the year	(758)	(139)	(45)	(108)
Accruals and translation differences, net	(9)	(11)	0	(7)
Deposits at 31 December	182	5,287	82	161
Interest expense on customer accounts	22	85	22	9
Debt securities issued, at 1 January	—	344	—	—
Debt securities issued during the year	—	22,726	49	—
Debt securities redeemed during the year	—	(21,689)	—	—
Accruals and translation differences, net	—	(32)	0	—
Debt securities issued, as at 31 December	—	1,349	49	—
Interest expense on debt securities issued	—	30	0	—
Guarantees issued and undrawn loan commitments	116	33,566	1,554	—
Fee and commission income, net	197	183	0	—
Dividends	—	61	—	—
Other operating income	1	23	0	—
Other operating expense	6	32	0	—

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Compensations of key management personnel comprise:

	2007	2006
Salaries and other short-term benefits	170	120
Social security costs	9	4
	179	124

In addition, the Bank is servicing, in an agency capacity, the foreign debt and assets of the former USSR and the Government of the Russian Federation and its authorized institutions (Note 7).

31. Capital adequacy

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 minimal level of 10% set out in the Memorandum on Financial Policies and to maintain high credit rating the Bank monitors its capital adequacy ratio on an ongoing basis.

The methods of computing the capital adequacy ratio are elaborated on the basis of regulations issued by the CBR and with regard to the generally acceptable international practices of computing capital adequacy ratios, and approved by the Supervisory Board of the Bank.

Starting from the date of monetary contribution of the Russian Government in the amount of RUB 180,000 million to the charter capital, the Bank complied with set requirements in respect of capital adequacy ratio.

At December 31, 2007 the capital adequacy ratio calculated in accordance with above mentioned methods was as follows:

	2007
Main capital	204,382
Additional capital	5,014
Less: deductions from capital	(6,648)
Total capital	202,748
Risk weighted assets	457,532
Capital adequacy ratio	44.3%

In order to maintain or adjust the capital structure and in accordance with Federal law №82-FZ "On Bank for Development" the charter capital of the Bank may be increased pursuant to the resolu-

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tion 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.

32. Subsequent events

In April 2008 in accordance with regulatory documents of the National Bank of Republic of Belarus ("NBRB") OJSC "Belvnesheconombank" recorded on its balance sheet assets and liabilities in the amount approximating RUB 2 billion, which result from agency operations of the bank. Consequently, starting from the date of recording those operations OJSC "Belvnesheconombank" did not comply with certain prudential ratios as well as provisioning requirements in respect of mentioned assets set out by NBRB. At the date of financial statements release it was known that the bank will not be imposed to any penalties from National Bank's side for mentioned breaches since they were caused by implementation of regulatory documents of NBRB in respect of agency operations. Management believes that the situation above will have no material impact on consolidated financial statements of the Group.

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